WEEK IN REVIEW | REINHART FIXED INCOME
BY MADISON INVESTMENTS

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EMPLOYMENT

Nonfarm payrolls rose 263,000 in September, meeting economists' expectations. The unemployment rate fell to 3.5%, while labor force participation fell from 62.4% to 62.3%. Average hourly earnings were up 0.3% for the month and have risen 5.0% over the past twelve months.

Our Take: The labor market remains strong. Today's report will only serve to strengthen the Fed's resolve to continue tightening.

FED SPEAKERS

In separate speeches this week, five Federal Reserve officials reaffirmed the Fed's hawkish stance that ongoing rate hikes are necessary to rein in inflation and stated that they will not be deterred by market volatility. Governor Christopher Waller stated, "the focus of monetary policy needs to be fighting inflation." There was consensus among the speakers that restoring price stability will likely require continuing rate hikes and then keeping policy restrictive for some time until real progress is seen on inflation. With risks of inflation skewed to the upside, Governor Lisa Cook noted policy judgements must be based on seeing inflation "actually falling in the data." This view was echoed by Chicago Fed President Charles Evans, while Minneapolis Fed President Neel Kashkari added the Fed is "quite a ways away from a pause" in rate hikes. Cleveland Fed President Loretta Mester noted she sees no "compelling evidence" to suggest the Fed "could start reducing the pace" of tightening.

Our Take: The market is desperately looking for signs that this year's rate hikes have taken hold, giving the Fed the ability to make a dovish pivot on policy. Those signs do not yet exist, and a more dovish policy is not likely any time soon. The rhetoric from the Fed is universally hawkish and the message is clear: rates are going higher and will stay higher until real progress is made on inflation.

OPEC

The OPEC+ oil ministers agreed to a 2 million barrels per day (mmbpd) cut to production quotas to begin next November. Most OPEC+ members are already producing under their quotas and a couple ignore them anyway, so the actual reduction in daily OPEC+ crude production will likely be a little under 1 mmbpd and will come from Saudi Arabia, Kuwait and the UAE. Brent crude prices approached $100/bbl. The Biden administration harshly criticized the move.

Our Take: The OPEC+ move will make it that much harder for The U.S. and Europe to bring down inflation, especially without causing a recession.

MUNICIPALS

State and local municipal September issuance was expected to reach $24 billion according to Bloomberg. This marks a monthly decline of 40% and the lowest amount of new issuance since November 2020. In addition, Bank of America lowered its 2022 issuance estimate from $500 billion in June to $420 billion.

Our Take: Municipalities may have determined that it does not make sense to issue new debt or refinance existing debt in the current market environment. While September is typically a strong market for new municipal issuance, many state and local governments are delaying borrowing or decreasing their amount of new issuance due to rising rates and volatility.

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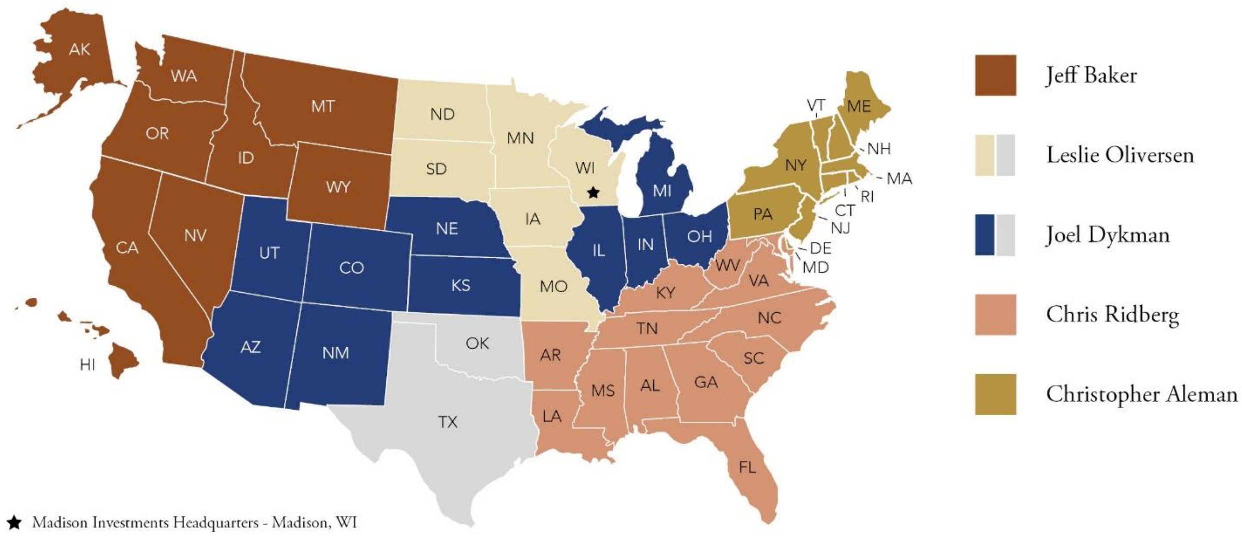

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