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## WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

March 17, 2023

### U.S. BANKING STRESS

On the heels of the failure of Silicon Valley Bank regulators took over Signature Bank as well. Credit Suisse came under pressure following comments from its biggest investor that it wouldn't invest more in the bank. First Republic Bank saw significant deposit outflows that caused concerns about its survival. In the case of both Credit Suisse and First Republic, the central banks worked to provide liquidity support. More broadly, the Fed also encouraged discount window borrowing and established a new bank lending facility that would lend for up to a year against par value of collateral rather than market value. The Fed announced significant usage of the new facility and a large increase in discount window borrowing as banks seek to access liquidity.

**Our Take:** Regulators and central banks are seeking to bolster confidence in the banking system as a whole and to allay depositors' concerns about any individual bank. Adequate liquidity and depositor confidence are prerequisite conditions for a stable banking system, and it is encouraging that authorities are acting forcefully to ensure both.

### EUROPEAN CENTRAL BANK (ECB)

As planned and signaled, the ECB went ahead with a 50 basis point increase in rates for the Eurozone. The ECB did not give as strong of a signal on the future path of rates as they did after the last meeting. Lagarde indicated that the ECB can continue monetary tightening while addressing stresses in the banking system.

**Our Take:** The ECB forcefully prioritized fighting inflation over any concerns about financial system stability. The time until the next meeting will indicate if stresses in the banking system tighten financial conditions enough to bring down inflation or if central banks will need to continue rate hikes.

### INFLATION

Consumer prices rose 0.4% in February and have risen 6.0% year-over-year. Core Consumer Price Index (CPI) rose 0.5% and 5.5% respectively over the same time periods. February producer prices fell 0.1%, while core Producer Price Index (PPI) was flat. Over the past twelve months, PPI has risen 4.6% overall and 4.4% core.

**Our Take:** CPI was slightly higher than economist expectations while producer prices came in decidedly softer. While market focus shifted away from inflation this week, the Fed still has a fight on their hands. What remains to be seen is whether the current banking environment will lead to tighter lending standards, thus slowing the economy, or if the Fed needs to continue raising rates. Market expectations are currently split over the chance of a pause at the Federal Open Market Committee meeting next week or another 25 basis point hike.

### RETAIL SALES

Retail sales fell 0.4% in February.

**Our Take:** Monthly retail sales reports have been very volatile, likely influenced by a variety of factors including weather and the seasonal adjustment process. Monthly sales have grown 0.3% on average over the last six months while the trend in real sales (adjusted for inflation) remains very flat.



## MUNICIPALS

Moody's Investors Service upgraded Illinois general obligation debt from Baa1 to A3 with a stable outlook. Moody's cited tax revenue growth along with increased revenues and a decrease in liabilities as reasons for the upgrade. Governor J.B. Pritzker, pleased with the upgrade, stated that "we have undone decades of damage and ushered a new era of fiscal responsibility in Illinois."

**Our Take:** Illinois has taken steps to improve its fiscal health including boosting its reserves and increasing payments to its underfunded pension plans. Despite the improvements, Illinois deservedly remains one of the nation's lowest rated states.

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## 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.

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

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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.