Week in Review | Reinhart Fixed Income
By Madison Investments

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Fed

In a speech at the Jackson Hole Economic Symposium, Fed Chair Jerome Powell acknowledged that while inflation has declined meaningfully from its post-pandemic highs, it remains somewhat above target. He noted that higher tariffs have begun to increase prices in some categories of goods. On employment, he described the labor market as being in a "curious balance," caused by a sharp slowdown in both labor supply and demand, adding this dynamic increases downside risks to employment that could materialize quickly. With policy still restrictive, he said the "shifting balance of risks may warrant adjusting our policy stance."

Our Take: Although he was careful to stress the Fed's balanced and data-dependent approach to monetary policy changes, Powell's tone was more dovish than many expected. A rate cut in September now looks like the base case, but stronger labor data or increasing inflation prior to the meeting could change that outlook.

Trade

The U.S. and EU formalized more details of their agreement by which European autos, pharmaceuticals and semiconductors would face reduced tariffs from current levels in exchange for better access for U.S. seafood and agricultural products, as well as changes to European digital services regulations. The Trump administration also opened the prospect for lower tariffs on European steel and aluminum. Canadian Prime Minister Mark Carney announced that the 25% retaliatory tariffs on imports from the U.S. would not apply to goods shipped under the United States–Mexico–Canada Agreement (USMCA), but tariffs on U.S. steel, aluminum and autos would remain in place.

Our Take: Deals with the most important U.S. trading partners continue to trend towards tariffs being lower than threatened earlier in the year but still significantly higher than under the previous administration.

Municipals

S&P Global Ratings upgraded Metropolitan Transportation Authority (MTA) debt tied to farebox and toll revenue. $17.1 billion of debt was upgraded from A- to A with a stable outlook. S&P cited the success of the Congestion Relief Zone toll pricing, an increase in ridership, and tax funding as reasons for the upgrade.

Our Take: The Congestion Relief Zone toll pricing has been in effect for eight months and has successfully generated revenue for the MTA. In addition, ridership has increased as workers return to the office. However, uncertainty remains, as President Trump has been critical of the congestion pricing program and continues to threaten the MTA with funding cuts.

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