

July 2024


Market Data

 World Stock Market Indices
 data as of 06/28/2024

	Change (5/31/2024)	%CHG
S&P 500		
5,460.48	182.97	3.47%
NASDAQ		
17,732.60	997.58	5.96%
DOW JONES		
39,118.86	432.54	1.12%
FTSE (UK)		
8,164.12	(111.26)	-1.34%
DAX (Germany)		
18,235.45	(262.49)	-1.42%
Hang Seng (Hong Kong)		
17,718.61	(361.00)	-2.00%
Nikkei (Japan)		
39,583.08	1,095.18	2.85%

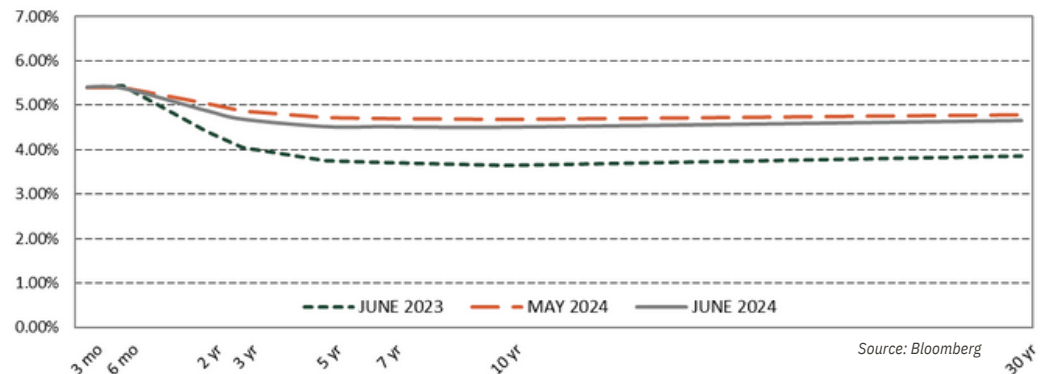
Source: Bloomberg. Please see descriptions of indices on Page 2.

Market Summary

Recent economic data suggests positive but slower growth this year, primarily driven by consumer spending. Despite consumer resilience, declining savings, increasing credit card debt, higher delinquencies, and a moderating labor market pose potential headwinds to future economic growth. While inflationary trends are subsiding, core levels remain above the Fed's target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we anticipate that the economy will gradually soften and that the Fed will loosen monetary policy in 2024.

As expected at the June meeting, the Federal Open Market Committee voted unanimously to leave the federal funds rate unchanged at a target range of 5.25-5.50%, emphasizing the need to see sustained evidence of easing inflation before considering any rate cuts. The FOMC's latest projections now suggest only one interest rate cut in 2024, with four more cuts expected in 2025 and a slightly higher long-term neutral rate. Additionally, 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.

The US Treasury yield curve shifted lower in June as economic data moderated. The 2-year Treasury yield fell 12 basis points to 4.76%, the 5-year Treasury dropped 13 basis points to 4.38%, and the 10-year Treasury yield declined 10 basis points to 4.40%. The inversion between the 2-year Treasury yield and 10-year Treasury yield remained relatively stable at -36 basis points at June month-end versus -37 basis points at May month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -106 basis points. The inversion between 3-month and 10-year Treasuries widened to -96 basis points in June from -91 basis points in May.

TREASURY YIELDS FELL IN JUNE


After reaching their highest levels in April, U.S. Treasury yields have declined over the past two months, leading to generally positive returns for bonds. Bond markets are highly focused on economic data releases to gain better guidance on the future path of interest rates. U.S. economic data has become increasingly crucial as markets seek certainty about the timing of the first rate cuts. A strong employment report early in the month caused the bond market rally to stall and yields to rise, followed by an inflation print that fell below market expectations, driving yields lower again. Despite this, the Fed has pushed back its expectation for rate cuts this year in their updated Summary of Economic Projections. Investors are closely monitoring economic indicators for potential favorable monetary policy adjustments. The inversion between the 2-year and 10-year Treasury yields was -36 basis points, while the average 20-year historical spread is +103 basis points. The yield curve inversion is likely to persist until the Federal Reserve begins to cut rates, with September 2024 being a likely point for the first cut given recent inflationary trends and a weaker economic outlook.

