
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

September 1, 2023

EMPLOYMENT

Nonfarm payrolls increased by 187,000 jobs in August, slightly more than expected. Revisions to the last two months' reports subtracted 110,000 jobs. The unemployment rate rose from 3.5% to 3.8% as labor force participation rose from 62.6% to 62.8%. Average hourly earnings were up 0.2% last month and have risen 4.3% over the last twelve. The Job Openings and Labor Turnover Survey (JOLTS) job openings survey fell to approximately 8.8 million unfilled jobs, substantially less than the expected 9.5 million openings.

Our Take: The biggest news out of this month's jobs report is the increase in labor force participation. Although this caused an uptick in the unemployment rate, returning workers should help to cool the tight labor market. The decline in the JOLTS survey is a perfect example as a growing labor force fills open positions. The Fed is likely to view the employment report as evidence of a slightly cooling economy which allows the Federal Open Market Committee (FOMC) to hold rates steady at their next meeting.

CHINA

Purchasing Managers' Index (PMI) data indicate that China's manufacturing sector improved in August but remains in contraction, while the service sector slowed to barely be in expansion. The government and the People's Bank of China (PBOC) announced several small and targeted measures to stimulate growth and to support the yuan and the stock markets.

Our Take: This week's reports place China's GDP growth targets further out of reach and offer more evidence that the post-COVID rebound is done. China is unlikely to be the key support of global growth that it has been in the past few decades. The Chinese government is still holding off on any large and broad-based consumer stimulus. This hesitancy could be due to philosophical opposition from President Xi and the Chinese Communist Party or due to insufficient debt capacity, especially if the government feels compelled to make investors in property developers and local government financing vehicles whole.

PERSONAL INCOME AND SPENDING

Personal income rose 0.2% in July while spending increased 0.8%.

Our Take: Income growth was a little lower than expected while spending was slightly higher. The consumer continues to drive the economy and consumption shows little sign of slowing.

INFLATION

July inflation, as measured by the Personal Consumption Expenditures deflator (PCE), rose 0.2%. The core PCE was also up 0.2% in July and has risen 4.2% over the past year.

Our Take: It is possible that higher rates are starting to work, as PCE inflation has moderated over the last two months. That said, core PCE is still twice what the Fed desires and the Fed's restrictive stance is unlikely to change anytime soon.



MUNICIPALS

New York City's Traffic Mobility Review Board held its second public meeting to discuss the Metropolitan Transportation Authority's (MTA) congestion pricing plan. Under the new tolling plan, which is expected to begin next year, commuters driving into the central business district in Manhattan will pay an additional toll during peak hours. The Traffic Mobility Review Board is responsible for recommending the congestion pricing structure and determining which groups or individuals should receive an exemption or discount.

Our Take: Several lawmakers have expressed concern that the congestion pricing structure will negatively impact commuters who are not able to afford the additional cost. The MTA, which has struggled financially, is expected to receive \$1 billion per year under the new congestion tolling structure. In addition, the increased toll cost could change commuter habits, leading to more commuters taking public transportation. There should be more clarity surrounding the exact toll amounts and exemptions as the roll-out date approaches.

CONTACT

Financial Advisors

888.971.7135

Institutional Investors and Consultants

888.971.7135

Visit us online

madisoninvestments.com

Find your Regional Director on our [coverage map](#) or by visiting madisoninvestments.com/contact.

ABOUT REINHART FIXED INCOME

Quality, stability, and predictability are the hallmarks of the Reinhart Fixed Income management philosophy. We believe that successful fixed income management is a product of understanding the role bonds play in a specific client's investment strategy and developing unique portfolios to meet the objectives of the client. Reinhart Fixed Income is part of Madison Investments, an independent investment manager providing active, high-quality, and high-conviction portfolios since 1974.

DISCLOSURES

“Madison” and/or “Madison Investments” is the unifying tradename of Madison Investment Holdings, Inc., Madison Asset Management, LLC (“MAM”), and Madison Investment Advisors, LLC (“MIA”). MAM and MIA are registered as investment advisers with the U.S. Securities and Exchange Commission. Madison Funds are distributed by MFD Distributor, LLC. MFD Distributor, LLC is registered with the U.S. Securities and Exchange Commission as a broker-dealer and is a member firm of the Financial Industry Regulatory Authority. The home office for each firm listed above is 550 Science Drive, Madison, WI 53711. Madison’s toll-free number is 800-767-0300.

Any performance data shown represents past performance. Past performance is no guarantee of future results.

Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm’s judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

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 ISM Services PMI® is a composite index based on the diffusion indexes for four of the indicators with equal weights: Business Activity (seasonally adjusted), New Orders (seasonally adjusted), Employment (seasonally adjusted) and Supplier Deliveries. An index reading above 50 percent indicates that the services economy is generally expanding; below 50 percent indicates that it is generally declining. Supplier Deliveries is an exception. A Supplier Deliveries Index above 50 percent indicates slower deliveries and below 50 percent indicates faster deliveries.