WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

November 3, 2023

THE FED

As expected, the Fed decided to leave the target Fed Funds rate unchanged at 5.25%-5.50%. According to the Fed statement, economic activity "expanded at a strong pace" while job gains have "moderated since earlier in the year but remain strong." In his post-meeting remarks, Chairman Powell acknowledged the economy has been surprising in its resilience. He noted that although the stance of monetary policy is restrictive, the full extent of the policy has yet to be felt. When asked if the Fed has finished its tightening cycle, the Chairman replied, "We're not confident that we haven't; we're not confident we have."

Our Take: There were no surprises from the Fed this week, as the pause was highly anticipated. Getting inflation sustainably on the path toward 2% remains the Fed's top priority. It is not clear if monetary policy is restrictive enough yet. For now, the Fed can be patient, leaving rates high until it is confident inflation is under control.

EMPLOYMENT

Payrolls rose by 150,000 in October, wages grew 0.2% from September, and the unemployment rate moved up 0.1% to 3.9%. The payroll number was impacted by the UAW strike, and the resolution of that dispute will likely result in some bounce back in manufacturing jobs in November. The household survey indicated an increase in unemployed people and a decline in participation, but these numbers were also affected by the UAW strike. Bonds continued their rally following the release of this report.

Our Take: On the surface, the October reports indicate that the Fed's tightening campaign is starting to loosen up the labor market, which should help to bring inflation down. The bond market reaction indicates that investors are reading this report as demonstrating that the Fed is done tightening and will be able to cut sooner than previously thought. The extent of the UAW strike's impact on the October report is uncertain, and so investors and the Fed will look to the November report as an indicator of how much the Fed's efforts have brought the labor market back into balance.

BANK OF JAPAN

The Bank of Japan (BOJ) communicated that a 1% yield on 10-year JGBs is now a "reference point" rather than a ceiling on 10-year yields. The communication was unclear and did not clearly signal a phasing out of Yield Curve Control (YCC) by the BOJ. The yen declined after having strengthened in anticipation of higher rates on JGBs.

Our Take: The BOJ is trying to maintain its ultra loose monetary policy stance while other major central banks are restrictive. The attendant weakening of the yen is making this policy stance tougher to maintain without stoking inflation.

ISM SURVEYS

Both the manufacturing and services ISM surveys declined for October and came in below expectations. In both surveys employment weakened. Services prices paid were steady at an elevated level while manufacturing prices paid increased but remained in contractionary territory.

Our Take: The ISM surveys, along with the employment report, give a first glimpse of the fourth quarter as likely slowing from the unexpectedly strong levels of economic activity and employment seen in the third quarter. Markets would read a continuation of these trends as a further indication that the Fed's efforts to cool the economy and job market are taking effect.

MUNICIPALS

California tax collections for the month of October are expected to fall short of estimates. Through October 25, $18 billion was collected, while $42 billion was originally projected. California gave taxpayers a seven-month extension on its income tax filing deadline, which will delay complete tax collection figures.

Our Take: California officials attribute the lower-than-expected collections to slowing wage growth and a decrease in capital gains tax revenue. Collections are on pace to be below the state's original estimate of $198 billion for the current fiscal year. California has already projected a $14 billion budget shortfall for the next fiscal year, which starts in July 2024, and it is possible that the amount could grow larger.

CONTACT

Financial Advisors

888.971.7135

Find your Regional Director on our coverage map or by visiting madisoninvestments.com/contact.

Institutional Investors and Consultants

888.971.7135

Visit us online

madisoninvestments.com

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.