

Last Reinhart Week in Review

Going forward, the Week in Review will be provided by Madison Investments, the new home of the Reinhart fixed income team who, for better or worse, have penned the publication to date.

Our Take: On July 29, 2011, the first issue of the Week in Review was published. It has been our pleasure to bring you the weekly snippets from Reinhart Partners and we hope to continue to keep you informed from Madison, as best we can, into the future.

Inflation

Consumer prices rose 0.6% in May and are up 5.0% over the last twelve months.

Our Take: The Fed continues to believe that the current high inflation is transitory and will resort to more appropriate levels once bottlenecks and other pandemic-induced forces subside. Anecdotally, the Fed appears correct as the majority of large price increases have occurred in sectors of the economy which were dramatically affected by the pandemic. However, the transitory nature of today's inflation is far from guaranteed.

Global Minimum Tax

The G-7 Finance Ministers agreed to a framework for a global minimum tax on multinational corporations of 15%. This agreement would have G-7 member nations collect taxes to “top up” the rate paid by corporations headquartered in those nations to 15% if those corporations shift profits to lower tax jurisdictions in order to pay a lower rate.

Our Take: The G-7 and the OECD are seeking this measure as a way to avoid a “race to the bottom” on tax rates as a way to attract investment and generate tax revenues in lower-tax jurisdictions. Nations with lower tax rates are likely to be very resistant to the measure, and multinationals will be willing to go to significant lengths to avoid its impact.

ECB

The ECB reiterated its commitment to extraordinary monetary easing given the current economic picture in the Eurozone. Lagarde emphasized that economic conditions, especially inflation pressures, are currently very different in the Eurozone than in the U.S.

Our Take: The beginning of a divergence in monetary stances between the Fed and the ECB is likely to have effects on exchange rates and interest rates in both the U.S. and the Eurozone.

