

**January 2025**


## Market Summary

As 2024 drew to a close, the resilient consumer continued to drive growth. Inflationary trends have subsided, but some components remain sticky, and core levels remain above the Fed's target. The labor market reflects an improved balance between supply and demand for workers. While job creation has been robust, continuing jobless claims remain elevated. Given the economic outlook, we expect gradual normalization of monetary policy and a steepening yield curve.

As anticipated, the Federal Open Market Committee (FOMC) reduced the Fed Funds Rate by 25 basis points to the range of 4.25-4.50% at the December meeting. Although the cut was widely anticipated, market participants viewed the trajectory of rates in the SEP as 'hawkish.' Chair Jerome Powell reiterated previous statements indicating the economy is in a good place and that monetary policy is well positioned. The Fed released the quarterly Summary of Economic Projections (SEP), which now forecasts a higher central tendency of core inflation and a higher longer run Fed Funds forecast. In the Chandler team's view, the updated SEP reflects the continued resiliency of the US economy and the corresponding risk of inflation taking longer to reach the FOMC's two percent objective in 2025.

At the end of December, the 2-year Treasury yield was 1 basis point lower, and the 10-Year Treasury yield was 69 basis points higher, year-over-year. The spread between the 2-year and 10-year Treasury yield points on the curve increased to +33 basis points at December month-end versus +2 basis points at November month-end. The yield curve inversion which began in July 2022 was historically long. The average historical spread (since 2004) is about +99 basis points. The 3-month and 10-year Treasury yield curve normalized to +25 basis points in December from -32 basis points in November.

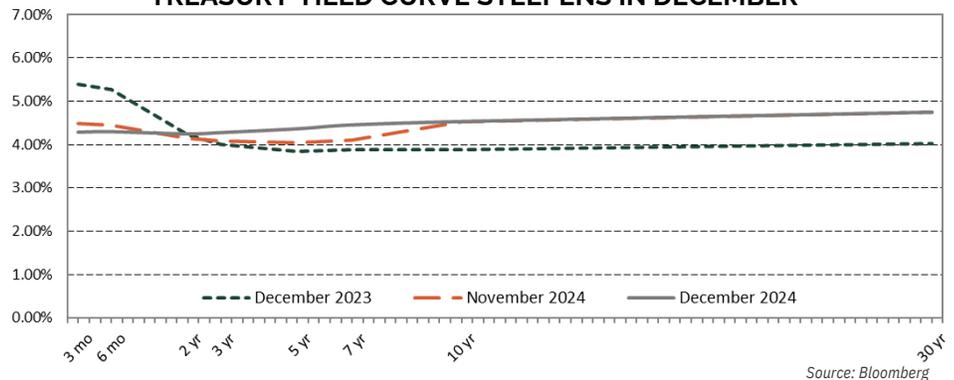
## Market Data

World Stock Market Indices  
 data as of 12/31/2024

	Change (11/29/2024)	%CHG
<b>S&amp;P 500</b>		
<b>5,906.94</b>	(125.44)	-2.08%
<b>NASDAQ</b>		
<b>19,486.79</b>	268.62	1.40%
<b>DOW JONES</b>		
<b>42,573.73</b>	(2,336.92)	-5.20%
<b>FTSE (UK)</b>		
<b>8,121.01</b>	(166.92)	-2.01%
<b>DAX (Germany)</b>		
<b>19,909.14</b>	282.69	1.44%
<b>Hang Seng (Hong Kong)</b>		
<b>20,041.42</b>	617.81	3.18%
<b>Nikkei (Japan)</b>		
<b>39,894.54</b>	1,686.51	4.41%

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

## TREASURY YIELD CURVE STEEPENS IN DECEMBER



Bond yields fell slightly in the last weeks of 2024 after a period of strength building through the month of December. The 2-year US Treasury yield fell to 4.25%, the 5-year at 4.38%, and the 10-year yield is 4.57%. The yield curve continued to normalize with the 2-year/10-year spread widening out to 33 basis points. The yield curve steepening can be partially attributed to the December FOMC rate cut, but yields on the longer-end of the curve were notably higher to end the year.

