
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

March 15, 2024

INFLATION

The Producer Price Index (PPI) accelerated to +0.6% from January, +0.3% ex-food & energy. Both were more than expected, and interest rates jumped on the news. While both were at or under 2% year-over-year, the year-over-year numbers were an increase from January.

Our Take: All indications from the Fed are that it will wait until it has greater confidence that inflation is heading toward its 2% goal before cutting rates. This PPI report will most likely push the Fed in the direction of waiting longer for more confirmation that inflation is not leveling out above the Fed's target.

RETAIL SALES

Retail sales rose 0.6%, 0.3% excluding cars and gasoline. The headline number was below expectations, and sales growth is not keeping up with inflation. The February numbers were not the expected rebound from very weak January numbers, and so year-to-date retail sales are negative.

Our Take: The February sales numbers indicate that goods consumption is continuing its slowdown. It remains to be seen if services consumption will continue to offset this trend. Thus far U.S. consumers have supported continued growth even in the face of restrictive monetary policy. Even with the potential warning signs of a slowdown in activity, the Fed is unlikely to begin policy easing while inflation remains above target unless data indicate a much more significant slowdown and a likely uptick in unemployment.

JAPAN

Japanese trade unions reported that the average wage increase in 2024 pay deals is 5.3%, the biggest increase since the early 1990s. Many economists are stating that this is strong evidence that Japanese inflation is accelerating and that the Bank of Japan (BOJ) will need to hike to positive rates at their next meeting in April.

Our Take: Japan has had negative policy rates for just over 8 years, and the BOJ is the last major central bank to hold rates in negative territory following the European Central Bank's hikes in response to Eurozone inflation. The BOJ moving away from its extraordinary policy stance towards policy normalization is a welcome development. Failure to move by the BOJ would likely have significant effects on the exchange rates between the yen and other currencies.

MUNICIPALS

Many states are experiencing declining tax revenue. Thirty-seven states reported a decrease in tax collections in the second half of 2023 compared to the second half of 2022. According to Bloomberg, overall collections dropped 4.5% during the month of December compared to one year ago.

Our Take: Lower-than-expected tax collections along with inflationary pressures have led to a decrease in revenue for many states. As states prepare to tackle the budgeting process for the next fiscal year, certain states may be in a difficult position and could be forced to cut spending or make other changes to close budget gaps.



CONTACT

Financial Advisors

888.971.7135

Find your Regional Director on our [coverage map](#) or by visiting madisoninvestments.com/contact.

Institutional Investors and Consultants

888.971.7135

Visit us online

madisoninvestments.com

ABOUT REINHART FIXED INCOME

Quality, stability, and predictability are the hallmarks of the Reinhart Fixed Income management philosophy. We believe that successful fixed income management is a product of understanding the role bonds play in a specific client's investment strategy and developing unique portfolios to meet the objectives of the client. Reinhart Fixed Income is part of Madison Investments, an independent investment manager providing active, high-quality, and high-conviction portfolios since 1974.

DISCLOSURES

"Madison" and/or "Madison Investments" is the unifying tradename of Madison Investment Holdings, Inc., Madison Asset Management, LLC ("MAM"), and Madison Investment Advisors, LLC ("MIA"). MAM and MIA are registered as investment advisers with the U.S. Securities and Exchange Commission. Madison Funds are distributed by MFD Distributor, LLC. MFD Distributor, LLC is registered with the U.S. Securities and Exchange Commission as a broker-dealer and is a member firm of the Financial Industry Regulatory Authority. The home office for each firm listed above is 550 Science Drive, Madison, WI 53711. Madison's toll-free number is 800-767-0300.

Any performance data shown represents past performance. Past performance is no guarantee of future results.

Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Madison Investment Holdings, Inc. acquired the fixed income management assets of Reinhart Partners, Inc. on June 11, 2021 and now employs the Investment Team that previously managed the assets at Reinhart. The Investment Team manages the assets using substantially the same strategies and objectives as at Reinhart. Performance information dated prior to the purchase reflects that of Reinhart Partners, Inc.

Quality refers to the bond ratings provided by the various third-party ratings agencies. Stability and predictability refer to the cash flow of individual securities and not to the market value or performance of portfolio holdings. There is no guarantee this strategy will lead to investment success.

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 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.