Madison INVESTMENTS

WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

December 16, 2022

THE FED

After four consecutive 75 basis point increases, the Fed voted unanimously to raise interest rates by 50 basis points. This move was largely expected and brings the Fed's target range to 4.25% - 4.5%. What was less expected was the change in the dot plot from this month's Summary of Economic Projections (SEP). According to the SEP, the Fed expects to raise rates to 5.1% in 2023, up from September's 2023 projection of 4.6%. This implies an additional 75 basis point increase next year.

Our Take: Despite some dovish comments from Fed participants over the past several weeks, the unanimous vote to raise rates and the higher projected rate range for 2023 show that the Fed remains somewhat hawkish. Despite being down slightly from recent highs, inflation remains well above the Fed's target range. Although the pace of rate increases may slow, rates are going higher and will stay higher until real progress is made on inflation.

INFLATION

Consumer prices (CPI) rose less than expected for the second straight month, increasing 0.1% in November versus expectations for a 0.3% jump. Excluding food and energy (core CPI), prices rose 0.2%. Year-over-year, CPI has risen 7.1%, while core CPI is up 6.0%.

Our Take: November consumer prices once again surprised on the downside, hinting that inflation may be moderating more quickly than expected. The Fed may be able to slow their monetary tightening sooner than anticipated if the last two months are the start of a trend toward the 2% inflation target. That said, annual inflation is still running over 7%, so there is definitely work to be done.

RETAIL SALES

Retail sales fell 0.6% in November.

Our Take: November sales were much weaker than expected after very strong October sales. The drop in sales could be due to earlier holiday shopping. Combining October and November sales shows that consumers are still spending, but at a more reasonable pace than October's report indicated.

MUNICIPALS

Municipal bond issuance for 2022 has reached $351 billion through the beginning of December. This marks a 19% decline from 2021 issuance. Estimates for 2023 issuance vary, with projections ranging from $302 billion to $500 billion.

Our Take: Rising rates and volatility have led municipalities to delay or postpone planned issuance. In addition, state and local governments with budget surpluses and leftover pandemic assistance funds may find that new issuance is no longer needed.

HAPPY HOLIDAYS

This will be the last Week in Review for 2022.

Our Take: We wish everyone a happy holiday season and look forward to keeping you informed in 2023.

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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

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