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

July 16, 2021

### INFLATION

Consumer prices rose 0.9% in June while producer prices increased 1.0%, as measured by the Consumer Price Index and Producer Price Index, respectively. Year-over-year, consumer prices are up 5.4% while producer prices have jumped 7.3%.

**Our Take:** Inflation is running considerable hotter than the Fed's 2% target, though the Fed continues to maintain that current inflation is transitory and will abate once pandemic induced pressures subside. There is a good possibility that the Fed is right as the majority of the heightened inflation is occurring in pandemic affected areas. However, the monetary floodgates remain wide open, and Congress is debating the addition of over \$4 trillion in new spending. Once consumers have had their fill of items denied to them during the pandemic, spending may become more broad-based, leading to the possibility of more persistent inflation.

### RETAIL SALES

Retail sales jumped 0.6% in June, far surpassing consensus estimates of a 0.3% decline. May sales were revised lower, from -1.3% to -1.7%.

**Our Take:** Despite May's decline, retail spending is booming, likely fueled in part by drawdowns of pandemic savings and continued spending of stimulus checks. Spending is currently above the pre-pandemic trend, meaning sales may slow somewhat in the near future as stimulus spending fades.

### POWELL TESTIMONY

Testifying to Congress this week, Federal Reserve Chairman Powell stated that inflationary pressures, while higher than anticipated, are expected to be transitory. Inflation is being temporarily boosted by base effects, production bottlenecks and other supply constraints, all of which are likely to subside over the coming months. Powell added it would be a "mistake" for the Fed to act prematurely to combat inflation noting the Fed is still "a ways off" from reaching its "substantial further progress" benchmark set in December to justify a change in policy.

**Our Take:** There were no surprises in the chairman's testimony. Although recent inflation data may push some Fed members to a more hawkish stance in upcoming meetings, the chairman remains committed to the Fed's current accommodative framework.



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### CHINA

The Biden administration published an advisory warning about the risks of doing business in Hong Kong. The advisory stated that “Business and rule of law risks that were formerly limited to mainland China are now increasingly a concern in Hong Kong.” Chinese government access to data stored in Hong Kong was also a specific concern called out in the advisory. Beijing urged the U.S. government to stop interfering in China’s internal affairs.

**Our Take:** Following the imposition of the National Security Law in Hong Kong and the move away from “one country, two systems” Hong Kong is in danger of losing its status as a global financial hub and a gateway to the Chinese market. The Biden administration’s advisory is a step in the direction of further decoupling the U.S. and Chinese economies.

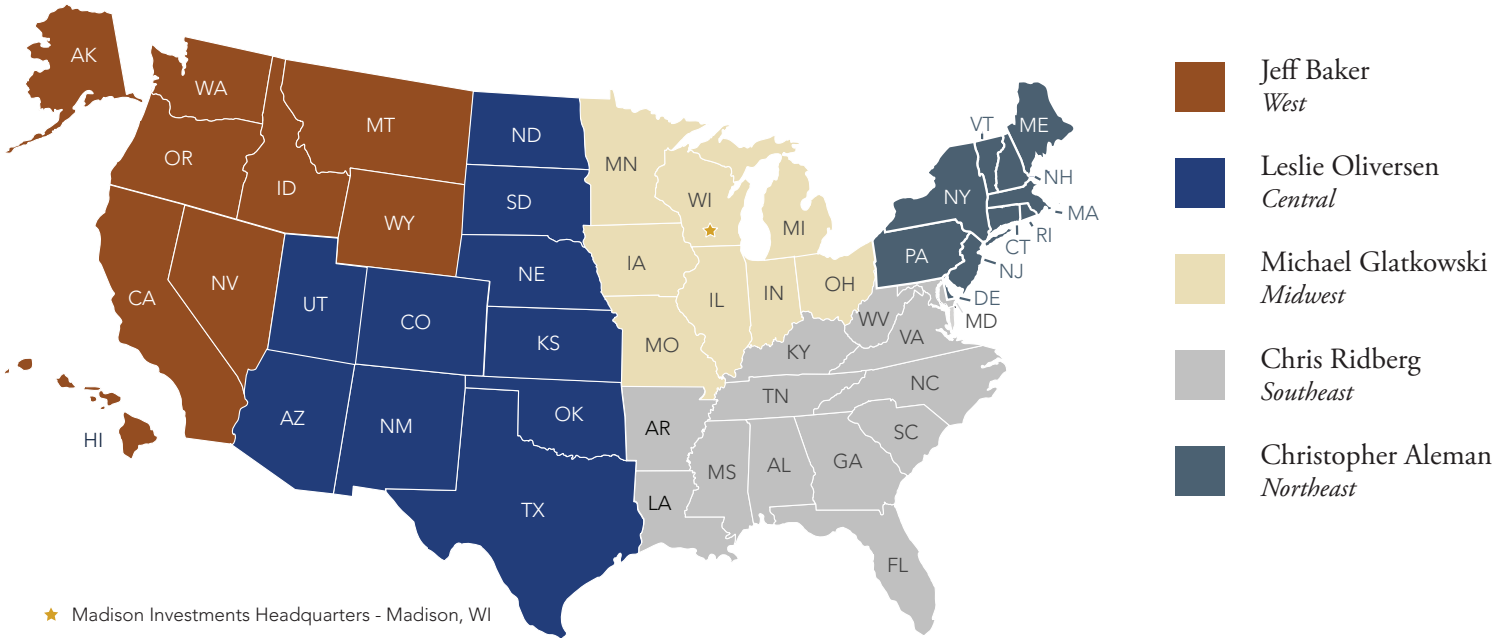
### MUNICIPALS

Texas officials released a revised revenue estimate. Comptroller Glenn Hegar indicated that revenue is expected to reach \$123 billion for the next budget cycle amid “exceptionally strong” sales tax collections. The estimate reflects an increase of \$7.4 billion from two months ago.

**Our Take:** The Texas economy has rebounded since the state reopened and vaccination rates have increased. Hegar indicated that he expects the revenue growth and strong tax collections to continue, which is good news for the state.

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