TREASURY YIELDS	Trend (▲/▼)	12/30/24	11/29/24	Change
3-Month	▼	4.28	4.49	-0.21
2-Year	▲	4.24	4.15	0.09
3-Year	▲	4.27	4.09	0.18
5-Year	▲	4.36	4.05	0.31
7-Year	▲	4.45	4.11	0.34
10-Year	▲	4.53	4.17	0.36
30-Year	▲	4.75	4.36	0.39

Source: Bloomberg

# BOND MARKET REVIEW

## Credit Spreads Were Tighter in December

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	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 4.32	(%) 4.56	(0.24)
2-year A corporate note	0.29	0.26	0.03
5-year A corporate note	0.49	0.52	(0.03)
5-year Agency note	0.04	0.05	(0.01)

Source: Bloomberg

Data as of 12/31/2024

## Crude Oil Prices Began To Increase in December

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(78.19) \$B In NOV. 30	(73.62) \$B In OCT. 31	(64.75) \$B In NOV. 30
Gross Domestic Product	3.10% SEP. 30	3.10% SEP. 30	4.40% SEP. 30
Unemployment Rate	4.10% DEC. 31	4.20% NOV. 30	3.80% DEC. 31
Prime Rate	7.50% DEC. 31	7.75% NOV. 29	8.50% DEC. 23
Refinitiv/CoreCommodity CRB Index	296.73 DEC. 30	286.94 NOV. 29	263.83 DEC. 23
Oil (West Texas Int.)	\$70.99 DEC. 30	\$68.72 NOV. 27	\$71.65 DEC. 23
Consumer Price Index (y/o/y)	2.90% DEC. 31	2.70% NOV. 30	3.40% DEC. 31
Producer Price Index (y/o/y)	2.80% DEC. 31	2.00% NOV. 30	0.10% DEC. 31
Euro/Dollar	1.04 DEC. 30	1.06 NOV. 29	1.10 DEC. 23

Source: Bloomberg

## Economic Roundup

### Consumer Prices

CPI came in at 0.3% month-on-month and 2.7% on a year-on-year basis for December. Excluding the more volatile components of food and energy, 'core' CPI came in at 0.3% month-on-month and 3.3% year-on-year. While core CPI inflation has reaccelerated in the last few months and remains elevated, the underlying drivers are more benign with the increase driven by goods rather than services which have been stickier. Indeed, the largest and most persistent component of service inflation, rents, continued to decelerate to the lowest level since early 2021 in November which will provide comfort to the Fed. The markets did receive some positive news on the inflation outlook to end the year, as the headline and core Personal Consumption Expenditures (PCE) index came in a tenth below expectations on a month-over-month basis, each at 0.1%, for December. However, the year-over-year numbers remained elevated 2.4% and 2.8%, respectively.

### Retail Sales

Although December Retail Sales data came in slightly below consensus estimates, the data was positive and continued to show consumer resilience. Retail Sales increased 0.4% month-over-month and 3.9% year-over-year. Miscellaneous store retailers led discretionary spending categories as they increased 4.3% in December. The holiday season, which encompasses October through December, surpassed the National Retail Federation estimates as it came in strong at \$994.1 billion. Expectations were high, but holiday sales did not disappoint.

### Labor Market

The U.S. economy added 256,000 jobs in December, far exceeding consensus expectations. Gains were led by health care, retail, and leisure sectors, while manufacturing shed jobs. The three-month moving average and six-month moving average payrolls totaled 170,000 and 165,000 respectively. The unemployment rate declined to 4.1% in December, and the labor participation rate was unchanged at 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 fell to 7.5%. Average hourly earnings moderated to an increase of 3.9% year-over-year in December.

### Housing Starts

U.S. Housing Starts fell in November for the third consecutive month on both a month-over-month and year-over-year basis. Single family home starts increased 6.7% month-over-month, however the surprising drop in multifamily starts of -23.2% dragged the aggregate figure into negative territory at -1.8%. Year-over-year Housing Starts also fell -14.6% following the prior -3.9% decrease in October. Again, it was a substantial drop in multifamily starts that led to lower year-over-year metrics as well.

### 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.

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