
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

June 21, 2024

RETAIL SALES

Retail sales rose 0.1% in May, falling short of expectations for a 0.3% rise. April retail sales were revised downward to a 0.2% decline.

Our Take: While some of the weakness in sales can be attributed to lower prices, evidence of slowing consumer spending is mounting. Weaker consumer spending could help inflation to moderate further but this would come at the expense of economic growth.

THE FED

It was another busy week for Fed speak as several Federal Open Market Committee members provided perspective on the economy, inflation, and potential timing of any future changes in policy. According to Minneapolis Fed President Neel Kashkari, economic fundamentals are very sound and strong. He remains confident inflation will return to 2% but noted it will take a “bit more time.” New York Bank President John Williams sees the disinflationary process continuing and inflation coming down during “the second half of this year and next year.” Dallas Fed President Lorie Logan said the Fed will need to see several months of good inflation data to “really have confidence in our outlook,” while Richmond Fed President Tom Barkin noted the “sustainment and broadening” of improved inflation data over the next “several months” will be important.

Our Take: Two clear themes emerged from the members’ commentary this week. First, each member was encouraged by recent data on inflation. Current policy appears restrictive, and inflation is moving in the right direction. Second, it will take time to gain the confidence needed to make the first rate cut and no one is in any hurry to lower rates.

CHINA

China saw an acceleration of declines in real estate investment and home prices in May, retail sales increased but at less than half of the average rate before the pandemic, and industrial production rose 5.6%.

Our Take: Following years of overinvestment, the Chinese property sector remains a major drag on growth and a headwind to consumers who have much of their wealth in real estate. China is currently relying on investment and exports to maintain economic growth, and exports are coming under greater threat due to geopolitical tensions. China has been unable to develop domestic consumption to a level that will sustain Chinese economic growth, and until this happens the Chinese economy will struggle to support global economic growth.

MUNICIPALS

California lawmakers passed a \$211 billion budget last week, meeting a June 15 deadline and avoiding a forfeiture of pay should the deadline be missed. However, final budget negotiations continue with Governor Newsom. California has an estimated \$27.6 billion shortfall and lawmakers are considering several spending and funding cuts along with tapping into the state’s reserves to close the gap.



Our Take: California, a state with a surplus two years ago, is facing a shortfall due to lower-than-expected tax revenue and a delay in 2022 tax collections due to winter storms, which led to inaccurate budget projections for 2023. Governor Newsom and lawmakers have a tight window to finalize the budget as the July 1 deadline approaches.

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