BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

November 2024

Market Data

World Stock Market Indices
data as of 10/31/2024

		Change (9/30/2024)	%CHG
S&P 500	5,705.45	(57.03)	-0.99%
NASDAQ	18,095.15	(94.02)	-0.52%
DOW JONES	41,763.46	(566.69)	-1.34%
FTSE (UK)	8,110.10	(126.85)	-1.54%
DAX (Germany)	19,077.54	(247.39)	-1.28%
Hang Seng (Hong Kong)	20,317.33	(816.35)	-3.86%
Nikkei (Japan)	39,081.25	1,161.70	3.06%

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

CHANDLER ASSET MANAGEMENT

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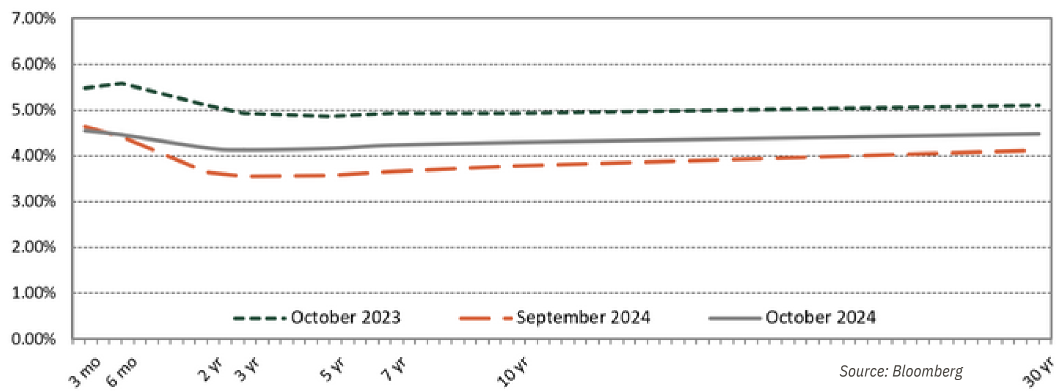
Market Summary

Recent economic data suggests positive but slower growth fueled by consumer spending. 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 at a measured pace, while remaining data dependent.

After the Federal Open Market Committee (FOMC) delivered the first rate cut of the easing cycle with a 50 basis point cut at the September meeting, in October market participants continued to anticipate the Fed to proceed to reduce the Fed Funds Rate by 25 basis points at the November FOMC meeting. Chair Jerome Powell justified the prior 50 basis point cut by stating that "The time to support the labor market is when the labor market is strong." The Federal Reserve is in the process of taking a more neutral stance toward the dual mandate of maximum employment and price stability. The quarterly Summary of Economic Projections (SEP) forecasts a lower median Fed Funds Rate expectation among Fed Governors in 2025 with inflation on the path to the 2% target and a higher projected unemployment rate. We believe the Fed will continue to lower rates at a measured pace through year-end while taking optionality to adjust the pace and magnitude of easing monetary policy should changing economic data warrant.

The US Treasury yield curve shifted higher in October on stronger economic data, and the shape of the curve continued to gradually normalize. The 2-year Treasury yield surged 53 basis points to 4.17%, the 5-year Treasury jumped 60 basis points to 4.16%, and the 10-year Treasury yield rose 50 basis points to 4.29%. The spread between the 2-year and 10-year Treasury yield points on the curve narrowed to +11 basis points at October month-end versus +14 basis points at September month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -16 basis points. The inversion between 3-month and 10-year Treasuries tightened to -26 basis points in October from -85 basis points in September.

TREASURY YIELDS SURGED HIGHER IN OCTOBER



The convergence of several factors drove US treasury yields to surge higher across the curve in October resulting in yields from the 2-year through the 10-year treasury securities up at least 50 basis points by October month-end. Continued labor market strength, higher than anticipated inflation data, along with mounting concern for an expanding federal budget deficit and uncertainty over future fiscal policy catalyzed the outsized move. Short-term money market rates inside of 6-months was the only area of the yield curve that ended the month with lower yields. Lower money market rates were consistent with market participants' anticipation of the Federal Reserve continuing the path of easing monetary policy through year-end.

