

AUGUST 2023



## Market Data

 World Stock Market Indices  
 data as of 07/31/2023

	Change (06/30/2023)	%CHG	
<b>S&amp;P 500</b>	<b>4,588.96</b>	<b>138.58</b>	<b>3.11%</b>
<b>NASDAQ</b>	<b>14,346.02</b>	<b>558.10</b>	<b>4.05%</b>
<b>DOW JONES</b>	<b>35,559.53</b>	<b>1,151.93</b>	<b>3.35%</b>
<b>FTSE (UK)</b>	<b>7,699.41</b>	<b>167.88</b>	<b>2.23%</b>
<b>DAX (Germany)</b>	<b>16,446.83</b>	<b>298.93</b>	<b>1.85%</b>
<b>Hang Seng (Hong Kong)</b>	<b>20,078.94</b>	<b>1,162.51</b>	<b>6.15%</b>
<b>Nikkei (Japan)</b>	<b>33,172.22</b>	<b>(16.82)</b>	<b>(0.05%)</b>

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

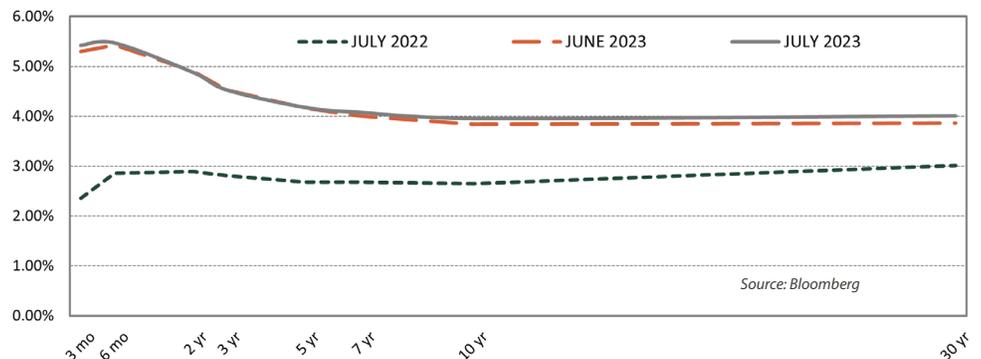
## Market Summary

Recent economic data continues to suggest positive but below trend growth this year. Although the pace of job growth is moderating, labor markets remain solid, and the U.S. consumer has demonstrated resiliency. Inflationary trends are subsiding, but core levels remain well above the Fed's target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we believe the economy will gradually soften and the Fed will remain data dependent as they tread cautiously going forward.

As anticipated at the July meeting, the Federal Open Market Committee voted unanimously to raise the federal funds rate by 0.25% to a target range of 5.25 - 5.50%, the highest level in over 20 years. Fed Chair Powell maintained that the FOMC will remain data dependent going forward, and that they do not anticipate a recession, leaving the option open for the possibility of additional rate hikes in the future if needed.

Changes in yields across the curve were mixed in July as market participants adjusted their portfolios following the Federal Reserve's (Fed) decision to raise the federal funds rate by 25 basis points to a range of 5.25%-5.50%. The market response showed relative stability in shorter securities, while yields of longer-term securities saw a more pronounced increase. The 2-year Treasury yield underwent a modest decline of 2 basis points, settling at 4.88%, whereas the 5-year Treasury yield observed a slight 2 basis points uptick, reaching 4.18%. In contrast, the 10-year Treasury yield saw a more meaningful increase of 12 basis points, reaching 3.96%.

## Treasury Yields Increased Across the Curve in July



Rates moved higher along the yield curve after the Fed's decision to increase the federal funds rate and in anticipation of the entrance of over \$100 billion in additional supply to the bond market in August through the US Treasury's scheduled quarterly refunding, leading to the flattening of the Treasury yield curve. The Treasury yield curve remains inverted, with the inversion between the 2-year Treasury yield and the 10-year Treasury yield narrowing to -93 basis points by the end of July, compared to -106 basis points at the close of June. This pattern has been in place since July 1, 2022. One year ago, the difference between the 2-year Treasury and the 10-year Treasury yield was -24 basis points. Furthermore, the inversion between the 3-month and 10-year Treasuries remained steady at -147 basis points from June to July. The shape of the yield curve continues to indicate a probability of a recession, although the extent and timing of this remain uncertain, especially given the robust labor market.

