
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

June 7, 2024

EMPLOYMENT

Nonfarm payrolls were dramatically higher than expected, rising by 272,000 jobs in May. This handily exceeded the consensus estimate of 180,000. The unemployment rate rose from 3.9% to 4.0% while labor force participation fell to 62.5% from 62.7%. Average hourly earnings grew by 0.4% and are up 4.1% year-over-year.

Our Take: Today's report reduces the chance of rate cuts any time soon. The employment market remains on solid footing and strong hourly earnings will help support the consumer spending which is driving the economy.

EUROPEAN CENTRAL BANK (ECB)

As expected, the ECB cut rates by 25 bps. This cut had been strongly signaled in advance. Alongside the rate cut, the ECB also increased its forecast of consumer price growth, and ECB President Christine Lagarde was intentionally very vague about when the next cut might come and even if the ECB has shifted into an easing cycle. Futures now imply just one more ECB cut this year.

Our Take: From the time that the ECB signaled a June cut until this week's meeting data came in indicating a tighter labor market and higher inflation. The ECB most likely delivered this cut to maintain credibility in their forward guidance, which they use much more than the Fed to influence policy. Lagarde's ambiguity about the policy path from here indicates that the ECB is not yet ready to normalize policy, much like the Fed.

BRICS

Both India and South Africa held elections in which the currently ruling parties (Modi's BJP in India, Ramaphosa's ANC in South Africa) lost their outright majorities and will have to form coalition governments in order to remain in power. In the case of India, Modi has already formed a coalition that will keep him in power but with much more restraint on his and the BJP's actions. In the case of South Africa, it is unclear whether the ANC will form a coalition with the business-friendly DA or several other more left-wing and populist parties. The rand weakened on this uncertainty.

Our Take: Modi had become increasingly authoritarian, and to the extent that power sharing tempers this and the BJP's Hindu nationalist bent, this is a positive development for India. South Africa is now at a crossroads. A coalition with the DA would increase confidence in the rule of law and leave South Africa more attractive to foreign investment, while a tie-up with other parties would create significant concern around nationalizations and corruption.

MUNICIPALS

New York Governor Kathy Hochul halted the Manhattan congestion pricing plan, due to take effect on June 30th. The congestion pricing plan was designed to charge vehicles entering the central business district an additional toll during peak hours, which would generate \$1 billion annually for the Metropolitan Transportation Authority.

Our Take: While Governor Hochul cited both inflation and financial pressures on working-class families as reasons for her decision, many believe that the halt was due to political pressures, as the toll was unpopular with constituents. Without the congestion pricing toll revenue, the MTA faces uncertainty surrounding funding for transit improvement and maintenance projects. In addition, the MTA had already spent over \$500 million on cameras and E-Z Pass readers. Governor Hochul, lawmakers, and MTA officials must now come up with an alternative funding plan.



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A basis point is one hundredth of a percent.

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