BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

APRIL 2022

Market Data

World Stock Market Indices
data as of 3/31/2022

	Change (2/28/2022)	%CHG
S&P 500		
4,530.41	156.47	3.58%
NASDAQ		
14,220.52	469.12	3.41%
DOW JONES		
34,678.35	785.75	2.32%
FTSE (UK)		
7,515.68	57.43	0.77%
DAX (Germany)		
14,414.75	-46.27	-0.32%
Hang Seng (Hong Kong)		
21,996.85	-716.17	-3.15%
Nikkei (Japan)		
27,821.43	1,294.61	4.88%

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

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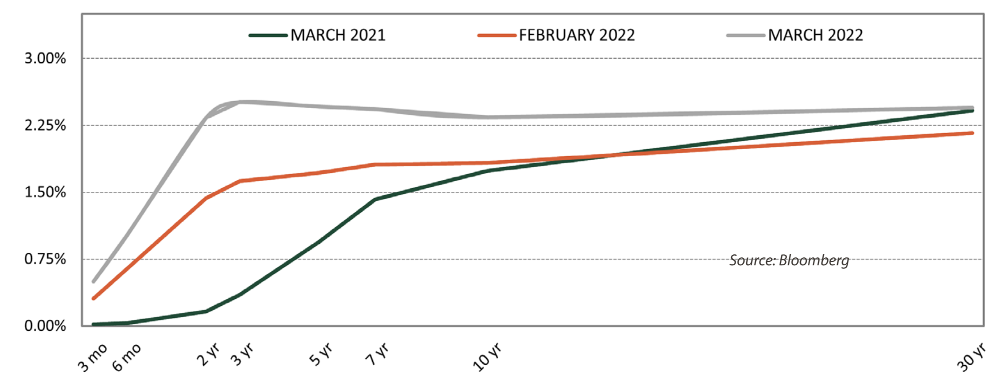
Market Summary

The Russian invasion into Ukraine and resulting Western sanctions on Russia continue to impact financial markets and the global economic outlook. As a result of the sanctions, inflationary pressures have increased, particularly in energy, metals, and agricultural commodities like wheat. Elevated inflation data is setting the stage for further rate hikes by the Federal Reserve (Fed) this year. The Fed is likely to continue to tighten monetary policy this year but has little margin for error to achieve a soft landing for the economy as it attempts to combat inflation without pushing the economy into a recession. We believe a strong labor market and consumer spending will continue to provide tailwinds to the economy; however, a prolonged conflict in Eastern Europe, elevated commodity prices, and tighter monetary policy present risks to economic growth. We expect financial market volatility to remain elevated and conditions to tighten as the Fed transitions to a less accommodative monetary policy.

The Federal Open Market Committee (FOMC) raised the federal funds rate by 0.25% at their March 16th meeting to a target range of 0.25% to 0.50%, the first increase since 2018 after two years of holding the federal funds rates near zero to insulate the economy from the impacts of the pandemic. The minutes from the March 16th meeting telegraphed their plans to continue to remove policy accommodation via increasing the Fed Funds rate and shrinking the size of the Federal Reserve's balance sheet. They indicated a $95 billion cap for asset purchase runoff ($60 billion in Treasury securities and $35 billion in mortgage-backed securities) likely to be formally announced at the May 4th FOMC meeting. Reducing the size of the Federal Reserve's balance sheet is effectively a tightening of monetary policy and could potentially serve to keep the pace of the Fed Funds increases measured.

In March, yields increased dramatically and the curve continued to flatten. The 2-year Treasury yield increased 90 basis points to 2.34%, the 5-year Treasury yield increased 74 basis points to 2.46%, and the 10-year Treasury yield increased 51 basis points to 2.34%. The spread between the 2-year and 10-year Treasury yield declined to zero at March month-end versus 40 basis points at February month-end and 158 basis points one year ago. While the flat yield curve bears watching over the longer run, the spread between 3-month and 10-year treasuries remains steep at about 185 basis points, which indicates likely economic growth in the coming year.

Treasury Yields Rose in March



At the end of March, the 2-year Treasury yield increased to 2.33%, and the 10-Year Treasury yield rose to 2.34%. The spread between the 2-year Treasury yield and 10-year Treasury yield was one basis point at the end of March compared to the average historical 20-year spread (since 2003) of 143 basis points.

