CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

December 2024

Market Data

World Stock Market Indices
data as of 11/29/2024

	Change (10/30/2024)	%CHG
S&P 500 **6,032.38**	326.93	5.73%
NASDAQ **19,218.17**	1,123.02	6.21%
DOW JONES **44,910.65**	3,147.19	7.54
FTSE (UK) **8,2787.30**	177.20	2.18
DAX (Germany) **19,626.45**	548.91	2.88
Hang Seng (Hong Kong) **19,423.61**	(893.72)	-4.40%
Nikkei (Japan) **38,208.03**	(873.22)	-2.23%

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

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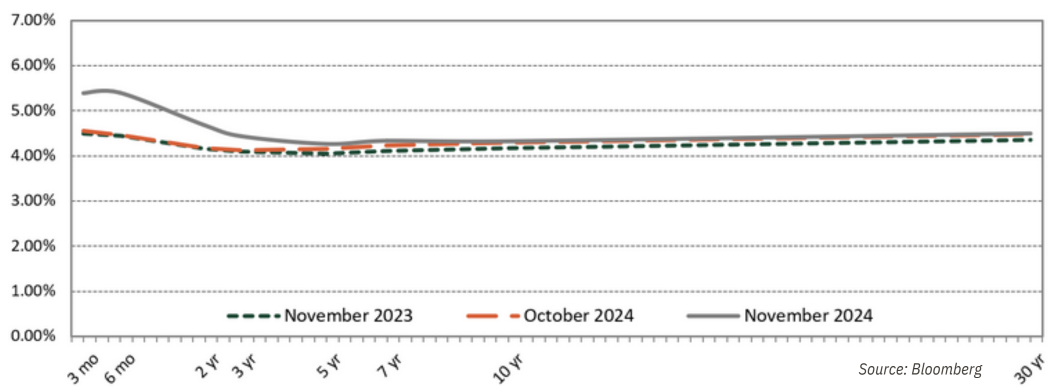
Market Summary

The results from the US elections provided some clarity to the direction of fiscal policy and removed some of the political uncertainty that had been affecting capital markets. It is our view that the Federal Reserve will continue the course of easing monetary policy as the labor market normalizes and growth trends slower. In November, consumer spending once again drove solid economic growth. While the consumer has been resilient, declining savings rates, 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 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 will continue to lower rates in the near-term, then pursue a moderate, data dependent pace through 2025.

As broadly anticipated, the Federal Open Market Committee (FOMC) reduced the Fed Funds Rate by 25 basis points to the range of 4.50 – 4.75% at the November meeting. Chair Jerome Powell indicated that the Federal Reserve is taking a more neutral stance toward the dual mandate of maximum employment and price stability. Economic activity is expanding at a solid pace, while the Fed has gained confidence that the economy is on the path to the 2% inflation target. The Fed believes that monetary policy is still restrictive following the second rate cut, and the committee will exercise optionality as needed based on economic data. Chair Powell stated that in the near-term, the election results will have no effect on monetary policy as he avoided commenting on fiscal policy. Moving into year-end, the Chandler team still expects the Federal Reserve to adjust their policy stance to become less restrictive.

The US Treasury yield curve shifted lower in November. The 2-year Treasury yield edged down 2 basis points to 4.15%, the 5-year Treasury dropped 11 basis points to 4.05%, and the 10-year Treasury yield fell 12 basis points to 4.17%. The spread between the 2-year and 10-year Treasury yield points on the curve narrowed to +2 basis points at November month-end versus +11 basis points at October month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -36 basis points. The inversion between 3-month and 10-year Treasuries widened to -32 basis points in November from -26 basis points in October.

TREASURY YIELDS TREND LOWER IN NOVEMBER



The 25 basis point Fed Funds Rate reduction in November catalyzed lower treasury yields across the yield curve. The one-year point of the curve was the only exception, as 1-year yields were slightly higher to end the month. Economic data in November did not present any surprises to alter the course of the Federal Reserve's path of easing monetary policy through year-end, and the market-implied odds of a rate cut at the December FOMC meeting stood at 66% at month end. The bond market rallied during the second half of November following President-elect Trump's appointed Scott Bessent as Treasury Secretary. Yet, lower yields across the curve could also be partially attributed to less market liquidity due to holiday market closures.

