

March 2025



Market Summary

After a hotter than anticipated January CPI print, recent data has again pointed to inflation slowing. However, uncertainty remains as to what extent tariffs will result in more inflation. Job creation improved marginally in February, yet the underemployment rate also notably increased, which together may reflect a bias toward part-time job creation. The Federal Reserve appears poised to leave monetary policy unchanged in the near-term pending clarity on fiscal policy. As such, the Chandler team expects gradual normalization of monetary policy and a steepening yield curve through the remaining year.

After leaving the Fed Funds Rate unchanged at 4.25-4.50% at the January meeting, the Federal Open Market Committee (FOMC) did not have a scheduled meeting in February. Fed policy makers now find themselves in a precarious position as the polarizing initiatives the Trump administration posits continue to garner uncertainty and renewed fears of inflation. According to Chair Powell, the Fed is “well positioned to wait for greater clarity,” and likely to leave the Fed Funds Rate unchanged at the upcoming March FOMC meeting. The market implied probability for a March rate cut is at 0.8%. As the effects of trade and fiscal policy become more clear, our view at Chandler is for monetary policy easing to continue at a slower cadence through 2025.

US Treasury yields declined, and the curve flattened in February. The 2-year Treasury yield declined 21 basis points to 3.99%, the 5-year Treasury fell 31 basis points to 4.02%, and the 10-year Treasury yield dropped 33 basis points to 4.21%. The spread between the 2-year and 10-year Treasury yield points on the curve narrowed to +22 basis points at February month-end versus +34 basis points at January month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -37 basis points. The spread between the 3-month and 10-year Treasury yield points on the curve was -9 basis points in February, versus +25 basis points in January.

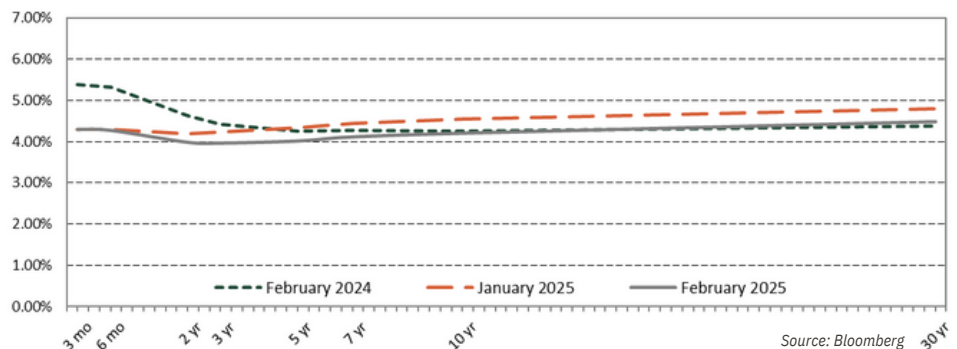
Market Data

World Stock Market Indices
 data as of 2/28/2025

	\$CHG (1/31/2025)	%CHG
S&P 500	5,954.50	(86.03) (1.42%)
NASDAQ	18,847.28	(780.16) (3.97%)
DOW JONES	43,840.91	(703.75) (1.58%)
FTSE (UK)	8,809.74	135.78 1.57%
DAX (Germany)	22,551.43	819.38 3.77%
Hang Seng (Hong Kong)	22,941.32	2,716.21 13.4%
Nikkei (Japan)	37,155.50	(2,416.99) (6.11%)

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

TREASURY YIELDS LOWER ACROSS THE CURVE IN FEBRUARY



Escalating concern over trade policy uncertainty, and recent economic data signaling potential slowing of the economy led investors to seek the safety of US Treasuries in February. Treasury yields finished the month lower with longer dated maturities declining more than shorter-dated maturities flattening the yield curve. February also marked the first time the 2-year yield fell below 4% since October 2024, reaching 3.99%.