TREASURY YIELDS	Trend (▲/▼)	3/31/2022	2/28/2022	Change
3-Month	▲	0.50	0.31	0.19
2-Year	▲	2.34	1.43	0.90
3-Year	▲	2.51	1.63	0.89
5-Year	▲	2.46	1.72	0.74
7-Year	▲	2.43	1.81	0.62
10-Year	▲	2.34	1.83	0.51
30-Year	▲	2.45	2.16	0.29

Source: Bloomberg

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 Widened in March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.42	0.24	0.18
2-year A corporate note	0.18	0.32	(0.14)
5-year A corporate note	0.61	0.68	(0.07)
5-year Agency note	0.08	0.12	(0.04)

Source: Bloomberg

Data as of 3/31/2022

Supply and Demand Imbalances Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(89.19) $Bln FEB 22	(89.23) $Bln JAN 22	(67.55) $Bln FEB 21
Gross Domestic Product	6.90% DEC 21	2.30% SEP 21	4.50% DEC 20
Unemployment Rate	3.60% MAR 22	3.80% FEB 22	6.00% MAR 21
Prime Rate	3.50% MAR 22	3.25% FEB 22	3.25% MAR 21
Commodity Research Bureau Index	295.18 MAR 22	269.07 FEB 22	184.96 MAR 21
Oil (West Texas Int.)	$100.28 MAR 22	$95.72 FEB 22	$59.16 MAR 21
Consumer Price Index (y/o/y)	7.90% FEB 22	7.50% JAN 22	1.70% FEB 21
Producer Price Index (y/o/y)	13.80% FEB 22	12.50% JAN 22	2.50% FEB 21
Euro/Dollar	1.11 MAR 22	1.12 FEB 22	1.17 MAR 21

Source: Bloomberg

Economic Roundup

Consumer Prices

Although U.S. consumer prices rose less than expected in March, inflation remained elevated at a 40-year high. The Consumer Price Index (CPI) was up 8.5% year-over-year in March, versus up 7.9% year-over-year in February. Core CPI (CPI less food and energy) was up 6.5% year-over-year in March, versus up 6.4% year-over-year in February. Gasoline costs drove half of the monthly increase, while food was also a sizable contributor. Used vehicle prices declined, resulting in lower than forecast core increases for the month. The Personal Consumption Expenditures (PCE) index was up 6.4% year-over-year in February, up from 6.0% in January. Core PCE was up 5.4% year-over-year in February, versus up 5.2% in January. Current inflation readings continue to run well above the Fed's longer-run target of around 2.0%. While gas prices have started to decline in recent weeks in part due to COVID lockdowns in China, we believe pricing pressures may remain elevated longer than anticipated as a result of the conflict in Europe.

Retail Sales

Retail sales edged higher in February, but there are signs that higher gas prices are impacting discretionary spending. On a year-over-year basis, retail sales were up 17.6% in February versus 14% in January. On a month-over-month basis, retail sales moderated, rising 0.3% in February versus an upwardly revised increase of 4.9% in January. Excluding vehicles and gas, retail sales were down 0.4% month-over-month. Although inflation threatens to put a dent in expected growth, we believe high levels of consumer savings along with improvement in the health situation and continued improvement in the labor market should provide a healthy tailwind for consumer spending. The Consumer Confidence Index rebounded to 107.2 in March following declines in January and February, primarily driven by positive assessments of employment. However, while consumers' evaluations of the present situation were strong, future expectations have been deteriorating.

Labor Market

The U.S. economy added 431,000 jobs in March, with upward revisions from the prior months totaling 95,000. Trends in employment remain strong, with the three-month moving average payrolls at 561,000 and the six-month moving average at 600,000. Job gains were broad based in March, led by leisure and hospitality and professional and business services. The unemployment rate fell to 3.6% from 3.8%, the lowest level since February 2020. The labor participation rate increased marginally to 62.4% in March from 62.3% in February but remains lower than the pre-pandemic level of 63.4%. 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 6.9% in March from 7.2% in February, declining below its pre-pandemic level of 7.0% in February 2020. Wage growth accelerated in March, with average hourly earnings rising 5.6% from 5.2% year-over-year. As more participants enter the labor force, wage inflation dynamics should start to moderate, helping to lower the current elevated inflation readings.

Housing Starts

Total housing starts rebounded 6.8% to an annual rate of 1,769,000 in February. Single-family starts increased 5.7%, and multi-family starts increased 9.3%, month-over-month. On a year-over-year basis, total housing starts were up 22.3% in February driven by multi-family starts. According to the Case-Shiller 20-City home price index, home prices were up 19.1% year-over-year in January versus up 18.6% year-over-year in December, suggesting tight supply may be continuing to support prices. Rising mortgage rates and affordability could be headwinds to further price growth.

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.