BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

August 2024

Market Data

World Stock Market Indices
data as of 07/31/2024

	Change (6/28/2024)	%CHG
S&P 500 **5,522.30**	61.82	1.13%
NASDAQ **17,599.40**	(133.20)	-0.75%
DOW JONES **40,842.79**	1,723.93	4.41%
FTSE (UK) **8,367.98**	203.86	2.50%
DAX (Germany) **18,508.65**	273.20	1.50%
Hang Seng (Hong Kong) **17,344.60**	(374.01)	-2.11%
Nikkei (Japan) **39,101.82**	(481.26)	-1.22%

Source: Bloomberg. Please see descriptions of indices on Page 2.

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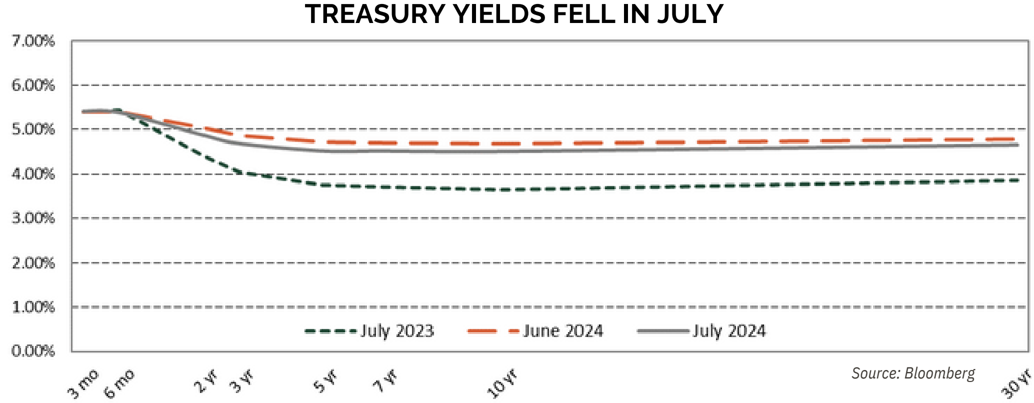
Market Summary

Recent economic data suggests positive but slower growth this year fueled by consumer spending. While the consumer has been resilient, growing credit card debt, higher delinquencies, and a moderating labor market pose potential headwinds to future economic growth. Inflationary trends are subsiding, but core levels remain above the Fed's target. The labor market is showing marked signs of cooling, reflecting an improved balance between supply and demand for workers. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we believe the economy will gradually soften and the Fed begin lowering interest rates at upcoming meetings with pace and magnitude determined by the incoming data.

As expected at the July meeting, the Federal Open Market Committee voted unanimously to leave the federal funds rate unchanged at a target range of 5.25-5.50%. Although this was the eighth straight meeting, they left the overnight rate unchanged. They noted that risks to achieving their employment and inflation goals are moving "into better balance". In addition, the FOMC adjusted their evaluation of the labor market pointing out that job gains have moderated. The Fed continues to reduce its holdings of U.S. Treasury securities and agency mortgage-backed securities as per its predefined schedule of $25 billion and $35 billion per month. Since the Fed began its Quantitative Tightening campaign in June 2022, securities holdings have declined by approximately $1.7T to approximately $7.3T

At the end of July, the 2-year Treasury yield was 62 basis points lower, and the 10-Year Treasury yield was 7 basis points higher, year-over-year. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -23 basis points at July month-end versus -36 basis points at June month-end. The inversion has occurred since July 2022 and remains historically long. The average historical spread (since 2003) is about +110 basis points. The inversion between 3-month and 10-year Treasuries widened to -126 basis points in July from -96 basis points in June.

TREASURY YIELDS FELL IN JULY



Bond markets have surged over the past three months, buoyed by declining Treasury yields and heightened expectations of interest rate cuts in 2024. The 10-year U.S. Treasury yield slipped from 4.68% to 4.03% during this period, reflecting growing confidence that inflation is cooling amid steady economic growth. At its July meeting, the Federal Reserve held short-term rates steady but signaled that cuts could begin as early as September, contingent on continued moderation in inflation. This sentiment is underpinned by a slowdown in both job growth and inflation, which has brought labor market risks and inflationary pressures into closer alignment. Investors are now factoring in a 0.25% rate cut for September, with further reductions likely through early 2025. Meanwhile, the yield curve, inverted since July 2022, has begun to show signs of normalization, with the spread between the 2-year and 10-year Treasuries narrowing to -23 basis points from -36 basis points in June. Historically, the average spread has hovered around +110 basis points since 2003. Despite this modest correction, the inversion is expected to persist until the Fed begins to lower rates, with September 2024 emerging as a probable timeline given recent inflationary trends and softening economic outlook.