TREASURY YIELDS	Trend (▲/▼)	2/28/25	1/31/25	Change
3-Month	▼	4.30	4.29	-0.01
2-Year	▼	3.99	4.20	-0.21
3-Year	▼	3.97	4.24	-0.27
5-Year	▼	4.02	4.33	-0.31
7-Year	▼	4.12	4.44	-0.33
10-Year	▼	4.21	4.54	-0.33
30-Year	▼	4.49	4.79	-1.30

Source: Bloomberg

BOND MARKET REVIEW

Credit spreads were relatively unchanged in February

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	(%) 4.33	(%) 4.31	0.02
2-year A corporate note	0.36	0.28	0.08
5-year A corporate note	0.59	0.52	0.07
5-year Agency note	0.03	0.04	(0.01)

Source: Bloomberg

Data as of 2/28/2025

Crude oil prices decreased in February

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(131.38) \$B JAN. 31	(98.06) \$B DEC. 31	(66.86) \$B JAN. 31
Gross Domestic Product	2.30% DEC. 31	2.30% DEC. 31	3.20% DEC. 31
Unemployment Rate	4.10% FEB. 28	4.00% JAN. 31	3.90% FEB. 29
Prime Rate	7.50% FEB. 28	7.50% JAN. 31	8.50% FEB. 29
Refinitiv/CoreCommodity CRB Index	301.83 FEB. 28	304.95 JAN. 31	275.08 FEB. 29
Oil (West Texas Int.)	\$69.76 FEB. 28	\$72.53 JAN. 31	\$78.26 FEB. 29
Consumer Price Index (y/o/y)	2.80% FEB. 28	3.00% JAN. 31	3.20% FEB. 29
Producer Price Index (y/o/y)	2.10% FEB. 28	2.90% JAN. 31	1.00% FEB. 29
Euro/Dollar	1.04 FEB. 28	1.04 JAN. 31	1.08 FEB. 29

Source: Bloomberg

Economic Roundup

Consumer Prices

Inflation pressures eased in February as consumer prices rose 0.2% from the prior month, with core CPI — which excludes food and energy — matching that pace. Notably, shelter costs continued to moderate, offering signs of relief in a persistently sticky category. At the wholesale level, the Producer Prices Index (PPI) Final Demand Index was unchanged month-over-month, while Core PPI declined -0.1%. Both measures feed into the Fed's preferred inflation gauge, the PCE Core Deflator index, which is expected to show a 0.3% gain for February, keeping annualized inflation between 2.5% and 3%. While still above the Fed's 2% target, policymakers may be inclined to ease rates if labor market conditions weaken.

Retail Sales

The Retail Sales report for February rose 0.2% month-over-month, which followed the prior decline of -1.2% in January. Online sales increased 2.4% month-over-month, which was enough to counter the drop in gas station and restaurant sales and keep the change from January in positive territory. On a year-over-year basis, retail sales were up 3.1%. The Retail Sales Control Group, which strips out food services, auto dealers, building material retailers, and gas stations surprised to the upside rising 1.0% versus the consensus estimate of 0.4% month-over-month. The control group data feeds directly into the calculation for the PCE inflation measure.

Labor Market

The U.S. economy added 151,000 jobs in February, below consensus expectations, and the last two months were revised down by 2,000. Gains were led by education and health services, transportation, and financial activities, with cutbacks in federal jobs and consumer-oriented fields such as leisure and hospitality and retail. The three-month moving average and six-month moving average payrolls totaled 200,000 and 191,000 respectively. The unemployment rate rose to 4.1% in February, and the labor participation rate edged down to 62.4%, 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 soared to 8.0% in February from 7.5% last month to its highest level since 2021. Average hourly earnings ticked up to an increase of 4.0% year-over-year in February.

Housing Starts

Housing starts declined 9.8% to 1.4 million units in January. Total starts are down 0.7% compared to January 2024. Single family home starts slowed to 993,000 units and multi-family starts slowed to 355,000 units. The Freddie Mac 30-year fixed rate mortgage averaged approximately 6.8% in February. According to the Case-Shiller 20-City Home Price Index, housing prices rose 4.5% year-over-year in December versus 4.4% year-over-year in November. With more inventory entering the market the trend is gradually improving; however 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.

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