TREASURY YIELDS	Trend (▲/▼)	07/31/2023	06/30/2023	Change
3-Month	▲	5.42	5.30	0.12
2-Year	▼	4.88	4.90	-0.02
3-Year	-	4.53	4.53	0.00
5-Year	▲	4.18	4.16	0.02
7-Year	▲	4.08	4.00	0.08
10-Year	▲	3.96	3.84	0.12
30-Year	▲	4.01	3.86	0.15

Source: Bloomberg

# BOND MARKET REVIEW

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 Continued to Tighten in July

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.08	0.13	(0.05)
2-year A corporate note	0.28	0.32	(0.04)
5-year A corporate note	0.65	0.70	(0.05)
5-year Agency note	0.09	(0.12)	0.21

Source: Bloomberg

Data as of 07/31/2023

## Inflationary Trends Continue to Ease

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(65.50) \$Bln JUN 23	(68.29) \$Bln MAY 23	(80.85) \$Bln JUN 22
Gross Domestic Product	2.40% JUN 23	2.00% MAR 23	(0.60%) JUN 22
Unemployment Rate	3.50% JUL 23	3.60% JUN 23	3.50% JUL 22
Prime Rate	8.50% JUL 23	8.25% JUN 23	5.50% JUL 22
Refinitiv/CoreCommodity CRB Index	282.18 JUL 23	261.99 JUN 23	292.06 JUL 22
Oil (West Texas Int.)	\$81.80 JUL 23	\$70.64 JUN 23	\$98.62 JUL 22
Consumer Price Index (y/o/y)	3.20% JUL 23	3.00% JUN 23	8.50% JUL 22
Producer Price Index (y/o/y)	(1.10%) JUL 23	(3.00%) JUN 23	15.30% JUL 22
Euro/Dollar	1.10 JUL 23	1.09 JUN 23	1.02 JUL 22

Source: Bloomberg

## Economic Roundup

### Consumer Prices

Inflation data provided encouraging indications of moderating inflation trends. The Consumer Price Index (CPI) witnessed a monthly increase of 0.2% in July, while the annual CPI experienced a slight rise to 3.2% due to an unfavorable year-over-year comparison. The core consumer price index, excluding volatile food and energy costs, showed a modest 0.2% rise for the second consecutive month, marking the smallest back-to-back increase in nearly two years and reaching a year-over-year total of 4.7%, down from 4.8% in June. The Personal Consumption Expenditures (PCE) index rose 3.0% year-over-year in June, down from a 3.8% gain in May. Core PCE, the Federal Reserve's preferred inflation gauge, increased 4.1% year-over-year in June, down from a 4.6% increase in May. Core inflation is decelerating but remains above the Fed's 2% target.

### Retail Sales

Advance Retail Sales rose 0.2% month-over-month in June, modestly below expectations. On a year-over-year basis, retail sales growth moderated to a 1.5% year-over-year gain in June versus an upwardly revised 2.0% increase in May. The Conference Board's Consumer Confidence Index surged to a better than expected 117.0 in July from an upwardly revised 110.1 in June. Both current conditions and future expectations gained strength.

### Labor Market

The U.S. economy added 187,000 jobs in July, falling short of consensus expectations, and the last two months were revised downward by 49,000 jobs. The pace of job growth is softening with the three-month moving average payrolls at 218,000 and the six-month moving average at 223,000. The unemployment rate declined to 3.5% in July from 3.6% in June, while the labor force participation rate remained unchanged for the sixth consecutive month at 62.6%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, decreased to 6.7% from the prior month at 6.9%. Average hourly earnings remained at 4.4% year-over-year in July. These wage gains provide support for the consumer by outpacing the current rate of inflation.

### Housing Starts

Total housing starts fell 8.0% month-over-month in June to 1,434,000 units from a downwardly revised 1,559,000 units in May and were down 8.1% compared to June 2022. Both single-family and multi-family construction declined. The 30-year fixed rate mortgage stabilized at an average of approximately 6.7% at June month-end according to Freddie Mac. According to the Case-Shiller 20-City Home Price Index, housing prices dropped 1.7% year-over-year in May, unchanged from April. 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.

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