
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

June 14, 2024

THE FED

As expected, the Federal Reserve (Fed) decided to keep the target fed funds rate at 5.25%-5.50%. 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.” On the inflation front, the statement noted there has been “modest progress” toward the committee’s 2% objective, a notable change from the “lack of further progress” cited last meeting. The latest Summary of Economic Projections once again showed a slightly slower path to rate normalization with the median outlook for one cut this year and four cuts in 2025. In his post-meeting remarks, Chairman Jerome 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%, adding that the Fed has not yet gotten that confidence on sustained progress.

Our Take: The Fed remains confident its current policy, over time, will prove to be sufficiently restrictive. Although encouraged by recent inflation data, it will take several more positive reports for the Fed to find the greater confidence it is seeking. For now, the Fed can remain patient and is prepared to maintain the current target range for as long as appropriate.

INFLATION

The Consumer Price Index (CPI) was unchanged in May and has risen 3.3% year-over-year. Core CPI, excluding food and energy, rose 0.2% for the month and 3.4% over the last twelve months. Producer prices (PPI) fell 0.2% in May and have risen 2.2% year-over-year.

Our Take: Both CPI and PPI were lower than expected, marking the second month in a row of improving inflation reports. Additionally, there were broad-based improvements in most of the underlying categories of CPI including price drops in the energy, apparel, recreation, and transportation sectors of the index. This week’s report marked a positive step toward the Fed’s 2% goal.

FRANCE

Following losses in the European Parliament elections, French President, Emmanuel Macron, called snap elections in France. Based on polling, Macron’s centrist bloc would lose significant ground to Marine Le Pen’s National Rally and to a left-wing bloc of parties that agreed to unite for this election. If either the left- or right-wing blocs gain enough seats, Macron could be forced to appoint a prime minister from that bloc. Both the left- and right-wing blocs oppose many of Macron’s fiscal and structural reforms as well as compliance with EU deficit rules. French government bonds (OATs) widened close to 30 basis points relative to bunds, the biggest such move in decades.

Our Take: Macron’s calling of a snap election brings to the fore the risk of a French government that is not committed to EU rules and integration and that is likely to adversely affect the business climate in France. Both left- and right-wing populist parties have been gaining in Europe, and this election puts the risk of such a party coming to power in a large core EU nation.



MUNICIPALS

New municipal issuance continues to increase. Municipal debt coming to market in the next 30 days has reached almost \$19 billion, which is the most since May 2022 according to Bloomberg. Long-term municipal issuance has reached \$190 billion through the first week of June, which marks an increase of 35% compared to 2023.

Our Take: Issuers have tapped the municipal market to fund infrastructure projects. In addition, many municipalities and school districts are issuing debt now, ahead of the fall election in an effort to avoid possible volatility in the markets surrounding the election. However, the new issuance surge may start to taper off as sales tend to slow in the late summer months.

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ABOUT REINHART FIXED INCOME

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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.

Quality refers to the bond ratings provided by the various third-party ratings agencies. Stability and predictability refer to the cash flow of individual securities and not to the market value or performance of portfolio holdings. There is no guarantee this strategy will lead to investment success.

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.

A basis point is one hundredth of a percent.