
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

October 14, 2022

INFLATION

Both consumer prices (CPI) and producer prices (PPI) rose 0.4% in September. CPI is up 8.2% over the past twelve months, while PPI has risen 8.5%.

Our Take: Inflation surprised to the high side again despite recent Fed rate hikes. The Fed remains committed to continuing tightening until inflation is under control. It appears their job is far from done, as markets expect a 75 basis point hike in November and at least 50 basis points more in December.

UK

Prime Minister Liz Truss backed off from most of the tax cuts in her and Chancellor of the Exchequer Kwarteng's mini-budget, and then Truss fired Kwarteng and replaced him with Jeremy Hunt. On the whole, these moves calmed gilt markets and stabilized the pound. The BOE's program of support of long-dated gilts also ended.

Our Take: These moves by Truss have at least temporarily calmed market concerns about UK fiscal sustainability. Truss is in a very weakened position politically, and it will be very difficult for her to implement any major policy changes. The Conservatives have been badly damaged by the recent episode and will have a difficult time recovering before a general election that is due within two years.

RETAIL SALES

Headline retail sales were unchanged in September. The retail sales control group, used in GDP calculations, increased 0.4%.

Our Take: Over the past year, retail sales have grown by 8.2%, exactly matching inflation. Real sales are therefore flat, meaning consumers are purchasing the same amount of goods but at higher prices. Flat real sales will not change the Fed's tightening course and negative real sales are likely needed to quell inflation.

FED MINUTES

Minutes from the September FOMC (Federal Open Market Committee) meeting confirm the hawkish tone Fed members have used in recent speeches. The minutes show that members think inflation remains "unacceptably high" and they are unified in their goal of getting inflation under control. Many noted that although the risks to economic growth are skewed to the downside, the cost of doing too little in the fight against inflation outweighed the cost of doing too much.

Our Take: There were no surprises in the minutes. What remains clear is that price stability is the Fed's top priority and it remains committed to raising rates as high as necessary and maintaining a more restrictive policy stance until it sees real progress against inflation.



MUNICIPALS

Electric Vehicle (EV) sales grew by 66% year over year in the second quarter. As EV sales and usage grow, states are collecting less gas tax revenue. According to a report published by the Pew Research Center, West Virginia expects its fuel tax revenue to fall by 11%-20% through 2030. In addition, Connecticut reported that fuel tax revenue collections have fallen by 4.2% over the last decade with projections that the fuel tax revenue will continue to fall through 2026.

Our Take: Many states use revenue collected from fuel taxes to fund transportation projects. As fuel tax revenue declines, states will need to find another source of funding for transportation projects. Some states may tap into their general fund to help subsidize transportation projects. Others are considering special registration fees for EVs or a tax based on vehicle miles traveled.

DISCLOSURES

“Madison” and/or “Madison Investments” is the unifying tradename of Madison Investment Holdings, Inc., Madison Asset Management, LLC (“MAM”), and Madison Investment Advisors, LLC (“MIA”), which also includes the Madison Scottsdale office. MAM and MIA are registered as investment advisers with the U.S. Securities and Exchange Commission. Madison Funds are distributed by MFD Distributor, LLC. MFD Distributor, LLC is registered with the U.S. Securities and Exchange Commission as a broker-dealer and is a member firm of the Financial Industry Regulatory Authority. The home office for each firm listed above is 550 Science Drive, Madison, WI 53711. Madison’s toll-free number is 800-767-0300.

Any performance data shown represents past performance. Past performance is no guarantee of future results.

Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of, or guaranteed by, any financial institution. Investment returns and principal value will fluctuate.

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm’s judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.