
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

February 16, 2024

INFLATION

The Consumer Price Index (CPI) rose 0.3% in January while the core CPI, excluding food and energy, rose 0.4%. CPI is up 3.1% year-over-year during which time the core CPI has risen 3.9%. The Producer Price Index (PPI) rose 0.3% in January while the core PPI rose 0.6%. PPI has risen 0.9% over the last twelve months while the core PPI is up 2.6%.

Our Take: Higher readings than expected in both the CPI and PPI serve as a reminder that the path to the Fed's desired 2% inflation will not be a straight one. The week's inflation news gives the Fed cover to continue to wait and see how the economy is changing before starting to cut rates.

RETAIL SALES

Retail sales fell 0.8% in January. The retail sales control group, which is used in GDP calculations, fell 0.4%.

Our Take: After a surprisingly robust December, retail sales dramatically disappointed in January. Bad weather for a good portion of the month in much of the country negatively affected sales. That said, pandemic relief money is all but spent and credit card balances have been rising. It remains to be seen if consumers are tightening their collective belts or if January sales were just a casualty of the weather.

MUNICIPALS

The Washington Metropolitan Area Transit Authority (WMATA), which serves riders in Washington DC, Maryland, and Virginia, is facing a budget shortfall and is exploring ways to close the budget gap. Late last year, WMATA proposed cutting its workforce by nearly 20%. Currently, layoffs are no longer being considered. WMATA is proposing fare increases, eliminating certain bus routes, and closing the 10 lowest ridership Metrorail stations as ways to combat the revenue shortfall.

Our Take: Ridership has been slow to rebound since the end of the pandemic. Many workers have switched to hybrid schedules or have changed their commuting habits. While government funding packages from Washington DC, Maryland, and Virginia may be passed and could help close the budget gap, the WMATA must implement changes to increase revenue and cut spending. However, significant rate hikes and service cuts could lead to a decrease in ridership, which the WMATA is trying to avoid.



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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.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

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