TREASURY YIELDS	Trend (▲/▼)	10/31/24	9/30/24	Change
3-Month	▼	4.55	4.63	-0.08
2-Year	▲	4.17	3.64	0.53
3-Year	▲	4.13	3.55	0.58
5-Year	▲	4.16	3.56	0.60
7-Year	▲	4.23	3.65	0.58
10-Year	▲	4.29	3.78	0.51
30-Year	▲	4.48	4.12	0.36

Source: Bloomberg

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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 Tighter in October

CREDIT SPREADS	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 4.71	(%) 4.82	(0.11)
2-year A corporate note	0.29	0.42	(0.13)
5-year A corporate note	0.51	0.58	(0.7)
5-year Agency note	0.03	0.07	(0.4)

Source: Bloomberg

Data as of 10/31/2024

Crude Oil prices Fell in October

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(84.36) $B In SEP. 30	(70.79) $B In AUG. 31	(62.22) $B In SEP. 30
Gross Domestic Product	2.80% SEP. 30	3.00% JUNE 30	4.40% SEP. 30
Unemployment Rate	4.10% OCT. 31	4.10% SEP. 30	3.80% OCT. 31
Prime Rate	8.00% OCT. 31	8.00% SEP. 30	8.50% OCT. 31
Refinitiv/CoreCommodity CRB Index	279.86 OCT. 31	284.94 SEP. 30	281.15 OCT. 31
Oil (West Texas Int.)	$69.26 OCT. 31	$68.17 SEP. 30	$81.02 OCT. 31
Consumer Price Index (y/o/y)	2.60% OCT. 31	2.40% SEP. 30	3.20% OCT. 31
Producer Price Index (y/o/y)	0.70% OCT. 31	(0.70)% SEP. 30	(0.40)% OCT. 31
Euro/Dollar	1.09 OCT. 31	1.11 SEP. 30	1.06 OCT. 31

Source: Bloomberg.

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) remained unchanged at 0.2% month-over-month and increased in-line with the consensus estimate at 2.6% year-over-year in October from 2.4% in September. The slight year-over-year increase was mainly attributable to shelter and medical care service prices. The Core CPI measure, which excludes volatile food and energy components, remained unchanged from September on both the month-over-month and year-over-year basis increasing at 0.3% and 3.3% respectively. The Personal Consumption Expenditures (PCE) Index increased month-over-month to 0.2% while slowing year-over-year to 2.1% in October from a revised 2.3% in September. The Core PCE deflator increased month-over-month to 0.3% in September from an upwardly revised 0.2% in August. On a year-over-year basis, Core PCE strayed modestly from the consensus estimate of 2.6%, increasing slightly at 2.7% in September, yet remained unchanged from August after revisions. The services components of PCE continue to be the primary source of lingering inflation.

Retail Sales

October's Retail Sales numbers presented a mixed picture of consumer behavior, rising 0.4% from the previous month on the strength of auto purchases and solid gains in electronics and appliances, according to the U.S. Census Bureau. E-commerce showed moderate growth, driven by early holiday promotions. Year-over-year, retail sales increased 2.8%, signaling resilient consumer spending. Revised September data revealed a stronger-than-expected 0.8% monthly gain, suggesting shoppers entered the holiday season with momentum. However, control-group sales, which exclude food services, autos, building materials, and gasoline, dipped 0.1% month-over-month, highlighting some weakness in inflation-adjusted spending.

Labor Market

The U.S. economy added 12,000 jobs in October, far below the consensus estimate of 100,000. The devastating impacts from Hurricanes Helene and Milton likely drove temporary jobs lower. The Boeing strike deducted jobs primarily from the manufacturing sector, while health care and government employment both posted gains. Additionally, downward revisions totaled 112,000 for the prior two months. The three-month moving average and six-month moving average payrolls continued to trend weaker to 104,000 and 132,000 respectively. The unemployment rate held steady at 4.1% in October, and the labor participation rate fell 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, remained at 7.7%. Average hourly earnings was unchanged at 4.0% year-over-year in October.

Housing Starts

U.S. housing starts fell short of expectations in October, with annualized starts reaching 1.311 million, below the consensus estimate of 1.334 million. Month-over-month, starts declined by 3.1%, steeper than the anticipated 1.5% drop, signaling a slowdown in new construction activity. Building permits, a forward-looking indicator, also missed projections, declining 0.6% month-over-month against an expected 0.7% gain. The softer data suggests persistent challenges in the housing market amid higher interest rates and affordability pressures.

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.