
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

January 5, 2024

EMPLOYMENT

Nonfarm payrolls rose by 216,000 jobs in December. The unemployment rate was unchanged at 3.7%, while labor force participation fell from 62.8% to 62.5%. Average hourly earnings grew by 0.4% and are up 4.1% year-over-year.

Our Take: The solid employment report lessens the chance of a March pivot by the Fed. Strong employment growth coupled with high wage growth will likely cause the Fed to wait for additional information before cutting rates.

CHINA

One of the largest Chinese shadow banks that provides wealth management products for individuals filed for bankruptcy. The firm had recently invested heavily in property developers and local government financing vehicles (LGFVs), both of which are struggling to pay their debts.

Our Take: This bankruptcy is likely symptomatic of the extreme indebtedness in the Chinese property and local government sectors. If this were a one-off case of bad investment decisions by one firm, then the government would likely have had the state-owned banks take the firm's debt onto their balance sheets. This development indicates that investors will have to bear losses from overinvestment in property and infrastructure, which are likely to be substantial and present a significant headwind to the Chinese economy.

FED MINUTES

This week the Fed released the minutes from the December FOMC (Federal Open Market Committee) meeting. The minutes show increased optimism among Fed members regarding the path of inflation noting "clear progress had been made" toward the Fed's 2% target. Participants viewed the current policy rate as "likely at or near its peak for this tightening cycle." While careful not to rule out another rate hike, members' forecasts signal the end of the tightening cycle with an estimated 75 basis points in rate cuts this year. That said, participants noted that their outlooks were associated with "an unusually elevated degree of uncertainty" and reaffirmed it would be appropriate for policy to "remain at a restrictive stance for some time."

Our Take: Despite the market's enthusiasm surrounding the potential for rate cuts in the near term, the FOMC minutes show a cut in rates during the first quarter is unlikely. Although current trends are encouraging, inflation remains elevated suggesting that the Fed's fight against inflation is not over.

MUNICIPALS

Municipal issuance in 2023 reached \$380 billion, down 2.8% from 2022. The year-over-year change is lower than the 2021 to 2022 figures when issuance fell by 19%. Long-term bond sales reached \$22.3 billion in December according to Bloomberg, which is higher than the \$15.3 billion sold in December 2022, but lower than the average December issuance of \$29 billion over the last ten years.

Our Take: A slower-than-average December may lead to a busier January, typically a slow month. January 2024 has started with an uptick in issuance. As of this morning visible supply, which indicates new issuance over the next 30 days, has reached \$13 billion, which is above the 2023 average of \$8.9 billion.



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