
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

December 15, 2023

THE FED

As expected, the Fed decided to leave the target Fed Funds rate unchanged at 5.25%-5.50%. Also unchanged was the forward-looking language of the Fed statement, which leaves open the possibility of additional hikes. Further, the Fed statement noted economic activity “slowed from its strong pace in the third quarter” while job gains have “moderated...but remain strong” and inflation “remains elevated.” In his post-meeting remarks, Chairman Powell suggested that the committee has turned its attention to rate cuts when he noted, “there is a general expectation that this will be a topic for us, looking ahead.”

Our Take: Despite the still somewhat hawkish tone of the Fed statement, Powell’s post-meeting remarks struck a more dovish note and hint the Fed has turned its attention toward potential cuts. This marks a substantial change in the Fed’s thinking. Although inflation is still too high, it is clear the Fed believes inflation may be on a more sustainable path toward its 2% target.

INFLATION

The Consumer Price Index (CPI) rose 0.1% in November while the core CPI, excluding food and energy, rose 0.3%. CPI is up 3.1% year-over-year while core CPI has risen 4.0%. The Producer Price Index (PPI) and the core PPI were both unchanged in November and are up 0.9% and 2.0% respectively over the last twelve months.

Our Take: Inflation was just a tiny bit higher than expected in November but continues to moderate. The Fed seems to believe that inflation is on a path back to their 2% target, but we are not there yet.

RETAIL SALES

Retail sales rose by 0.3% in November despite expectations for a 0.1% drop. The retail sales control group, which feeds GDP calculations, rose 0.4%.

Our Take: The U.S. consumer is nothing if not resilient. If sales continue in December, GDP growth for the fourth quarter is likely to exceed expectations.

MUNICIPALS

S&P Global Ratings upgraded the State of Ohio’s general obligation bond rating from AA+ to AAA. The upgrade comes one week after Moody’s Investor Service upgraded Ohio from Aa1 to Aaa. S&P cited Ohio’s “commitment to active budget management and building and maintaining reserves through economic cycles” as reasons for the upgrade. Governor Mike DeWine, pleased with the ratings change, called the upgrade a “remarkable financial milestone.”

Our Take: Ohio has taken steps to improve its fiscal health and has been rewarded. Over the last year, Ohio has received three upgrades to triple-A from Moody’s, S&P and Fitch.



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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.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.