
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

April 12, 2024

INFLATION

The March Consumer Price Index (CPI) came in hotter than expected, rising 0.4% for the month and 3.5% year-over-year. Core CPI, excluding food and energy, rose 0.4% in March and 3.8% over the last twelve months. Producer prices (PPI) rose 0.2% in March and 2.1% year-over-year.

Our Take: Is three months a trend? March consumer prices surprised to the upside, just as they did in January and February. Of greater concern, core services prices rose 0.5% in March while the “supercore” (excluding housing) rose 0.7%. Clearly, inflation is proving tougher to tame than expected. Correspondingly, market expectations are now at just two rate cuts from the Fed in 2024, down from six at the beginning of the year.

MIDDLE EAST

Israeli and U.S. intelligence indicated that an Iranian attack on Israel or Israeli and U.S. interests in response to last week’s Israeli strike on the Iranian diplomatic compound in Damascus may be imminent. It is unclear if Iran would continue to use proxies such as Hezbollah for such an attack, or if Iran would escalate the conflict by striking Israel directly. Treasuries and other safe havens rallied and oil rose in response to this information.

Our Take: Any expansion of the conflict in the Middle East would be a tragedy and would increase geopolitical risk. While Treasuries rallied as a haven, over the longer run an expanded conflict in an area of the world that is so vital to energy markets and shipping routes is likely to be inflationary and to limit economic activity. Such a scenario would make it difficult for central banks to begin a monetary easing cycle, even in the face of slowing growth and a weakening labor market.

EUROPEAN CENTRAL BANK (ECB)

The ECB held rates steady but also pointed to a likely cut in June.

Our Take: The Eurozone has seen a faster drop in inflation than the U.S. and is also facing slower growth, so the ECB has more impetus to cut and fewer constraints on its ability to do so. However, given its reliance on energy imports, any price shock there could prevent the ECB from easing as quickly as markets are expecting. The ECB may also be constrained by the impact of a depreciating euro if Eurozone rates begin to diverge too much from U.S. rates, although ECB President Christine Lagarde made a specific effort to highlight the ECB’s independence from Fed policy.

FED MINUTES

This week, the Fed released the minutes from the March FOMC (Federal Open Market Committee) meeting. The minutes did not reveal anything that was not already covered by Chairman Powell’s post-meeting statement or the March Summary of Economic Projections.

Our Take: The release of the minutes was completely overshadowed by the inflation numbers announced the same day, with good reason. The minutes really did not say anything new.



MUNICIPALS

Boston Mayor Michelle Wu has proposed increasing commercial property taxes to avoid a revenue shortfall. A drop in assessed value of commercial properties has led to lower-than-expected revenue collections. Mayor Wu's proposal comes after a February report funded by the Boston Policy Institute indicated that the value of office space could decrease by up to 30% by 2029.

Our Take: Recognizing that a property tax increase on residential properties would be unpopular with voters, commercial properties have become Mayor Wu's target. However, an increase in commercial property taxes could lead to an even steeper decline in occupancy and assessed values. It is estimated that commercial properties in Boston make up over 35% of revenue collections for the city. Decreased commercial property values will have a greater impact on Boston's revenue collections due to the high overall percentage compared to other large cities such as Chicago, Miami, and New York where commercial real estate taxes total 5% to 15% of revenue collections according to Bloomberg.

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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.