Madison INVESTMENTS

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ECONOMIC REVIEW

FALL 2022

If some relief in gas pump prices and a surprising July rally at the beginning of this past quarter didn't spark a personal celebration, you're in good company. Consumer sentiment, a sort of measure of the national mood, hit all-time lows in June and has recovered only a bit. For stock investors, double-digit year-to-date losses are downers and with steadily rising interest rates eroding the value of existing bonds fixed-income investors have suffered as well. But mostly it's the specter of inflation which is the culprit, with reminders at every grocery checkout and on every restaurant tab.

If inflation is on our minds, imagine the burden on the governors of the Federal Reserve. The Federal Reserve has two main charges: full employment and control of inflation. With robust employment still the norm, that leaves one topic for Federal Reserve Chairman Powell and his colleagues. The attention that the Fed receives seems to match this focus. The markets follow the Fed the way royal regents in olden times observed the moods of all-powerful monarchs. In July Fed watchers uncovered subtle signs of a "pivot" – an end or reversal of interest rate increases and the U.S. stock markets experienced a surprisingly robust rally. Throughout August this optimism waned and the S&P 500® Index dipped -4.1%, bringing the year-to-date return to -16.1%. Federal Reserve Chairman Jerome Powell's comments from Jackson Hole on August 26 confirmed the market's negative sentiment when he used the word "pain" to describe the leverage needed to reverse inflation and warned that getting to an acceptable inflation rate would require higher rates and reducing Federal Reserve assets "for some time." Then some early September indicators suggested an impending slowdown in the economy great news for the market since this might put the brakes on Fed rate hikes. When the September 13 inflation data for August came in hotter than expected stock prices dived.

However, for the bulk of the quarter, the domestic economy kept chugging along. GDP continued to show a positive trend, even as indicators point toward a more modest rate near 1%. Corporate earnings and profits (even with some notable exceptions) seemed to be relatively resilient despite rising prices and the improving but still relevant supply chain issues. However, the guidance companies were providing about future earnings was often less optimistic. The latest unemployment claims were below expectations while the widely watched employment report of September 2 revealed 315,000 new jobs, a strong number even though lower than July's exceptional growth. Travel and leisure and the restaurant industry benefited from the ongoing Covid rebound effect, with service jobs showing neither abatement of need nor success in fulfillment. Patrons be warned: your table service may be a little slower than optimal.

As was true in the preceding months, the main glitch in this healthy appearing economy is the persistence of inflation. While economists can cite indicators presaging a moderation in inflation, grocery shoppers will not be impressed. But we are seeing trends, such as rising retail inventories, improving supply chains and falling disposable income which suggest an impending reduction of inflation. Rising rates are having an impact, although some of the repercussions take several quarters to take hold. Should inflation begin to moderate sharply and should the job market soften prospects for a Fed slowing or even reversal rise. This is the soft landing which contains the best hopes of the Fed and stock investors. However, should inflation show persistence while employment stays robust, the Fed may be inclined to continue to hike rates past the anticipated 3.5-3.75% level. This would raise the specter of a 2023 recession, which many correlate directly with Chairman Powell's use of the word "pain."

As U.S. stocks drifted lower in August the alternatives continued to look bleak. International stocks are mired in multiple levels of challenges. These include an energy crisis brought on by the Ukrainian war which has pushed European natural gas prices to a level ten times higher than the U.S. The European Central Bank has just begun the rate hike cycle well underway by the Federal Reserve. This despite inflation breaking through the 9% level in the Euro-Zone. Another main alternative, the bond market, is suffering one of its worst periods in history. The one-year return of the Bloomber US Aggregate Bond Index, a proxy for the overall bond market, was near -10.0% at the end of August. Rising interest rates meant that money market returns have awoken from the zero percent we've suffered with for years, but even reaching 2% means negative real returns in inflationary times.

So after surveying all the alternatives, eyes naturally return to the stock market. July was an example of the dangers of market timing, since being on the sidelines meant missing a sharp rally. This rally kept third quarter stock returns positive even after August's decline and the sharp -4.3% daily drop of September 13. We believe circumstances pose potential short-term risks for stock investors, but this is hardly novel. Stock investors are always subject to short-term risks. But this volatility is never evenly distributed. While speculative stocks may grab headlines and investor jealousy when conditions are in their favor they can turn on a dime when negative news appears.

Individual Retirement Account (IRA) and Education Savings Account (ESA) Annual Fee

If you have an IRA or ESA account, a payment coupon is included with your quarterly investor statement to remit your annual administration/custodial account fee. This fee supports the additional services required by the custodian to maintain such accounts (e.g. tracking of contributions and mandatory reporting to the Internal Revenue Service). If you have not already paid your fee for 2022, please return the enclosed payment coupon with your check no later than December 2, 2022. If we do not receive your payment by the due date, we will automatically redeem sufficient shares from your account to pay the fee in mid-December.

Individual Retirement Account (IRA) Required Minimum Distribution (RMD) Rules

The Internal Revenue Service requires you take an annual distribution from an IRA once you reach a certain age each year.

For anyone who attained age 70½ in 2019 or before, RMDs are required to begin on or before April 1 of the year after reaching age 70½, and must be taken annually by December 31st of each year thereafter.

Due to passage of the SECURE Act legislation, for those attaining 70½ in 2020 or after, the RMD age has been increased to 72. RMDs are now required to begin on or before April 1 of the year after reaching age 72 and must be taken annually by each December 31 thereafter. Therefore, if you attain age 72 in 2022, you must take your 2022 RMD no later than April 1, 2023, and then you must withdraw your 2023 RMD no later than December 31, 2023. You must withdraw subsequent RMD amounts by December 31st of each year thereafter.

If you have any questions regarding your distribution status, or need assistance calculating your RMD, please contact your financial adviser or call Shareholder Services at 1-800-877-6089.

Capital Gains

Just a reminder that mutual funds are required to distribute fund capital gains annually to shareholders. Distribution rate projections will be available on madisonfunds.com in early October. If there are distributions to be paid, they will be declared to shareholders of record in December.

Notice Regarding Escheatment

What does “escheatment” mean? The term relates to unclaimed property that transfers over to the state in which the property owner lives. Besides the term escheatment, the phrases “abandoned” or “unclaimed” property may be used. Prevent your account(s) from being deemed “abandoned” by periodically maintaining contact with us. State unclaimed property laws require Madison Funds to turn over an account’s assets to the state it’s registered under if one or more of the following occurs over a period of time (typically three to five years):

- You have an invalid address on your account
- You have not initiated contact with us
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Establishing contact with Madison Funds is easy. Call us at 1-800-877-6089 or visit madisonfunds.com and access your account online. We will capture this activity and consider it “contact”. You can learn more about abandoned property and “escheatment” in the Funds’ prospectus.

Contact Us

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Consider the investment objectives, risks, and charges and expenses of Madison Funds carefully before investing. Each fund's prospectus contains this and other information about the fund. Call 800.877.6089 or visit madisonfunds.com to obtain a prospectus and read it carefully before investing.

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