
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

November 10, 2023

THE FED

Speaking at an event hosted by the International Monetary Fund, Fed Chairman Jerome Powell reiterated the Fed's commitment to returning to 2% inflation over time. He noted that ongoing progress toward the Fed's 2% goal is not assured, and that inflation has given the committee "a few head fakes." Powell added "if it becomes appropriate to tighten policy further, we will not hesitate to do so."

Our Take: Chairman Powell's statement after the November Federal Open Market Committee meeting left some market participants with the impression the Fed was turning a little dovish and the end of the tightening cycle was near. This week, the Chairman's more hawkish tone was crystal clear. The Fed's top priority is getting inflation under control, and it is ready to raise rates further if necessary.

TREASURY AUCTION

The auctions for new 10 and 30 year Treasuries had very weak demand both in terms of total amount of bids and in terms of the additional yield that the Treasury had to offer to raise the desired amount of funds. Longer Treasury yields rose even further following the auction results as investors worried about weakening demand for Treasuries.

Our Take: Continued weak demand at Treasury auctions could indicate that investors are going to demand more yield to hold longer maturity Treasury debt as compensation for greater risk resulting from the current U.S. fiscal trajectory. Also, overseas monetary authorities are likely to provide less demand at Treasury auctions. Both of these point to the potential for interest rates farther out on the yield curve to remain higher than they have been since the global financial crisis.

MUNICIPALS

Voters across the country headed to the polls on Tuesday to decide on \$44 billion of bond referendums. At least \$27 billion of the bond measures were approved. Texas had the most bond measures on the ballot, with voters deciding on \$25 billion. On average, over the last decade, 86% of bond referendums are approved by voters according to Bloomberg.

Our Take: This year's total amount of \$44 billion was lower than 2022's \$66 billion of bond measures on the ballot. Many municipalities prefer to add bond referendums to the ballot during midterm and presidential election years when voter turnout is higher.



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