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## WEEK IN REVIEW - REINHART FIXED INCOME BY MADISON INVESTMENTS

June 18, 2021

### FEDERAL RESERVE MEETING

As expected, the Federal Reserve (Fed) Open Market Committee left its federal funds rate unchanged at the current range of 0.0%-0.25%. Indicators of economic activity and employment showed increased improvement as the country continued to make progress on vaccinations. The Summary of Economic Projections (SEP) showed the Fed now expects full year inflation to be 3.4%, a considerable increase from its estimate in March. That said, the Fed continues to attribute the rise in inflation to “transitory factors.” Of note from the SEP, the new “dot-plots” show more Fed officials looking to increase rates sooner than the last projections, with two potential increases in 2023.

**Our Take:** There was little change in the statement coming from the Fed this week, but the notable change was the “dot-plot.” Although Chairman Powell cautioned to take these projections with “a big grain of salt,” rising inflation indicators have Fed members considering potential rate increases sooner than previously expected.

### INFLATION

Based on the Producer Price Index (PPI) prices rose 0.8% in May and are up 6.6% over the last year. Excluding food and energy, prices rose 0.7% in May and 4.8% year-over-year.

**Our Take:** That report will do nothing to quell inflation fears as all measures were higher than expected. It remains possible that bottlenecks will clear and inflation will prove transitory, but worry of the Fed getting behind the curve on controlling inflation increases the longer these elevated levels persist.

### RETAIL SALES

Retail sales fell 1.3% in May.

**Our Take:** Retail sales took a breather in May after increasing dramatically over the last two months. Auto sales lagged, possibly in response to supply shortages. Spending in pandemic affected sectors such as clothing and dining out increased as the economy continues to reopen. Sales may continue to abate in the near future as stimulus induced spending declines.

### MUNICIPALS

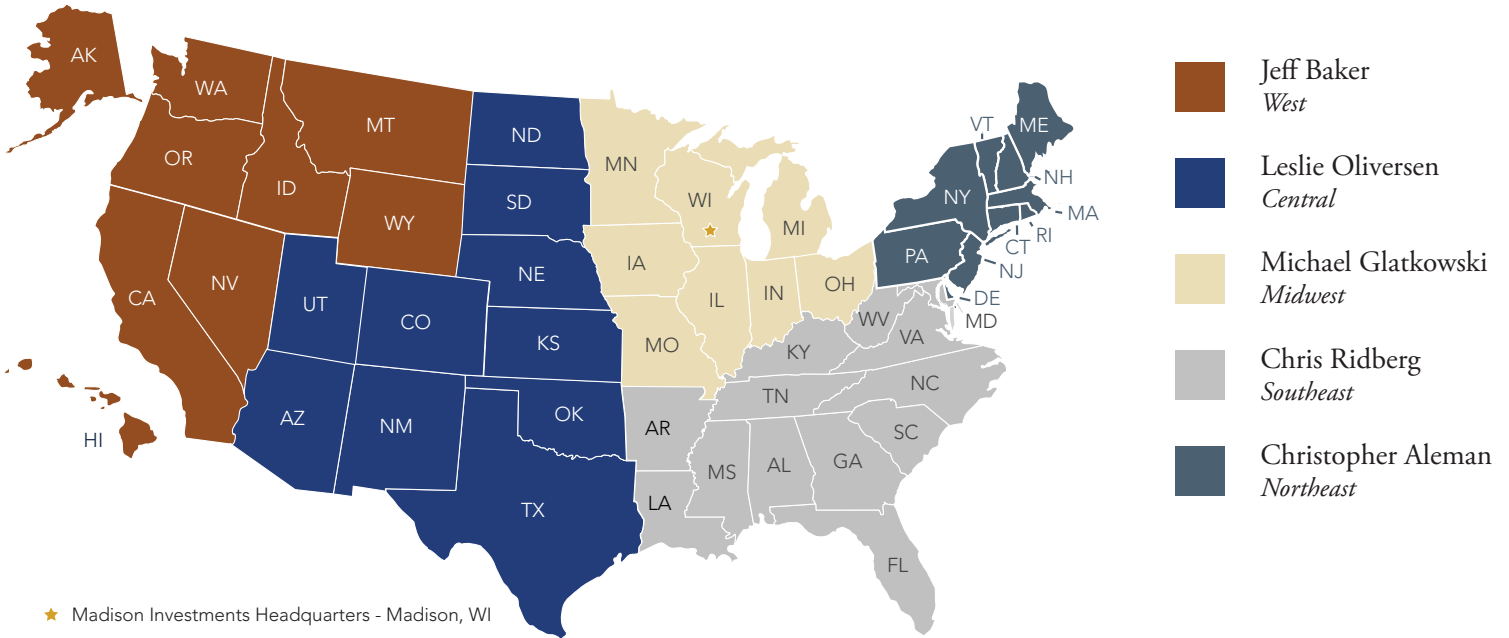
New Jersey is expecting a \$10.1 billion budget surplus as lawmakers work to finalize the state budget before the June 30 deadline. Treasurer Elizabeth Muoio announced that actual revenue collections are \$5.1 billion higher than what was expected earlier this year. Muoio indicated that revenue collections in April and May have led state tax collections in Fiscal Year 2021 to hit “historic highs.” Lawmakers remain divided on how to best spend the money. Republicans have proposed increasing the public pension payment and taxpayer relief. Governor Phil Murphy and Democratic lawmakers continue to weigh the options.

**Our Take:** Higher than expected revenue along with federal aid have led to New Jersey’s current budget surplus and is good news for the state. However, as many states including New Jersey continue to rebound from the pandemic, lawmakers should proceed with caution when considering spending proposals as uncertainty remains.



## MADISON INVESTMENTS CONSULTANT & ADVISOR SERVICES TEAM

Consultant and Advisor Services Desk: 888.971.7135



**Steve Carl**  
Principal, Chief Distribution Officer  
608-216-9174  
SteveC@madisonadv.com



**Jeff Baker**  
Regional Director  
510-237-8832  
JeffB@madisonadv.com



**Leslie Oliverson**  
Regional Director  
608-216-9188  
LeslieO@madisonadv.com



**Michael Glatkowski**  
Regional Director  
414-303-8161  
MGlatkowski@madisonadv.com



**Chris Ridberg**  
Regional Director  
704-315-8710  
ChrisR@madisonadv.com



**Christopher Aleman**  
Regional Director  
210-842-2184  
ChristopherA@madisonadv.com



**Joel Dykman**  
Business Development  
608-609-4141  
JoelD@madisonadv.com



**Mark Lutz**  
Investment Specialist  
608-216-9141  
MarkL@madisonadv.com



**Josh Oldenburg**  
Investment Specialist  
608-216-9142  
JoshO@madisonadv.com

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