TREASURY YIELDS	Trend (▲/▼)	7/31/24	6/28/24	Change
3-Month	▼	5.29	5.36	-0.07
2-Year	▼	4.26	4.76	-0.50
3-Year	▼	4.06	4.55	-0.49
5-Year	▼	3.91	4.38	-0.46
7-Year	▼	3.95	4.37	-0.43
10-Year	▼	4.03	4.40	-0.37
30-Year	▼	4.30	4.56	-0.26

Source: Bloomberg

Since 1988, Chandler Asset Management has specialized in providing fixed income investment solutions to risk-averse public agencies and institutions. Chandler's mission is to provide fully customizable client-centered portfolio management that preserves principal, mitigates risk, and generates income in our clients' portfolios.

Credit spreads where unchanged in July

CREDIT SPREADS	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 5.34	(%) 5.34	-
2-year A corporate note	0.46	0.38	0.08
5-year A corporate note	0.66	0.59	0.07
5-year Agency note	0.09	0.05	0.04

Source: Bloomberg

Data as of 07/31/2024

Crude oil prices fell in July

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(73.11) $B In JUNE 30	(75.01) $B In MAY 31	(64.81) $B In JUNE 30
Gross Domestic Product	2.80% JUNE 30	1.40% MAR 31	2.10% JUNE 30
Unemployment Rate	4.30% JULY 31	4.10% JUNE 30	3.50% JULY 31
Prime Rate	8.50% JULY 31	8.50% JUNE 28	8.50% JULY 31
Refinitiv/CoreCommodity CRB Index	278.12 JULY 31	290.47 JUNE 28	282.18 JULY 31
Oil (West Texas Int.)	$77.91 JULY 31	$81.54 JUNE 28	$81.80 JULY 31
Consumer Price Index (y/o/y)	2.90% JULY 31	3.00% JUNE 30	3.20% JULY 31
Producer Price Index (y/o/y)	1.80% JULY 31	1.60% JUNE 30	(1.00)% JULY 31
Euro/Dollar	1.08 JULY 31	1.07 JUNE 28	1.10 JULY 31

Source: Bloomberg.

Economic Roundup

Consumer Prices

U.S. inflation continued its downward trend in July, with the headline Consumer Price Index (CPI) rising 0.2% from June and 3.2% year-over-year. The core CPI, which excludes volatile food and energy prices, also increased by 0.2% for the month and 3.2% annually, marking its slowest pace since early 2021. Despite this broader cooling, shelter cost, a significant driver of inflation, climbed 0.4% in July, doubling the previous month's increase and complicating the Federal Reserve's efforts to bring inflation closer to its 2% target. The Personal Consumption Expenditures (PCE) index, reflecting June data, showed a modest 0.1% rise, with the core PCE up 0.2% month-over-month and 2.6% year-over-year. Overall inflation is showing signs of easing and the Fed is widely expected to proceed with lowering the federal funds rate at its September meeting.

Retail Sales

Retail Sales were unchanged month-over-month in June after an upwardly revised 0.3% gain in May. On a year-over-year basis, Retail Sales growth further slowed to 2.3% in June from 2.6% in May. Nonstore retailers were a bright spot in June, while motor vehicle and gasoline sales declined. The Conference Board's Consumer Confidence Index rose to 100.3 in July, up from June's downwardly revised 97.8 reading. While the present situation component declined, future expectations for the labor market improved. While the consumer has been resilient, consumption has begun to moderate in the face of higher interest rates, rising credit card balances, and growing delinquencies.

Labor Market

The U.S. economy added 114,000 jobs in July, significantly below expectations of 175,000. Additionally, the prior two months were revised down by 29,000. The three-month moving average and six-month moving average payrolls have weakened from the first quarter to 170,000 and 194,000 respectively. The unemployment rate increased to 4.3% in July, and the labor participation rate inched up to 62.7%, remaining below the pre-pandemic level of 63.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons rose to 7.8% from 7.4%. Average hourly earnings rose 3.6% year-over-year in July, down from 3.8% year-over-year in June. The labor markets continue to show signs of cooling, in line with the Federal Reserve's view that there has been "substantial" progress towards better balance in the labor market between demand and supply for workers.

Housing Starts

Housing starts jumped 3.0% month-over-month in June to a higher-than-expected 1.353 million units, driven primarily by the multi-family category. Starts were down 4.4% year-over-year. The Freddie Mac average rate for a 30-year fixed mortgage edged down to 6.85% in July from 6.92% in June. According to the Case-Shiller 20-City Home Price Index, housing prices rose 6.8% year-over-year in May, decelerating from 7.3% reported in the previous month. Tight inventories and higher mortgage rates continue to impact affordability.

World Stock Market Index Descriptions
S&P 500–The S&P 500 is a market value-weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. NASDAQ–The NASDAQ Composite Index is the market capitalization-weighted index of over 3.300 common stocks listed on the NASDAQ stock exchange. Dow Jones–The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)–The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. DAX–The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. Hang Seng–The Hang Seng Index is a freefloat-adjusted market-capitalization- weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. Nikkei–Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.