WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

November 18, 2022

FED SPEAK

After what were perceived as dovish comments from a few Fed members earlier in the week, St. Louis Fed President James Bullard offered a more hawkish perspective. With early rate hikes having "only limited effects on observed inflation," Bullard thinks that rates need to move significantly higher and provided what he considers a reasonable range of 5% -7% for where fed funds will need to be to constrain inflation.

Our Take: While the market eagerly searches for signs of a dovish pivot on policy, Fed members continue to highlight that additional tightening is necessary. Despite being down slightly from recent highs, inflation remains well above the Fed's target range. The Fed is signaling that rates are going higher and will stay higher until real progress is made on inflation.

RETAIL SALES

October retail sales rose by the most in eight months, even when stripping out autos & gas. The gain was broad-based, and the control group of sales indicates a strong start to goods consumption in the fourth quarter.

Our Take: Consumers are proving resilient even in the face of high inflation, rising interest rates, and concerns about a potential recession. Fed tightening has not yet constrained consumer spending and is unlikely to do so until unemployment rises and wage growth cools.

MUNICIPALS

Moody's Investors Service upgraded the City of Chicago's General Obligation bonds from Ba1 to Baa3. This marks the first upgrade for the City of Chicago by Moody's in 12 years. The Moody's upgrade brings all of Chicago's ratings to investment grade. Moody's stated that "Chicago has substantially increased its pension contributions and enacted numerous revenue increases" and has reduced its operating deficit.

Our Take: Chicago has taken steps to improve its fiscal health and has been rewarded with upgrades from the ratings agencies. The Moody's upgrade is good news for bondholders and may lead to decreased borrowing costs in the future. Estimates indicate that, due to the upgrades, the city could save $100 million for each $1 billion borrowed according to a recent City of Chicago press release.

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In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.