WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

July 26, 2024

U.S. GDP

Real GDP grew at an annualized 2.8% rate in the second quarter.

Our Take: GDP growth was buoyed by consumer spending and capital investment. Continued growth in these areas, especially consumer spending, is paramount to avoid a recession. Strong growth provides ammunition for those Federal Open Market Committee (FOMC) members who want to delay easing.

INFLATION

The core Personal Consumption Expenditure Price Index (PCE) rose 0.2% in June and is up 2.6% year-over-year.

Our Take: The core PCE is one of the Fed's preferred measures of inflation. It continues to creep toward the Fed's 2.0% inflation target and, in contrast to the GDP report, provides ammunition for those FOMC members who want to start easing soon. A September rate cut is likely unless future reports show inflation reaccelerating.

CHINA

The Chinese Communist Party's Third Plenum meeting failed to deliver the hoped-for consumer stimulus and did not address the property crisis while measures designed to address local government fiscal issues were much too small. The People's Bank of China (PBOC) cut rates to support economic growth, but these cuts were mostly marginal as the PBOC is concerned about protecting the value of the currency to prevent import price inflation.

Our Take: The Chinese government finds itself unable to implement significant fiscal stimulus or to allow the property markets to clear while also facing threats to exports. China is unlikely to resume its role as the global growth driver, and its economy is facing significant risks in the near and medium term.

MUNICIPALS

Total state general fund spending is expected to fall 6.2% to $1.2 trillion in fiscal 2025 according to a survey conducted by the National Association of State Budget Officers. The decline follows general fund expenditure growth of 14.4% in 2024 and 7.2% in 2023. Next year's projected figure is the largest percentage drop since 2010, when spending declined 6.6% following the Great Recession.

Our Take: Not all states will cut spending in 2025. Approximately half of the states will increase spending according to the report. For those states spending less, the cuts are explainable. States flush with cash after receiving pandemic relief and federal aid boosted spending in recent years, with many using funds on one-time projects. In addition, California, looking to close its $47 billion budget gap, has announced that certain spending will be delayed or cut. California's large figures skew the overall national number.

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