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

August 27, 2021

### FEDERAL RESERVE (FED)

In a speech delivered to a virtual Jackson Hole summit audience, Fed Chairman Jerome Powell suggested that the Fed could begin withdrawing some of its policy accommodation this year. Over the past eight months, the Fed has consistently said it would continue the pace of asset purchases until “substantial further progress” is made towards its maximum employment and price stability goals. According to Chairman Powell, that “test has been met” on inflation and there has been “clear progress toward maximum employment.” He added that most Federal Open Market Committee (FOMC) participants agreed at the July Federal Open Market Committee meeting that “it could be appropriate to start reducing the pace of asset purchases this year.” Regarding guidance on the first rate hike, Powell was careful to note “the timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test.”

**Our Take:** The economic recovery has reached a point where the Fed can consider reducing the size of asset purchases. Even with the taper starting before year-end, the Fed’s overall accommodative stance will likely continue well into next year.

### U.S. CONSUMER

While July personal incomes rose by 1.1% over June Levels due mainly to advance Child Tax Credit payments, consumer spending only rose by 0.3%. This was less than the 0.4% rise in the Personal Consumption Expenditures (PCE) deflator, and so real personal spending declined slightly in July. The PCE deflator was up 4.2% from July of 2020. Spending continued to rotate back towards services and away from goods, although Delta variant concerns are beginning to weigh on services spending. The University of Michigan consumer sentiment index remained at a decade low due to a further decline in expectations.

**Our Take:** Persistent inflation and concern about the Delta variant are keeping consumer spending from returning to pre-COVID trend levels. While both are largely expected to be transitory effects, if either one proves to be more persistent that will have negative implications for economic growth in the U.S.

### MUNICIPALS

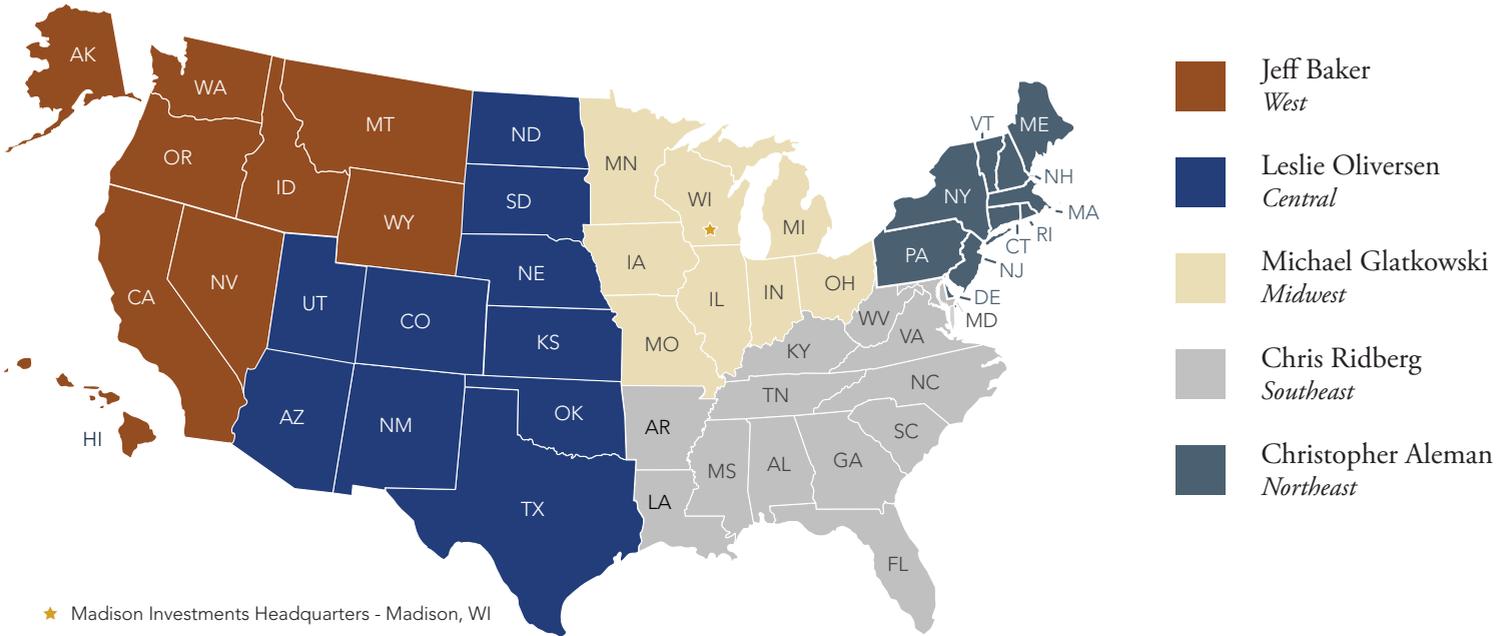
The convention industry continues to struggle due to the pandemic. Convention center municipal bond issuance has declined from \$2.4 billion last year to \$1.5 billion this year according to Bloomberg. In addition, certain large events slated for this year including the New York International Automobile Show have been canceled for a second straight year.

**Our Take:** The Delta variant and surge in COVID cases have led convention event organizers to either modify or cancel events, especially in areas with high case counts. The decline in new issuance is not a surprise as uncertainty surrounding the pandemic has kept some convention center borrowers on the sidelines of the new issue market.



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