TREASURY YIELDS	Trend (▲/▼)	11/29/24	10/31/24	Change
3-Month	▼	4.49	4.55	-0.06
2-Year	▼	4.15	4.17	-0.02
3-Year	▼	4.09	4.13	-0.04
5-Year	▼	4.05	4.16	-0.11
7-Year	▼	4.11	4.23	-0.12
10-Year	▼	4.17	4.29	-0.12
30-Year	▼	4.36	4.48	-0.12

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 Were Modestly Tighter in November

CREDIT SPREADS	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 4.56	(%) 4.71	(0.15)
2-year A corporate note	0.26	0.29	(0.03)
5-year A corporate note	0.52	0.51	0.01
5-year Agency note	0.05	0.03	0.02

Source: Bloomberg

Data as of 11/29/2024

Oil Prices Were Marginally Lower in November

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(73.36) $B In OCT. 31	(83.80) $B In SEP. 30	(64.33) $B In OCT. 31
Gross Domestic Product	2.80% SEP. 30	2.80% SEP. 30	4.40% SEP. 30
Unemployment Rate	4.20% NOV. 30	4.10% OCT. 31	3.70% NOV. 30
Prime Rate	7.75% NOV. 29	8.00% OCT. 31	8.50% NOV. 30
Refinitiv/CoreCommodity CRB Index	286.94 NOV. 29	279.86 OCT. 31	273.64 NOV. 30
Oil (West Texas Int.)	$68.72 NOV. 27	$69.26 OCT. 31	$75.96 NOV. 30
Consumer Price Index (y/o/y)	2.70% NOV. 30	2.60% OCT. 31	3.10% NOV. 30
Producer Price Index (y/o/y)	2.00% NOV. 30	0.80% OCT. 31	(1.10)% NOV. 30
Euro/Dollar	1.06 NOV. 29	1.09 OCT. 31	1.09 NOV. 30

Source: Bloomberg.

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) increased slightly to 0.3% month-over-month and increased in-line with the consensus estimate of 2.7% year-over-year in November from 2.6% in October. The increase can be partially attributed to the slowing of the deflationary price trend in consumer goods. While inflationary pressure in shelter prices remains elevated, Rent of Primary Residence and Owners Equivalent Rent decreased both on a month-over-month and year-over-year basis. The Core CPI measure, which excludes volatile food and energy components, remained unchanged from October on the month-over-month and year-over-year basis increasing at 0.3% and 3.3% respectively. The Personal Consumption Expenditures (PCE) Index was unchanged at 0.2% month-over-month and unchanged at 2.3% year-over-year from an upwardly revised 2.3% for the September reference period. The Core PCE deflator increased month-over-month to 0.3% in October from a downwardly revised 0.2% in September. Core PCE increased on a year-over-year basis to 2.8% in October from 2.7% in September. The services components of PCE continue to be the primary source of lingering inflation.

Retail Sales

The consensus estimates call for an increase in Retail Sales for November to 0.5% month-over-month. Sales of new and used vehicles—the largest category in Retail Sales—is likely to get a boost from replacement purchases due to damages from the recent hurricanes. Quarter earnings from General Merchandise Retailers point to mixed results from physical retailers. For example, Wal-Mart beat 3rd Quarter earnings estimates, while Target missed. E-commerce may show moderate growth, driven by early holiday promotions in November. October Retail Sales increased 2.8% year-over-year, which has been on trend with resilient consumer spending.

Labor Market

The U.S. economy added 227,000 jobs in November, rising from the upwardly revised 36,000 created in October.The Gulf and East Coast dockworkers strike along with Boeing's union machinists strike were both resolved, which contributed to the recovery in November. However, the temporary distortions in the wake of Hurricane Helene and Hurricane Milton may continue to affect labor market data in the near-term. The three-month moving average and six-month moving average payrolls improved to 173,000 and 143,000 respectively. The unemployment rate ticked up to 4.2% in November, and the labor participation rate fell to 62.5%, 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, edged up to 7.8%. Average Hourly Earnings was unchanged at 4.0% year-over-year in November.

Housing Starts

U.S. Housing Starts are forecasted to rebound from the previous two consecutive months of decline; the consensus estimate is for an increase of 2.5% month-over-month to 1.344 million annualized housing starts in November. Construction Spending, which generally refers to the value of new construction activity on residential and non-residential projects, expanded more than anticipated in the prior two months at 0.1% and 0.4% for September and October respectively. The prior two months in positive territory ended eight consecutive months of Construction Spending decline. The prior decline in Construction Spending culminated in the surprising decline of -3.1% in housing starts in October.

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.