

February 2025


Market Summary

Recent disinflationary trends appear to have stalled in January as CPI data came in hotter than anticipated. While the labor market remains solid, job creation slowed, reflecting an improved balance between supply and demand for workers. The transition to the Trump administration appears to have ushered in a marked shift in fiscal policy. Yet, it is the Chandler team's view that monetary policy will remain focused on the Fed's dual mandate of full employment and price stability. As such, we expect gradual normalization of monetary policy and a steepening yield curve.

As broadly anticipated, the Federal Open Market Committee (FOMC) left the Fed Funds Rate unchanged at the range of 4.25-4.50% at the January meeting. Chair Jerome Powell reiterated previous statements indicating the economy is in a good place and that monetary policy is well positioned, adding that the committee is in no hurry to make any changes to monetary policy. The Chandler team believes monetary policy easing will continue at a slower cadence, as changes to fiscal policy begin taking shape in 2025.

US Treasury yields shifted slightly lower in January. The 2-year Treasury yield declined 4 basis points to 4.20%, the 5-year Treasury fell 5 basis points to 4.33%, and the 10-year Treasury yield dropped 3 basis points to 4.54%. The spread between the 2-year and 10-year Treasury yield points on the curve increased slightly to +34 basis points at January month-end versus +33 basis points at December month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -30 basis points. The spread between the 3-month and 10-year Treasury yield points on the curve was +25 basis points in January, unchanged from December.

Market Data

World Stock Market Indices
 data as of 1/31/2025

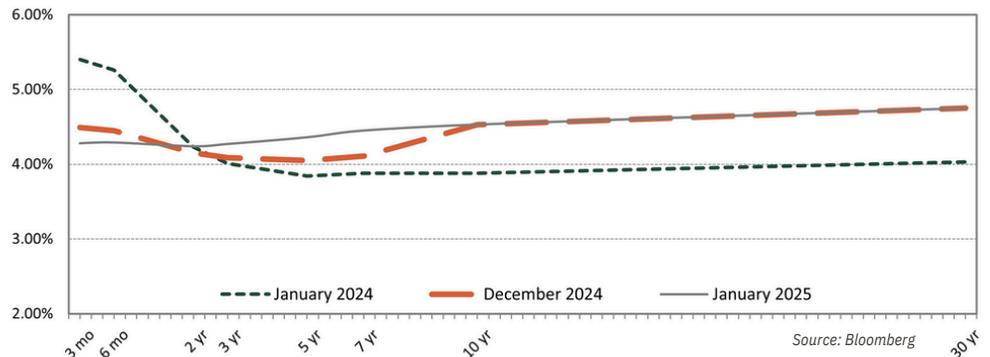
	Change (12/31/2024)	%CHG
S&P 500	6,040.53	158.63 2.70%
NASDAQ	19,627.44	316.65 1.64%
DOW JONES	44,544.66	2000.44 4.70%
FTSE (UK)	8,673.96	500.94 6.13%
DAX (Germany)	21,732.05	1,822.91 9.16%
Hang Seng (Hong Kong)	20,225.11	165.16 0.82%
Nikkei (Japan)	39,572.49	(322.05) -0.81%

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



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VOLATILITY REARS UP THE TREASURY YIELD CURVE IN JANUARY



Treasury yields whipsawed in January with the 2-year, 5-year, and 10-year starting the month lower following the late December rally, increasing on average 20 basis points midmonth, only to fall 27 basis points lower on average at the lowest point for the month amid a flight to quality. The transition to the Trump administration and perceived sweeping changes to fiscal policy has contributed to the recent volatility across capital markets.

