

Week in Review | Reinhart Fixed Income By Madison Investments

August 15, 2025



Inflation

The Consumer Price Index (CPI) in July rose 0.2% from June, in line with expectations. The core CPI rose 0.3%. These increases drove year-over-year increases of 2.7% headline and 3.1% core, with both showing a trend away from the Fed's 2% target. The July Producer Price Index (PPI) rose 0.9% from June, both headline and core, the largest increase since 2022. For both the consumer and producer price indices, gains and trends are being driven by services inflation with the "supercore" services index (excludes energy & shelter) rising 0.5% from June.

Our Take: This week's inflation reports complicate the Fed's decision making. The July employment numbers pointed to the Fed no longer having the luxury of waiting for greater clarity around tariffs' impact on inflation. However, the trend of too high and accelerating services inflation, which is not tariff driven and not something that the Fed can "look through," undercuts the case for easing. Upcoming inflation and employment reports will weigh heavily into the Fed's decision making.

Retail Sales

Retail sales rose 0.5% in July, just below expectations of a 0.6% increase, while June's number was revised up to 0.9% from the 0.6% initially reported. The retail sales control group, which feeds GDP calculations, rose 0.5% versus expectations of a 0.4% increase.

Our Take: July sales held in after a jump in June that was bigger than initially reported. The July report points to stabilization in goods consumption.

China

Chinese factory production slowed to +5.7% vs. last July, retail sales slowed to +3.7% vs. the prior year, year-to-date fixed asset investment slid to +1.6%, and the urban unemployment rate rose to 5.2%. Loan growth turned negative for the first time in 20 years. The People's Bank of China (PBOC) announced plans to support consumption and the tech sector.

Our Take: The Chinese economy is still struggling with pessimistic consumers, a property downturn, and overinvestment in many areas. Tariffs are pressuring exports, and this could worsen if China is unable to reach a trade deal with the Trump administration.

Municipals

S&P Global Ratings upgraded New Jersey's general obligation debt from A to A+ with a stable outlook. This marks the third S&P upgrade for the state since 2022. S&P cited the "meaningful improvement in the state's balance sheet reflecting management's commitment to rein in its comparatively large debt and pension



liabilities while striving to achieve a structural budget balance longer-term." In addition, S&P indicated that New Jersey's healthy reserve balance allows the state to "address budgetary challenges as they arise."

Our Take: Even though the state's annual pension payments have reached over \$7 billion and are expected to continue at that level, the state continues to face pension liabilities from previous administrations.

Nevertheless, New Jersey lawmakers and outgoing Governor Phil Murphy have taken steps to improve the state's fiscal health. New Jersey is currently heading in the right direction, which is good news for bondholders.



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