

Personal Income and Consumption

Personal spending plummeted 13.2% in April. Personal income rose 10.5%.

Our Take: The increase in income was entirely thanks to government transfer payments. Not surprisingly, households did not spend the extra cash, either because they were unable to during shutdowns or they chose to hoard as much cash as possible given the uncertain times. There is a good deal of pent up buying power which could be spent quickly if consumers are confident the pandemic is ending or more slowly if it is needed for life's essentials over a longer period of time.

Europe

The European Commission unveiled a plan to have the EU borrow up to \$750 billion Euros to distribute to member states as grants and loans. This plan would involve joint debt issuance by EU member nations and would represent a major fiscal transfer from core nations to peripheral EU nations. Italian government bonds rallied on the news while bunds fell.

Our Take: While this plan would go a long way toward resolving the increasingly dire fiscal situation in many peripheral nations, its implementation is far from certain given that it will require the unanimous approval of all member states. Even though Merkel recently backed the issuance of joint debt to fund grants, she will face a difficult task in selling this deal to her domestic political base. Also, several other member states including Austria, Denmark, the Netherlands and Sweden have stated that they would be skeptical of obligating their taxpayers to repay debt to fund large grants.

Employment

Initial unemployment claims rose by 2.1 million for the week ending May 23. Continuing claims fell by 4 million to 21 million.

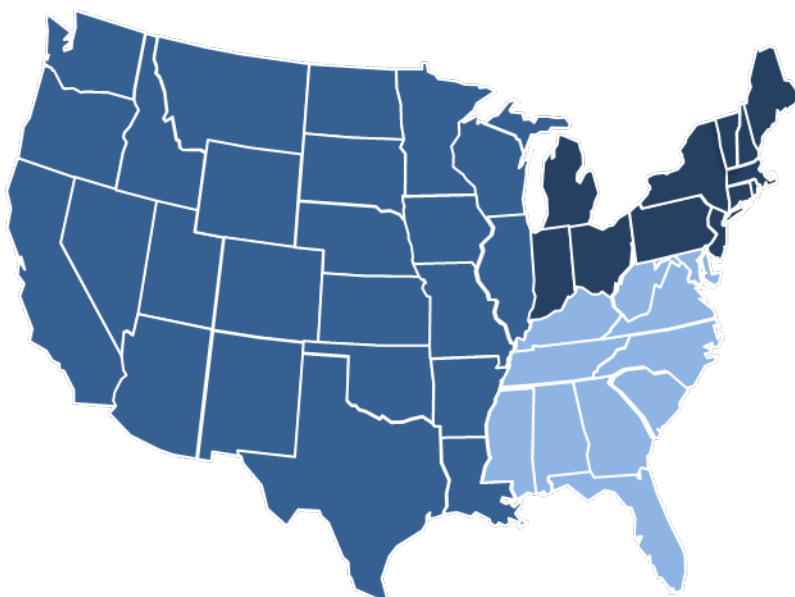
Our Take: Initial claims continue to pile up, totaling almost 41 million in the last ten weeks. Continuing claims have started to fall as the economy starts to reopen. The speed at which people are able to return to their jobs and the availability of those jobs will be key components in determining the strength of the economic recovery.

Municipals

Illinois lawmakers have passed a \$40 billion budget. Included in the budget plan is an assumption that the state will be able to borrow \$5 billion from the Federal Reserve's new Municipal Liquidity Facility. Spending in the next budget will be similar to the previous budget, with spending increases for Healthcare and Family Services, the Illinois Department of Transportation and the Illinois State Police. Spending decreases will affect the Arts Council, the Illinois Deaf and Hard of Hearing Commission, and various other organizations.

Our Take: Even with a new budget in place, Illinois still is faced with underfunded pensions and unpaid bills. Relying on borrowing and funds from the new Municipal Liquidity Facility is a short-term fix. States may need to revisit budgets and spending plans once there is less uncertainty.

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