
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

January 26, 2024

GDP

According to the Bureau of Economic Analysis, real GDP grew at a 3.3% annualized rate in the fourth quarter, driven in large part by a 2.8% increase in personal consumption along with solid export growth.

Our Take: Q4 GDP growth dramatically outpaced expectations. Given the strong economy, the Fed will be very careful about the timing of rate cuts and is likely to favor a slow approach.

PERSONAL INCOME AND SPENDING

Personal incomes rose 0.3% in December while spending increased 0.7%.

Our Take: The consumer continues to spend, buoyed by relatively strong personal balance sheets which increase borrowing capacity. The increased borrowing was necessary, as income growth did not match spending growth. For now, consumer spending continues to drive growth, making a soft landing possible. However, borrowing capacity is not unlimited, meaning increased spending will eventually need to be more in line with income growth.

INFLATION

The Personal Consumption Expenditure (PCE) deflator rose 0.2% in December and is up 2.6% year-over-year. Core PCE rose 0.2% and 2.9%, respectively, over the same periods.

Our Take: Inflation is on the path toward the Fed's 2% target. Of note, the annualized Q4 core PCE actually came in at 2%, meaning that if inflation stays where it was in Q4 over the next three quarters, the Fed will have achieved its 2% goal. The inflation picture is not all roses, however. The Fed has acknowledged that several factors like improved supply chains and labor force growth, which are leading to lower inflation, are beyond their control. Inflation could reignite if gains in these areas reverse.

CHINA

Reports came out about a \$278 billion package to support the Chinese stock market following Premier Li Qiang's order to calm the equity markets, which are down significantly from their 2021 peak. The People's Bank of China (PBOC) also announced a surprise cut in the required reserve ratio (RRR), its preferred method to add monetary stimulus.

Our Take: Chinese leaders are clearly becoming concerned about the state of the Chinese economy and stock market. While the announced measures may provide some temporary boost, the Chinese economy and capital markets are unlikely to rebound without resolution of issues around the property market, overindebtedness, investability by foreigners, and geopolitical tensions with the West.

MUNICIPALS

Georgia Governor Brian Kemp released a proposed amended fiscal 2024 and fiscal 2025 budget which includes plans to use some of the state's revenue surplus to finance capital and maintenance projects instead of issuing bonds. The proposal calls for the use of nearly \$2 billion of cash from the surplus. Governor Kemp touted the plan and said that the



“investment will be made without issuing a single additional dollar in general obligation debt, saving taxpayers millions in future debt service costs over the next two decades.”

Our Take: Georgia finds itself in a healthy fiscal position after years of budget surpluses and can afford to use cash in lieu of municipal issuance. The state reported \$18.5 billion in cash reserves as of June 30, 2023.

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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.

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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.