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## WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

September 9, 2022

### EUROPEAN CENTRAL BANK (ECB)

The ECB raised its benchmark rate by a record 75 bps. Lagarde indicated in her press conference that more such hikes are likely in the future to combat high inflation in the Eurozone.

**Our Take:** The ECB is joining the Fed and other central banks in aggressively tightening monetary policy in response to inflation. Lagarde left unanswered questions about when the ECB balance sheet would begin shrinking and how the ECB will prevent monetary tightening from having an outsized impact on interest rates in the fiscally weaker nations.

### FED SPEAK

Several Fed members gave speeches this week, just before entering the “quiet period” leading up to the Federal Open Market Committee (FOMC) meeting later this month. Speaking at the Cato Institute’s Monetary Conference, Fed Chairman Jerome Powell reaffirmed the Fed’s hawkish stance, stating that the Fed “needs to act right now – forthrightly, strongly” to ensure the public does not view higher inflation as the norm. Fed Vice-Chairman Lael Brainard echoed that view during a banking policy speech in New York, noting that “it is especially important to guard against the risk that households and businesses could start to expect inflation to remain above 2% in the longer run.” In a speech at College of DuPage, Chicago Fed President Charles Evans said curbing inflation is the Fed’s top priority. Although he remains open-minded on the size of the next rate hike, he noted the Fed needs to increase interest rates to a “substantially higher level than where they are now.”

**Our Take:** Correctly, the members of the Fed are highly focused on reining in inflation. The big question remains: will this month’s rate increase be 50 basis points or 75 basis points? In the end, the answer is less important than the Fed’s continued commitment and resolve to getting inflation under control.

### MUNICIPALS

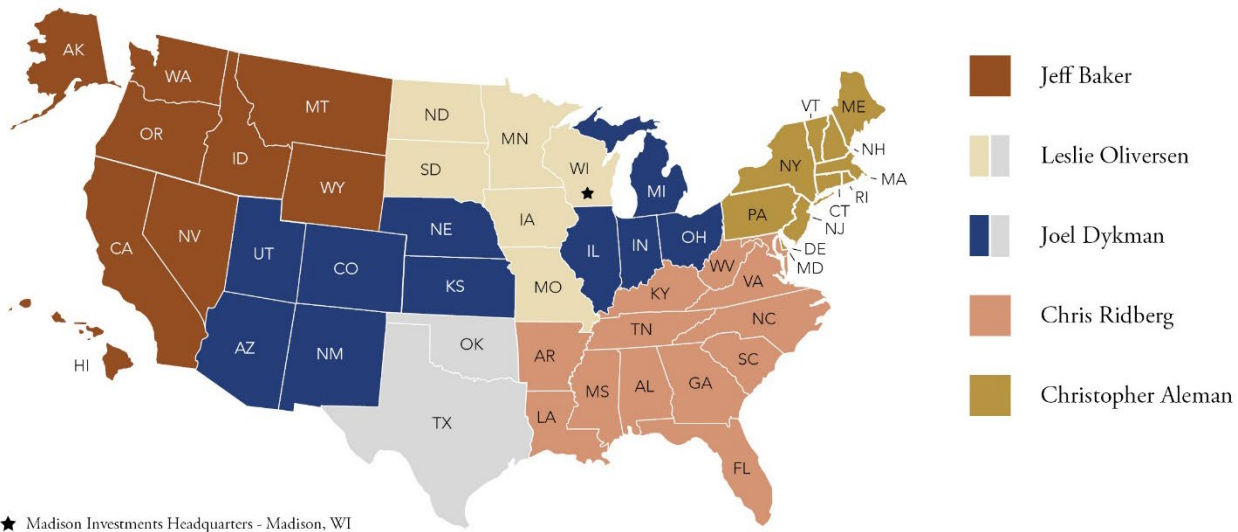
Fitch Ratings issued an upgrade for the state of Ohio’s general obligation bonds from AA+ to AAA. In addition, Fitch upgraded Ohio appropriation-backed bonds from AA to AA+. Fitch cited “a long track record of conservative revenue forecasting and cautious budgetary management” as reasons for the upgrade.

**Our Take:** Ohio has taken steps to improve its fiscal health as the state has worked to grow its reserves and cash balances. Ohio is now one of 13 states with a AAA rating from Fitch. The upgrade is good news for bondholders, as the upgrade may lead to decreased borrowing costs.



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