WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

April 26, 2024

GDP, INCOME & SPENDING

First quarter GDP was reported at +1.6%, a significant slowdown from the fourth quarter and well below expectations. The slowdown was mostly driven by inventory destocking, increased imports, and lower government spending. As a result, final sales to private domestic purchasers rose 3.1% with increased residential and business investment offsetting a moderate slowdown in consumption driven by goods purchases. Monthly consumer spending data indicated that weakness in goods sales was concentrated in January and recovered in February and March. Personal income continued to grow more than inflation and taxes during the first quarter.

Our Take: The headline GDP print indicates a slowing U.S. economy. However, a closer look at the components and the monthly trends during the quarter point to a resilient consumer supported by growing income and businesses investing in growth. The Fed is likely to look past the headline number and conclude that the U.S. economy is not in danger of faltering and that there is no increased pressure to ease monetary policy in response to a slowdown.

INFLATION

The Personal Consumption Expenditure deflator (PCE), the Fed's preferred inflation metric, rose 3.4% headline and 3.7% core in the first quarter, both above expectations and an acceleration from the fourth quarter. Monthly data indicates that the highest inflation was in January, but that March saw an acceleration from February, and the March number annualizes to 3.9%, well above the Fed's 2% target. Inflation was concentrated in services with goods inflation showing a flat trend. Interest rates rose across the yield curve following the release of this data.

Our Take: By just about any metric inflation has plateaued at a level above the Fed's 2% target and it appears unlikely that it will resume its progress towards that target without a significant slowdown in consumer demand. Capital markets are pushing the timing of expected Fed cuts further out into the future as well as reducing the expected amount of easing from current levels that will normalize policy.

MUNICIPALS

Amid the excitement of having the number one draft pick in this year's NFL draft, the Chicago Bears released plans for a new $4.7 billion stadium project located in downtown Chicago. Bears President and CEO Kevin Warren indicated that the franchise aims to start construction in 2025 and open the facility in 2028. The enclosed stadium is expected to cost $3.2 billion along with $1.5 billion in infrastructure improvement costs. The proposal includes $2 billion from the Bears, a $300 million loan from the NFL and $900 million from the Illinois Sports Authority from a debt sale. Chicago Mayor Brandon Johnson touted the private and public cooperation and has expressed his commitment to help keep the Bears in the city of Chicago.

Our Take: From the beginning, the stadium proposal has been controversial. Lawmakers, including Illinois Governor J.B. Pritzker, have expressed concern about the effect on taxpayers. The Governor stated, "There are a lot of priorities the state has, and I'm not sure this is among the highest priorities for taxpayers."

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