
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

December 2, 2022

EMPLOYMENT

Nonfarm payrolls increased by 263,000 jobs in November, surpassing expectations. The unemployment rate was unchanged at 3.7%. Labor force participation fell from 62.2% to 62.1%. Average hourly earnings rose 0.6% for the month and have risen 5.1% over the last twelve months.

Our Take: All in all, the November jobs report was solid as the economy continues to add jobs, though at a slower pace than earlier in the year. The Fed likely views the jobs report as a move in the right direction (slowing the economy) but not quite enough. They are unlikely to change course due to this report and a 50 basis point hike at the December meeting is expected.

POWELL SPEECH

In a speech this week at the Brookings Institute, Fed Chairman Jerome Powell hinted that the Fed may slow the pace of interest rate increases at the December Federal Open Market Committee meeting. He also signaled the peak in rates may be “somewhat higher” than previously forecasted in September. According to Powell, “the path ahead for inflation remains highly uncertain” and questions remain of how much higher rates need to go and “the length of time it will be necessary to hold policy at a restrictive level.”

Our Take: Markets reacted strongly to what was initially perceived as more dovish comments from the Chairman. However, when the dust settled, it was fairly clear that Powell’s position, and that of the Fed, remains largely unchanged. The fight against inflation is far from over. Although the pace of rate increases may slow from the more aggressive hikes of the past four meetings, rates are going higher and will stay higher until real progress is made against inflation.

INFLATION

Personal consumption expenditures (PCE) inflation, the Fed’s preferred measure, increased 0.3% in October, while core PCE rose 0.2%. Year-over-year, PCE has risen 6.0% and core PCE is up 5.0%.

Our Take: Both PCE and core PCE inflation figures were 0.1% below expectations. It seems as if inflation is starting to moderate. However, the lower inflation as measured by PCE is for the same month, October, as the surprisingly low CPI (Consumer Price Index) report. There have been one-month surprises to the downside in the past which have reversed in the following months. While the October reports are encouraging, confirmation of slowing inflation will need to be seen in future reports.

PERSONAL INCOME AND SPENDING

Personal income rose 0.7% in October while personal spending rose 0.8%.

Our Take: Some of the increase in spending is debt financed, as the personal savings rate is at a multi-decades low. However, the consumer remains resilient in the face of Fed rate hikes.



MUNICIPALS

S&P Global Ratings upgraded Connecticut's general obligation bond rating from A+ to AA-. S&P also assigned a stable outlook to the state. S&P cited "Connecticut's sustained positive financial results and building of high reserve levels" as reasons for the upgrade.

Our Take: Connecticut has taken steps to improve its fiscal health. Connecticut has experienced higher-than-expected tax collections and the state has transferred over \$4 billion in reserves to its underfunded pensions. The S&P upgrade is good news for bondholders and may lead to a decrease in borrowing costs for the state.

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