Madison INVESTMENTS

# WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

May 12, 2023

## INFLATION

Consumer prices (CPI) rose 0.4% in April and 4.9% year-over-year. Core CPI rose 0.4% and 5.5%, respectively, over the same time periods. Producer prices (PPI) rose 0.2% in April and 2.3% over the last 12 months.

**Our Take:** Consumer prices were reported as anticipated while producer prices were slightly lower than expected. Producer prices feed into the "goods" side of CPI, meaning goods inflation within CPI is heading in the right direction. On the services side, supercore inflation, a gauge watched closely by the Fed, rose just 0.1% leading to some optimism that the Fed tightening is working. However, the Fed remains nowhere close to their 2% annualized inflation target and will likely keep their restrictive policy in place until more progress is made.

## U.S. DEBT CEILING

Congressional leaders met with President Biden to discuss raising the debt ceiling, but both sides reported very little progress from that meeting. A second meeting has been postponed until next week, which could indicate that staffers are making some progress. Janet Yellen stated that after the Treasury runs out of cash they would "have to default on something" in an effort to argue against prioritizing interest payments on debt if the Treasury runs out of cash. T-Bills maturing in early to mid June are trading at a discount to late May and late June maturity bills.

**Our Take:** It is almost a certainty that the two sides will reach a deal and that the Treasury will not default on any debt payments. The small number of Republicans that would have to vote with Democrats for an increase and the dire consequences of a default both argue for the two sides reaching some sort of deal.

## MUNICIPALS

The Illinois Commission on Government Forecasting and Accountability released a report that indicated that April 2023 tax receipts were $1.8 billion lower than April 2022 receipts. Personal income taxes were reported to be $1.7 billion lower than the previous year.

**Our Take:** This week's figures come as Illinois lawmakers work to finish the budgeting process for the next fiscal year. Many anticipated that lower year-over-year collections would occur after last year's record tax revenue and Illinois has been planning for the possibility of a recession.

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