
WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

January 6, 2023

EMPLOYMENT

Nonfarm payrolls rose by 223,000 jobs in December, exceeding expectations. The unemployment rate fell from 3.6% to 3.5%, while the labor force participation rate increased from 62.1% to 62.3%. Average hourly earnings rose 0.3% in December, but November's average hourly earnings increase was revised lower, from +0.6% to +0.4%.

Our Take: The job market remains strong, further fueling fears of wage inflation. Thankfully, wage growth is currently not accelerating rapidly meaning Fed rate increases, those already in the books and those to come, will have some extra time to cool the labor market.

FOMC MINUTES

Minutes for the December FOMC (Federal Open Market Committee) meeting confirm the Fed's resolve to bring down inflation. Members anticipate ongoing increases in the fed funds target range would be appropriate to return inflation to its 2% target over time. Notably, participants voiced concerns that the markets are too complacent about the Fed's commitment to beating inflation. The minutes note that "an unwarranted easing in financial conditions, especially if driven by a misperception by the public of the Committee's reaction function, would complicate the Committee's effort to restore price stability."

Our Take: There were no surprises in the minutes. The Fed has consistently stated it will raise rates as high as necessary to get inflation under control. Currently, inflation continues to be well-above target and the labor market remains tight. Although the pace of rate increases may slow from the more aggressive hikes last year, rates are going higher and will stay higher until the Fed sees real progress against inflation.

ISM INDEXES

The ISM (Institute for Supply Management) Services Index fell from 56.5 to 49.6 while the ISM Manufacturing Index dropped from 49 to 48.4.

Our Take: Both ISM indexes are now in contractionary territory after the large surprise drop in the services index. It appears that rising rates are starting to slow the economy.

MUNICIPALS

Municipal issuers issued \$361 billion of debt in 2022. This marks a 21% decline from 2021 according to Bloomberg. New York was the largest issuer, with \$46.8 billion issued in 2022, followed by California and Texas with \$46.3 billion and \$46.1 billion respectively.

Our Take: While 2022 began with higher issuance expectations, market conditions over the course of the year put a damper on municipal issuance. Market volatility and rising interest rates caused municipalities to postpone or delay issuance.



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ABOUT REINHART FIXED INCOME

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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.

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.

The ISM Manufacturing Index is an indicator of the level of economic activity in the manufacturing sector in the United States. A number above 50 indicates an expansion of U.S. manufacturing, while a number below 50 indicates a contraction.

The Services PMI® is a composite index based on the diffusion indexes for four of the indicators with equal weights: Business Activity (seasonally adjusted), New Orders (seasonally adjusted), Employment (seasonally adjusted) and Supplier Deliveries. An index reading above 50 percent indicates that the services economy is generally expanding; below 50 percent indicates that it is generally declining. Supplier Deliveries is an exception. A Supplier Deliveries Index above 50 percent indicates slower deliveries and below 50 percent indicates faster deliveries.