TREASURY YIELDS	Trend (▲/▼)	1/31/24	12/31/24	Change
3-Month	▼	4.29	4.32	-0.03
2-Year	▼	4.20	4.24	-0.04
3-Year	▼	4.24	4.27	-0.03
5-Year	▼	4.33	4.38	-0.05
7-Year	▼	4.44	4.48	-0.04
10-Year	▼	4.54	4.57	-0.03
30-Year	▲	4.79	4.78	0.01

Source: Bloomberg

BOND MARKET REVIEW

Credit Spreads Were Wider in January

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	(%) 4.31	(%) 4.31	-
2-year A corporate note	0.28	0.29	(0.01)
5-year A corporate note	0.52	0.48	0.04
5-year Agency note	0.04	0.02	0.02

Source: Bloomberg

Data as of 1/31/2025

Crude Oil Prices Exhibited Volatility in January

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(98.43) \$B In DEC. 31	(78.94) \$B In NOV. 30	(64.92) \$B In DEC. 31
Gross Domestic Product	2.30% DEC. 31	3.10% SEP. 30	3.20% DEC. 31
Unemployment Rate	4.00% JAN. 31	4.10% DEC. 31	3.70% JAN. 31
Prime Rate	7.50% JAN. 31	7.50% DEC. 31	8.50% JAN. 31
Refinitiv/CoreCommodity CRB Index	304.95 JAN. 31	296.72 DEC. 31	272.41 JAN. 31
Oil (West Texas Int.)	\$2.53 JAN. 31	\$71.72 DEC. 31	\$75.85 JAN. 31
Consumer Price Index (y/o/y)	3.00% JAN. 31	2.90% DEC. 31	3.10% JAN. 31
Producer Price Index (y/o/y)	2.90% JAN. 31	2.80% DEC. 31	(0.80%) JAN. 31
Euro/Dollar	1.04 JAN. 31	1.04 DEC. 31	1.08 JAN. 31

Source: Bloomberg

Economic Roundup

Consumer Prices

The headline Consumer Price Index (CPI) accelerated to 0.5% month-over-month and 3.0% year-over-year in January. The Core CPI, which excludes the volatile food and energy sectors, jumped 0.4% month-over-month and 3.3% year-over-year. While seasonal adjustments likely played a role, shelter costs comprised about 30% of the overall rise. Notably, egg prices soared 15% in the month, driven by the avian influenza outbreak that led to mass culling and supply shortages. At the same time, rising costs in auto insurance, used vehicles, medical care, communication, and airfares also contributed to the hotter than expected inflation reading. Headline PCE was in line with consensus expectations for the December period both on a month-over-month, at 0.3%, and on a year-over-year basis at 2.6%. The Fed's preferred gauge, Core PCE, was unchanged from the prior month at 2.8% year-over-year. Yet, Core PCE increased from 0.1% to 0.2% month-over-month, again raising some concerns over the pace of slowing inflation.

Retail Sales

The Advance Retail Sales report for January fell short of expectations, dropping 0.9% month-over-month following a +0.7% increase in December. On a year-over-year basis, retail sales were up 4.2% on a seasonally but not price adjusted basis. Motor vehicle and parts dealers gained 6.4% year-over-year, while restaurants and bars were up 5.4% versus one year ago. The weaker January retail sales estimates versus December were likely due to the upward revisions to the strong holiday shopping season and consumers front loading purchases in anticipation of tariffs.

Labor Market

The U.S. economy added 143,000 jobs in January, below consensus expectations, and the last two months were revised up by 100,000. Gains were led by retail and health care. The three-month moving average and six-month moving average payrolls totaled 237,000 and 178,000 respectively. The unemployment rate declined to 4.0% in January, and the labor participation rate edged 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 remained unchanged at 7.5%. Average hourly earnings ticked up to an increase of 4.1% year-over-year in January.

Housing Starts

Housing starts surged by 15.8% in December to 1.5 million units after declining in the prior three months. Total starts are down 4.4% compared to December 2023. The supply of existing homes is gradually becoming more abundant after the period of scarcity as homeowners held onto their low mortgage rates. The Freddie Mac 30-year fixed rate mortgage averaged approximately 7% in January. According to the Case-Shiller 20-City Home Price Index, housing prices rose 4.3% year-over-year in November versus 4.2% year-over-year in October. 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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