Madison INVESTMENTS

WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

October 28, 2022

US GDP

US real GDP grew at a 2.6% annualized rate during the third quarter. Net exports had the largest effect on GDP as imports fell 6.9% while exports rose 14.4%. Consumer spending rose 1.4% due to increased services consumption. Business fixed investment rose 3.7% while residential investment fell 26.4%. Government spending rose 2.4%

Our Take: After two negative quarters, growth is Q3 was a welcome reprieve. However, there are signs that the reprieve may be short-lived. Consumer spending grew at a slower rate that in Q2 and could continue to decline as ongoing inflation erodes purchasing power. Interest rate sensitive sectors, like housing, are declining dramatically. Large net export gains, whose contribution to GDP this quarter exceeded the total GDP gain, are unlikely to continue as the global economy weakens. The economy continues to teeter on the edge of recession.

CHINA

At the National People's Congress Xi Jinping was confirmed as the leader of the Chinese Communist Party and the nation for a third five year term. A third term breaks a precedent set by all leaders since Mao, and all senior leadership positions were filled with Xi loyalists. This outcome concentrates political power in China in Xi personally to an extent not seen since Mao. Chinese equities crashed as foreign investors moved away from China.

Our Take: Xi's consolidation of power likely means a move towards more state control of the economy, less emphasis on foreign investment and trade and a more geopolitically assertive China that seeks to shift the world order away from its current state. All of this is likely to lead to less growth in China, less of the disinflationary benefit of integrating China into the world economy and more potential for conflicts between China and the U.S. and its allies.

MUNICIPALS

Fitch Ratings upgraded the City of Chicago's General Obligation bonds from BBB- to BBB with a positive outlook. This marks the first upgrade by Fitch due to an improved financial position in 24 years. The 2010 upgrade by Fitch was due to a methodology change. Fitch cited the city's "improving pension funding practices" along with the city's "ability to institute structural budget measures that improve its capacity to respond to future cyclical challenges" as reasons for the upgrade.

Our Take: Chicago has taken steps to improve its fiscal health. Chicago has increased the funded ratio on its pension funds and is working to reduce debt. Chicago's 2023 budget is expected have the lowest budget gap in 16 years. The Fitch upgrade is good news for bondholders and may lead to decreased borrowing costs in the future.

Madison INVESTMENTS

CONTACT

Financial Advisors

888.971.7135

Find your Regional Director on our coverage map or by visiting madisoninvestments.com/contact.

Institutional Investors and Consultants

888.971.7135

Visit us online

madisoninvestments.com

ABOUT REINHART FIXED INCOME

Quality, stability, and predictability are the hallmarks of the Reinhart Fixed Income management philosophy. We believe that successful fixed income management is a product of understanding the role bonds play in a specific client's investment strategy and developing unique portfolios to meet the objectives of the client. Reinhart Fixed Income is part of Madison Investments, an independent investment manager providing active, high-quality, and high-conviction portfolios since 1974.

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.

Madison Investment Holdings, Inc. acquired the fixed income management assets of Reinhart Partners, Inc. on June 11, 2021 and now employs the Investment Team that previously managed the assets at Reinhart. The Investment Team manages the assets using substantially the same strategies and objectives as at Reinhart. Performance information dated prior to the purchase reflects that of Reinhart Partners, Inc.

Quality refers to the bond ratings provided by the various third-party ratings agencies. Stability and predictability refer to the cash flow of individual securities and not to the market value or performance of portfolio holdings. There is no guarantee this strategy will lead to investment success.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.