Week in Review | Reinhart Fixed Income
By Madison Investments

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Employment

Due to the government shutdown, the Bureau of Labor Statistics (BLS) has now missed a second employment report. Data from private sources paint a picture of weakening private employment growth. These sources are somewhat reliable in indicating the direction of BLS data, and these reports do not have strong data for the supply side of the labor market or for wage changes.

Our Take: Both market participants and the Fed are missing crucial data at a time when the extent of labor market slowing and the balance of this slowing with lower labor supply are some of the most important inputs into investing and policymaking decisions.

Trade

The Supreme Court heard oral arguments in the case challenging the legality of the Trump administration's reciprocal and fentanyl tariffs. Based on the questions from a number of justices, it seems more likely that the court will uphold lower court rulings that the president exceeded his authority under the International Emergency Economic Powers Act (IEEPA). Prediction markets shifted significantly in this direction following the oral arguments.

Our Take: Wednesday's hearing added even more uncertainty around trade policy and tariff levels than had already existed. Uncertainty tends to cause businesses to pull back on hiring and investment decisions until they have greater clarity. An invalidation of the tariffs at issue would also worsen the U.S. fiscal picture if tariff revenue is not offsetting some of the budget deficit.

Municipals

Zohran Mamdani, New York City's mayor-elect, has proposed fast and free buses. The buses would be paid for by raising corporate taxes along with raising taxes on high earners. The bus system is controlled by the Metropolitan Transportation Authority (MTA), which is a state agency. The MTA has $17 billion of transportation revenue debt, which is backed in part by farebox receipts from the subway and bus systems.

Our Take: It is unlikely that free buses will be running anytime soon. The MTA, which has been having its own financial troubles, controls the cost of buses. The credit quality of bonds issued by the MTA could suffer if farebox revenue pledged to debt service disappears and is not replaced by tax increases needing approval by state lawmakers. Also, free buses could change the current landscape of New York City's transportation system as increased demand would require more buses, drivers and routes, and potentially lead to a decline in subway ridership, which would still require a fare.

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