Week in Review | Reinhart Fixed Income
By Madison Investments

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Inflation

The Consumer Price Index (CPI) rose 0.4% in August, while the core CPI (excluding food and energy) rose 0.3%. Year-over-year, consumer prices are up 2.9%, while core CPI has risen 3.1%. Producer prices (PPI) fell 0.1% during the month and have risen 2.6% over the last twelve months.

Our Take: Consumer prices rose slightly more than expected, throwing a bit of a wrench into the Fed's rate cutting plans. While a 25-basis point cut next week seems inevitable, the Fed still must reckon with inflation that refuses to be tamed. Future cuts will potentially occur more slowly than the market anticipates if inflation continues to persist above the Fed's 2% target.

France

Francois Bayrou resigned as French prime minister after losing a confidence vote. The vote was driven by Bayrou's proposals to reduce the 2026 budget deficit to 4.6% of GDP from an expected 5.4% this year. President Emmanuel Macron named Sebastien Lecornu, a center-right politician, as the new prime minister and charged him with getting a budget passed. The spread on French government bonds relative to Bunds went wider than the spread on Italian government bonds.

Our Take: Macron is trying to avoid another election, but it is unclear how any budget that moves France towards EU fiscal rules can pass the current assembly. France needs to make some difficult choices to drive fiscal consolidation, but the splintered electorate is preventing this from happening.

Municipals

Two ratings agencies upgraded Connecticut's debt this week. Moody's Ratings upgraded the state from Aa3 to Aa2, while Fitch Ratings upgraded the state from AA- to AA. Moody's cited Connecticut's increased reserves and "consistent pension contributions that have begun moderating the state's very high unfunded pension liabilities." In addition, Moody's recognized the state's healthy rainy-day fund. Connecticut is expected to issue $1.815 billion of General Obligation Bonds later this month.

Our Take: Connecticut has followed its fiscal policies, which include reducing liabilities and increasing reserves. The state has tackled its previously underfunded pension by making timely payments and paying down pension debt. This week's ratings upgrades come prior to a planned new debt issue, which could lead to decreased borrowing costs for the state.

Contact

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A basis point is one hundredth of a percent.

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