
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

December 9, 2022

INFLATION

Producer prices (PPI) rose 0.3% in November. Excluding food and energy (core PPI), prices rose 0.4%. Year-over-year, PPI has risen 7.4% while core PPI is up 6.2%.

Our Take: November producer prices were higher than anticipated, reversing a bit of the lower-than-expected October PPI report. Consumer prices will be reported next Tuesday, and it will be interesting to see if they are also higher than expected. Either way, the November PPI report further evidences the fact that the fight to contain inflation will likely progress in an uneven fashion.

CHINA

The Chinese government announced drastically relaxed Covid guidelines that effectively meant an end to the “Covid-Zero” policy that has been in place thus far in the pandemic. Markets reacted positively and many economists expect a strong rebound in Chinese growth due to the policy change.

Our Take: Xi’s insistence on the Covid-Zero policy has clearly been hampering Chinese economic activity. How quickly growth will return will depend on how severe the likely uptick in infections, hospitalizations, and deaths turns out to be. Given the lower level of immunity in the Chinese population thanks to Covid-Zero, less effective vaccines and lower vaccination rates among vulnerable populations, the economic boost from the policy change could be both delayed and smaller than markets are expecting.

MUNICIPALS

The Minnesota Management and Budget Office released figures indicating that the state will enter the 2023 legislative session with a \$17.6 billion budget surplus. Previously released figures indicated a \$12.1 billion budget surplus. Budget officials stated that “strong collections and lower-than-expected spending” along with leftover, unspent funds from the 2022 budget led to the record surplus.

Our Take: The Minnesota Legislature could not agree on certain spending proposals last year, which left \$7 billion unspent. Lawmakers will begin budget planning next month for the upcoming fiscal period and will be aided by the cushion of the surplus. Minnesota Governor Tim Walz is expected to release his budget proposal on January 24th while lawmakers will begin their 2023 legislative session on January 3.



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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.

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