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

September 24, 2021

### THE FED

This week, the Federal Reserve Open Market Committee left its accommodative policies unchanged with the federal funds rate at 0.0%-0.25% and asset purchases at \$120 billion per month. However, the committee noted that it may be appropriate to begin to taper asset purchases in the coming months. According to the statement, if progress towards maximum employment and inflation targets continues as expected, “a moderation in the pace of asset purchases may soon be warranted.”

**Our Take:** Although no changes in rates or asset purchases were made at the meeting, the Fed opened the door to removing some of its accommodative policies sooner rather than later.

### EVERGRANDE

Chinese property developer Evergrande issued a statement that the interest payment due on a yuan-denominated bond had been “resolved via negotiations off the clearing house,” most likely meaning that the payment would be postponed but not be labeled a default. Evergrande thus far has not made an interest payment on a dollar-denominated bond that was due on Thursday, but the company has a 30-day grace period for that payment. The Chinese government issued instructions to Evergrande to avoid a near-term default on dollar bonds and focus on completing unfinished properties. The Chinese housing ministry directed its local units to supervise funds paid from homebuyers into escrow accounts to ensure that these funds are being used to complete properties. The Peoples Bank of China (PBOC) has stepped up liquidity injections into the Chinese banking system in order to ease any stresses.

**Our Take:** The Chinese government is trying to avoid a bailout of Evergrande, but it also wants to avoid the social unrest and negative impact to property values and household wealth that would accompany a default or bankruptcy. The government’s actions indicate that their priorities are in maintaining the availability of dollar funding for corporations and in preventing large losses to individual homebuyers and investors. This indicates that the plan is most likely for losses to be taken by Chinese banks, most of which are state-owned, and Evergrande’s suppliers. Even if the government is successful in overseeing an orderly wind down of Evergrande, Chinese investment in real estate and housing is likely to slow significantly, and this will be a headwind to Chinese growth rates.

### MUNICIPALS

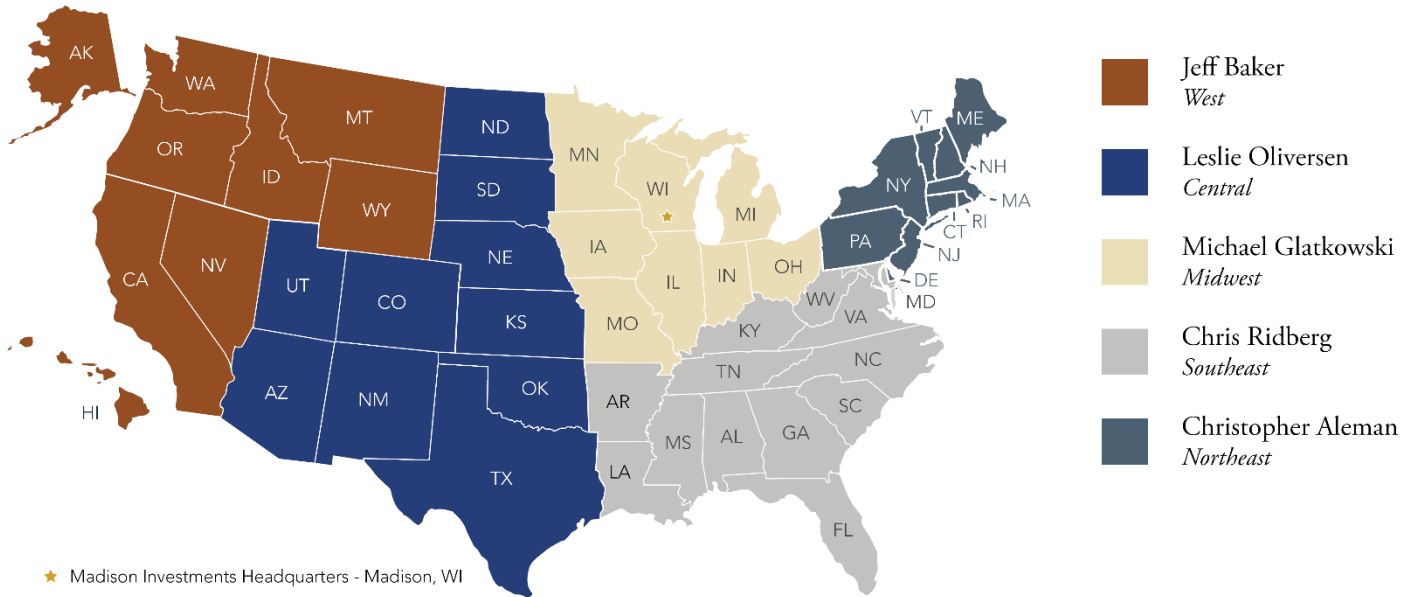
Chicago Mayor Lori Lightfoot released her 2022 budget proposal. The \$16.7 billion plan includes a \$76.5 million increase to the property tax levy and the use of \$1.9 billion in federal coronavirus aid. The federal aid funds will allow the city to provide additional funding for police, violence prevention and mental health treatment, while the funds from the property tax levy will be used, in part, to fund the city’s four pensions. In addition, Mayor Lightfoot indicated that the city has experienced higher-than-expected revenue collections of approximately \$210 million in 2021.

**Our Take:** Chicago is taking advantage of the federal coronavirus aid to fund certain programs and tackle revenue shortfalls. Due to the influx of federal aid, Mayor Lightfoot has been able to avoid spending cuts in the 2022 budget. Future budget decisions may be more complicated as the city’s spending needs grow and pension costs continue to rise.



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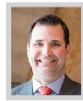
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