
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

May 3, 2024

EMPLOYMENT

Nonfarm payrolls rose by 175,000 jobs in April, falling short of the consensus estimate of 240,000. The unemployment rate rose from 3.8% to 3.9% while labor force participation was unchanged at 62.7%. Average hourly earnings grew by 0.2% and are up 3.9% year-over-year.

Our Take: In his press conference this week, Federal Reserve (Fed) Chairman Jerome Powell stated that he was confident current rates were restrictive because of a slowing labor market. The April jobs report seems to support his confidence. There will likely need to be a continued slowdown in job and wage growth before policymakers move to cut rates.

THE FED

As expected, the Fed decided to keep the target fed funds rate at 5.25%-5.50%. This is the sixth meeting in a row where the rate has remained unchanged. The economic assessment in the post-meeting statement was largely unchanged from the previous meeting, citing that economic activity has continued to expand “at a solid pace,” job gains “remained strong” and unemployment “remained low.” However, on the inflation front, the statement noted there has been “a lack of further progress” toward the committee’s 2% objective. In his post-meeting remarks, Chairman Powell reiterated the Fed does not think it will be appropriate to reduce the fed funds rate until it has gained greater confidence that inflation is moving sustainably toward 2%. He added that so far this year, “the data have not given [the Fed] that greater confidence.” Further, Powell noted it is unlikely the next policy move will be a hike and stated the Fed remains focused on how long to stay with its current restrictive policy.

Our Take: Despite disappointing inflation numbers this year, the Fed remains confident its current policy, over time, will be sufficiently restrictive. For now, the Fed can remain patient before cutting rates and is prepared to maintain the current target range for as long as appropriate.

MUNICIPALS

Municipal issuance reached nearly \$143 billion during the first four months of 2024. This amounts to the highest amount of issuance for the same period since 2015 according to Bloomberg. 2024 issuance is 33% higher than the first four months of last year.

Our Take: December 2023 issuance was slow, leading to a brisk January. Some issuers, in need of funds and hesitant to issue amid possible rate cuts later in 2024, may be coming to market now with the intent to refinance later.



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