
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

August 2, 2024

THE FED

This week the Federal Reserve voted unanimously to maintain the target fed funds rate at 5.25%-5.50%. Although the result was highly anticipated, the markets paid close attention to any new indication about the timing of an eventual cut in rates. The post-meeting statement did not provide much in this respect, only stating that inflation goals “continue to move into better balance.” However, in his post-meeting remarks, Chairman Jerome Powell appeared open to a rate cut noting it “could be on the table as soon as the next meeting.” He added that the Fed will consider the “totality of the data” when making policy decisions.

Our Take: The post-meeting statement from the Fed did not give the dovish signals the market was hoping for, but Powell’s comments show a September cut is still a possibility. In the end, with two months of employment and inflation data before the next meeting, the Fed remains cautious and is keeping its options open.

EMPLOYMENT

Nonfarm payrolls rose by 114,000 jobs in June, underperforming expectations. The unemployment rate rose from 4.1% to 4.3% while labor force participation rose to 62.7% from 62.6%. Average hourly earnings grew by 0.2% and are up 3.6% year-over-year.

Our Take: Employment markets were considerably weaker than expected in July as nonfarm payrolls grew less than expected and the unemployment rate increased more than expected. Rate cuts in September are a near certainty, barring any major surprises. Now, the biggest question on the market’s mind is whether cuts will need to be bigger and faster than previously anticipated.

JAPAN

The Bank of Japan (BOJ) raised rates to 0.25% from a target range of 0-0.1%, halved bond buying and indicated that further rate hikes are likely. The yen rose in reaction.

Our Take: The BOJ is finally, after several decades, seeing enough pricing power in the domestic economy to allow the BOJ to attempt to normalize rates and monetary policy. The BOJ is joining other major central banks in starting or signaling monetary policy normalization, but the BOJ is tightening from extraordinarily loose policy while other central banks are easing from restrictive policy. This dynamic is likely to be supportive of yen strengthening.

MUNICIPALS

New York Governor Kathy Hochul announced that \$54 million of discretionary state infrastructure funds will be allocated to restart work on the Second Avenue subway line in New York City. The Second Avenue project had stalled after Governor Hochul paused the Metropolitan Transportation Authority’s congestion pricing toll plan, which was to take effect on June 30. Governor Hochul touted the funding as an example of her commitment to the city’s constituents



and transit system. Others expressed concern that the amount does not do enough to fill the \$15 billion hole that the congestion pricing pause created in the MTA budget.

Our Take: Without the revenue from the congestion pricing toll, uncertainty surrounded the MTA’s projects, capital plan and budget. The \$54 million will help restart certain pieces of the \$7.7 billion Second Avenue project, but additional funding will be needed to continue and complete the project. The MTA remains in financial limbo as lawmakers ended their legislative session in June without a funding plan and will revisit the topic during 2025 budget negotiations.

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