TREASURY YIELDS	Trend (▲/▼)	6/28/24	5/31/24	Change
3-Month	▼	5.36	5.41	-0.05
2-Year	▼	4.76	4.87	-0.12
3-Year	▼	4.55	4.68	-0.13
5-Year	▼	4.38	4.51	-0.13
7-Year	▼	4.37	4.51	-0.13
10-Year	▼	4.40	4.50	-0.10
30-Year	▼	4.56	4.65	-0.09

Source: Bloomberg

BOND MARKET REVIEW

Credit spreads where unchanged in June

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	(%) 5.34	(%) 5.35	(0.01)
2-year A corporate note	0.38	0.28	0.10
5-year A corporate note	0.59	0.53	0.06
5-year Agency note	0.05	0.07	(0.02)

Source: Bloomberg

Data as of 05/31/2024

Crude Oil prices rose in June

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(75.07) \$B In MAY 24	(74.46) \$B In APR 24	(66.07) \$B In MAY 23
Gross Domestic Product	1.40% MAR 24	1.40% MAR 24	2.20% MAR 23
Unemployment Rate	4.10% JUNE 24	4.00% MAY 24	3.60% JUNE 23
Prime Rate	8.50% JUNE 24	8.50% MAY 24	8.25% JUNE 23
Refinitiv/CoreCommodity CRB Index	290.47 JUNE 24	290.16 MAY 24	261.99 JUNE 23
Oil (West Texas Int.)	\$81.54 JUNE 24	\$76.99 MAY 24	\$70.64 JUNE 23
Consumer Price Index (y/o/y)	3.00% JUNE 24	3.30% MAY 24	3.00% JUNE 23
Producer Price Index (y/o/y)	1.40% JUNE 24	2.30% MAY 24	(3.10)% JUNE 23
Euro/Dollar	1.07 JUNE 24	1.08 MAY 24	1.09 JUNE 23

Source: Bloomberg.

Economic Roundup

Consumer Prices

In June, the Consumer Price Index (CPI) declined 0.1% month-over-month and rose 3.0% year-over-year, reflecting broad-based cost reductions. The month-over-month drop was the first deflationary data point since the pandemic. The Core CPI, which excludes volatile food and energy components, was up just 0.1% month-over-month and 3.3% year-over-year in June, down from 3.4% in May and lower than expected. The Personal Consumption Expenditures (PCE) Index decelerated in May as expected. The headline PCE deflator was unchanged in May from April versus up 0.3% in the prior month. Year-over-year, the PCE deflator rose 2.6%. The Core PCE deflator (the Fed's preferred gauge) increased 0.1% in May from the prior month versus up 0.3% in April. The Core PCE deflator also rose 2.6% year-over-year, still above the Fed's 2% inflation target. Much of the lingering inflation has been driven by shelter costs and demand for services.

Retail Sales

May retail sales increased below expectations to +0.1% after a downwardly revised -0.2%, pointing to a fatigued consumer. On a year-over-year basis, retail sales growth further slowed to +2.3% in May. Nonstore retailers, those that sell goods and services outside the traditional brick-and-mortar store environment, were a bright spot in May, up 0.8% following a 1.8% decline in April. The Conference Board's Consumer Confidence Index fell to 100.4 in June from 101.3 in May. While the present situation component rose marginally, consumers are less optimistic about future expectations for business conditions and potential income increases. 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 206,000 jobs in June, remaining ahead of consensus expectations of 190,000 jobs. The gains were broad based, with government, health care, and social assistance posting the largest gains. The three-month moving average and six-month moving average payrolls have weakened from the first quarter to 177,000 and 222,000 respectively. The unemployment rate edged up to 4.1% in June, and the labor participation rate inched up to 62.6%, 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 held steady at 7.4%. Average hourly earnings rose 3.9% year-over-year in June, down from 4.1% year-over-year in May. 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

May Housing Starts declined 5.5% month-over-month from April to 1.352 million units. This equates to -19.3% less starts compared to May 2023. Single family starts were 5.2% lower month-over-month due to higher mortgage interest rates, lack of existing unit supply and home affordability. Multi-family home starts declined 10.3% month-over-month. The Freddie Mac average rate for a 30-year fixed mortgage edged down to 6.92% in June from 7.06% in May. According to the Case-Shiller 20-City Home Price Index, housing prices rose a higher-than-expected 7.2% year-over-year in April versus March's upwardly revised 7.5% increase. 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.

© 2024 Chandler Asset Management, Inc. An Independent Registered Investment Adviser. Data source: Bloomberg, Federal Reserve, and the US Department of Labor. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation, or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment. Fixed income investments are subject to interest rate, credit, and market risk. Interest rate risk: The value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low-rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market, in general, could decline due to economic conditions, especially during periods of rising interest rates. The S&P CoreLogic Case-Shiller home price index tracks monthly changes in the value of residential real estate in 20 metropolitan regions across the nation.