
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

April 19, 2024

MIDDLE EAST

Iran launched a direct attack on Israel using drones and missiles in response to the attack on an Iranian compound in Damascus. 99% of the objects launched were intercepted, there were no fatalities in Israel, and damage from the attack was minimal. Following the attack, the Iranian government stated that it saw no need for further action. The U.S. and other Western nations urged Israel to show restraint in response to the Iranian attack, but some hardline members of Netanyahu's coalition urged a strong response. Israel responded with a limited drone attack against a facility involved in the Iranian attack that caused little damage. Brent crude, Treasuries, and gold rallied slightly at the news of both attacks and then subsided as it became clear that neither attack was likely to lead to a significant escalation.

Our Take: The Iranian and Israeli governments both seem to be trying to thread the needle between appeasing domestic constituencies that are calling for aggressive responses and avoiding an escalation into a wider direct and ongoing conflict between Israel and Iran. Thus far, the most recent attacks by either side seem to be calibrated to achieve this outcome and to avoid giving Iran reasons to accelerate its nuclear program. If this balance is not maintained, a spike in oil prices and a flight to haven assets is likely.

THE FED

It was a busy week for Fed speak with many members providing their perspective on the progress of the Fed's fight against inflation. Minneapolis Fed President Neel Kashkari called for patience until the Fed is "convinced that inflation is on its way back down to 2%." Federal Reserve Bank of Cleveland Loretta Mester noted that monetary policy is in a good place and that "a strong economy and robust labor market are giving the Fed room to be patient on policy." Fed Governor Michelle Bowman highlighted that there is a lot of "continued growth that [the Fed] wouldn't have expected" with a tight monetary policy. She added although current policy is restrictive, "time will tell if it is sufficiently restrictive." Separately, Chairman Powell commented that "recent data shows a lack of further progress towards our inflation goals," and that it's going to take "longer than expected" to gain the confidence needed to lower rates.

Our Take: So far this year, the Fed has not gained "greater confidence" that inflation is moving sustainably towards its 2% target. To the contrary, the thinking at the Fed appears to have shifted more hawkish since its March meeting. The Fed's "higher for longer" stance now looks like higher for even longer.

RETAIL SALES

Retail sales rose 0.7% in March, outpacing expectations of 0.4%. Control group sales, which feed GDP calculations, were up 1.1%. February retail sales growth was revised upward from 0.6% to 0.9%.

Our Take: The consumer continues to chug along. Strong growth in the final Q1 report should lead to a strong first quarter GDP. If the Fed continues to receive reports of strong growth and continued inflation, then their current wait-and-see approach is likely to continue.



MUNICIPALS

Moody's Investors Service changed its outlook on the Maryland State Transportation Authority from stable to negative. Moody's cited "the uncertainty around the Francis Scott Key Bridge's replacement project's costs, including their funding and timing" as reasons for the outlook change.

Our Take: The Maryland Transportation Authority expects to recover much of the lost toll revenue from the Key Bridge as the Authority owns the two tunnels that diverted traffic will use. Maryland Governor Wes Moore, along with Maryland lawmakers, continue to petition Congress to approve funding to rebuild the bridge. Until the funding for the new bridge is determined, uncertainty for the Maryland State Transportation Authority remains.

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