
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

July 9, 2021

EMPLOYMENT

Nonfarm payrolls rose by 850k in June. The unemployment rate rose from 5.7 to 5.8%. Average hourly earnings rose 0.3% while the average workweek fell by 0.3%. The labor force participation rate was unchanged at 61.6%.

Our Take: A continued reopening of the economy, in part due to solid vaccination rates, led to a surge in hiring last month. The leisure and hospitality sector led the way, but there were gains in many sectors. A reduction in manufacturing hours led to a decline in the average workweek, due in large part to an inability to source parts. On the whole, employment reports were solid while also reflecting the challenges of restarting an entire economy.

FEDERAL OPEN MARKET COMMITTEE MEETING MINUTES

This week, the Fed released the minutes from its June Federal Open Market Committee (FOMC) meeting where they discussed both fed funds rate hikes and quantitative easing. As expected, the minutes did not provide much clarity in the timing of the shift toward a less accommodative stance. While inflation has been rising faster than expected, the minutes show the Fed continues to view the current trend as transitory. Although it was noted that the economy is recovering faster than participants expected, the consensus remained that the economy had yet to meet the “substantial further progress” benchmark set by the Fed to justify a change in policy.

Our Take: The Fed is not quite ready to move away from its accommodative policies. However, discussions on QE and rate hikes have started, indicating the Fed may be closer to a shift in policy than many previously expected.

EUROPEAN CENTRAL BANK

After an 18-month review of monetary strategy, the European Central Bank (ECB) changed its inflation target to “2% over the medium term with a symmetric aim” from the previous target of “below, but close to 2% over the medium term”. Lagarde emphasized that the change was meant to convey that 2% is not a ceiling for acceptable Eurozone inflation.

Our Take: This shift from the ECB is a move towards a fundamentally looser monetary policy stance in the Eurozone. Over time the change will likely put downward pressure on rates in the Eurozone economies as well as Treasury and Japanese government bonds (JGB) rates.



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CHINA

The Chinese government restricted Didi, a ride-sharing company that had just completed an IPO in the U.S., from signing up new users due to concerns that foreign access to user data presents a national security threat. Didi shares fell below their IPO price. Separately, the People's Bank of China (PBOC) announced a reserve ratio cut, indicating that the central bank is concerned about softening economic conditions.

Our Take: The reserve requirement ratio (RRR) cut is an indication that Chinese growth may be petering out following the post-COVID bounce. If this is the case, then global growth expectations may come under pressure and the effort by the Chinese government to reduce leverage and risk in their economy is once again being subordinated to maintaining targeted growth levels. The action against Didi is a further step in the direction of decoupling the U.S. and Chinese economies which would pressure global growth as well.

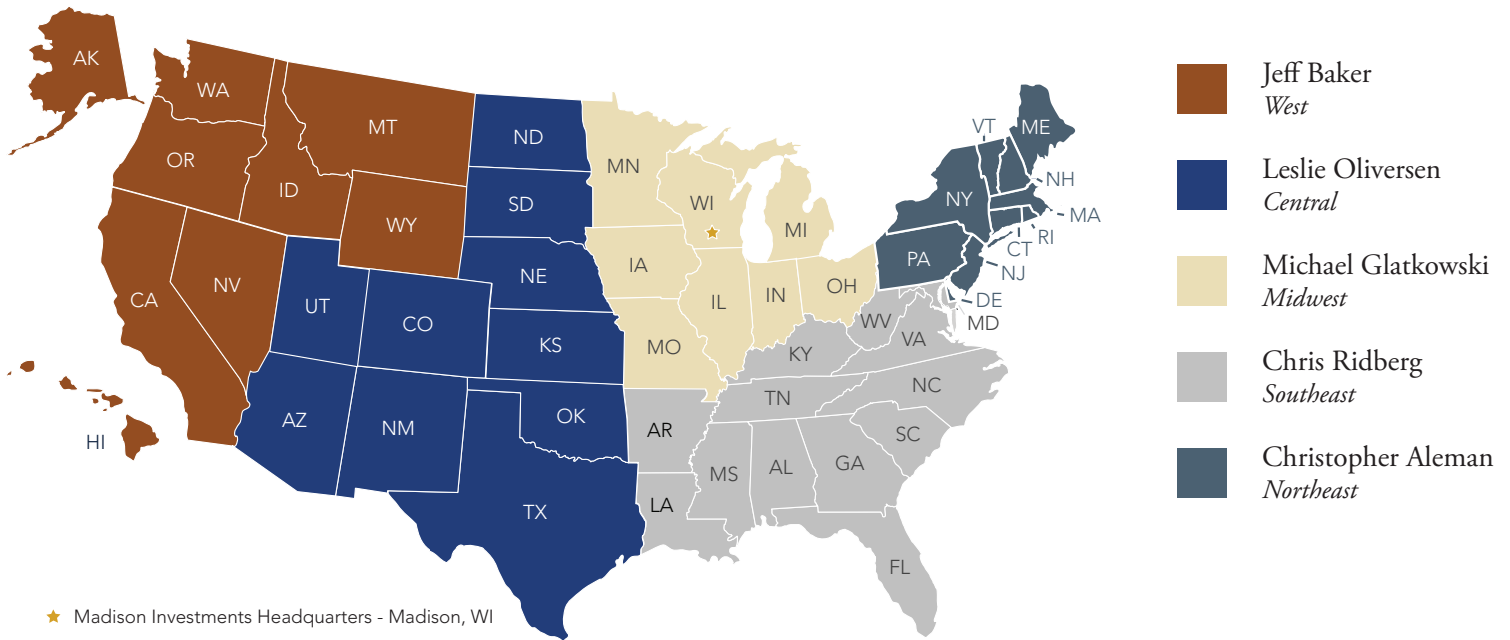
MUNICIPALS

S&P Global Ratings upgraded Illinois' general obligation bond rating to BBB from BBB-, the state's first upgrade since 1997. This follows Moody's upgrade less than two weeks ago, moving from Baa3 to Baa2. S&P cited improved liquidity and improving economic condition as reasons for the upgrade.

Our Take: Illinois is taking steps to improve its fiscal health. Illinois' most recent budget includes an increase in pension payments and the state is making additional payments on outstanding unpaid bills. These upgrades are good news for bondholders and may lead to reduced borrowing costs in the future. However, the state remains the lowest-rated state in the nation.

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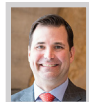
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