WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

February 2, 2024

THE FED

As expected, the Fed decided to keep the target Fed Funds rate at 5.25%-5.50%. This is the fourth meeting in a row where the rate remained unchanged. What did change, and in some ways significantly, was the Fed's post-meeting statement. Most notably, the statement removed the language that previously left open the possibility of "additional policy firming." In its place, the statement shifted its focus to potential rate cuts, noting that it will not "be appropriate to reduce the target range" until the committee has "gained greater confidence" that inflation is moving on a sustainable path toward its 2% target. Also, the statement now reads that the "risks of achieving its employment and inflation goals are moving into better balance." In his post-meeting remarks, Chairman Powell noted that everyone on the committee is in favor of reducing rates this year, but they are looking to get more confident on the path of inflation before making any change.

Our Take: There were many changes made to the post-meeting statement, a departure from the normal tweak here and there. This could signal a more substantial change in thinking at the Fed. However, the Fed clearly outlined the need for continued improvement in inflation before it takes the first steps in cutting rates. For now, it appears the Fed will stick with its "higher for longer" stance.

EMPLOYMENT

Nonfarm payrolls rose by 353,000 jobs in January. Revisions to the previous two months' reports added an additional 126,000 jobs. The unemployment rate remained at 3.7%, while labor force participation was unchanged at 62.5%. Average hourly earnings grew by 0.6% and are up 4.5% year-over-year.

Our Take: Employment growth far outpaced expectations in January. The jump in hourly earnings, some of which could be weather related, also surprised. In general, the report showed a continued strong economy and supports the Fed's decision to hold rates steady for the time being.

COMMERCIAL REAL ESTATE

New York Community Bancorp (NYCB) reported fourth quarter results that included a large charge for building credit loss reserves, and the bank slashed its dividend. The reserve build was largely related to commercial real estate (CRE) loans. Regional bank equity indices fell and spreads on financial credits widened.

Our Take: The size of NYCB's reserve build had a lot to do with last year's acquisition of Signature Bank, which moved NYCB up to a size where it faces more regulatory scrutiny and exposed the bank to a lot of CRE loans that have issues more specific to NYC. However, many investors are concerned that NYCB is a canary in the coal mine that is indicating large future losses in CRE lending, where regional and community banks are more concentrated in their lending. Investors should leave a wide margin for error in any investments tied to CRE, especially office buildings.

CHINA

A Hong Kong court ordered Evergrande into bankruptcy and liquidation. The court determined that Evergrande would not be able to reach an agreement with its creditors on restructuring.

Our Take: The Chinese government's willingness to let Evergrande fail and to push losses onto investors is an indication that the issues in the property market are too big for the government to insulate regular investors from the coming fallout.

MUNICIPALS

Airport passenger traffic surged in 2023, as approximately 942 million passengers boarded airplanes in the United States according to Bloomberg. This marks a 2% increase over the record high in 2019. Some airports, including Denver International and the New York City Airports (EWR, LGA, and JFK), reached record passenger levels in 2023.

Our Take: Airport municipal issuance is expected to increase in 2024. Due to the increase in airport passenger traffic, airports are now in a position to tackle capital improvement projects, facilities updates, and expansion needs after deferring or postponing infrastructure projects during and right after the pandemic.

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.