
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

May 17, 2024

INFLATION

The April Consumer Price Index (CPI) increased less than expected, rising 0.3% for the month and 3.4% year-over-year. Core CPI, excluding food and energy, also rose 0.3% in April and 3.6% over the last twelve months. Producer prices (PPI) rose more than expected, up 0.5% in April and 2.2% year-over-year. March PPI was revised lower resulting in an as-expected combined March/April PPI report.

Our Take: CPI coming in slightly lower than expected is welcome news as inflation was running hot for the first three months of the year. However, it is far too soon to say the fight against inflation is over. Inflation is clearly much higher than the Fed's 2% target meaning a rate cut is likely several months away at the earliest, assuming inflation cools in the interim.

RETAIL SALES

Retail sales were flat in April, falling short of expectations of a 0.4% increase. Control group sales, which feed GDP calculations, fell 0.3%.

Our Take: Weak sales in April were a reversal of March's very strong sales growth. The consumer still appears to be in pretty good shape when considering the last two months combined. A continued slowdown in consumer activity could help the fight against inflation but with the cost of slower growth.

CHINA

The Chinese government introduced measures to try to stabilize the property market. There were several measures designed to ease credit availability to homebuyers. This effort also includes a directive for local governments to buy unsold homes and has a mechanism for the People's Bank of China (PBOC) funding for government-backed firms to buy unsold inventory from developers. Chinese equity markets rallied following the announcement of these measures.

Our Take: China will be very hard-pressed to meet its growth targets until the property market stabilizes. The announced measures mostly just shift the burden of excess housing inventory from developers to local governments and government-backed firms, who are already severely indebted.

MUNICIPALS

The number of municipal bond megadeals has been increasing. Over the next few weeks, four new issue deals of over \$1 billion are expected. According to Bloomberg, the first half of 2024 will likely break the record of annual megadeals issued, surpassing the 26 megadeals issued in the full year of 2020.

Our Take: Inflation has driven up infrastructure project costs leading to larger issue sizes. Some issuers on the sidelines last year reentering the market this year have also led to the increase in municipal issuance.



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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.

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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 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.

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.