CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

DECEMBER 2023

Market Data

World Stock Market Indices
data as of 11/30/2023

	Change (10/31/2023)	%CHG
S&P 500		
4,567.80	374.00	8.92%
NASDAQ		
14,226.22	1,374.98	10.70%
DOW JONES		
35,950.89	2,898.02	8.77%
FTSE (UK)		
7,453.75	132.03	1.80%
DAX (Germany)		
16,215.43	1,405.09	9.49%
Hang Seng (Hong Kong)		
17,042.88	(69.60)	(0.41%)
Nikkei (Japan)		
33,486.89	2,628.04	8.52%

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

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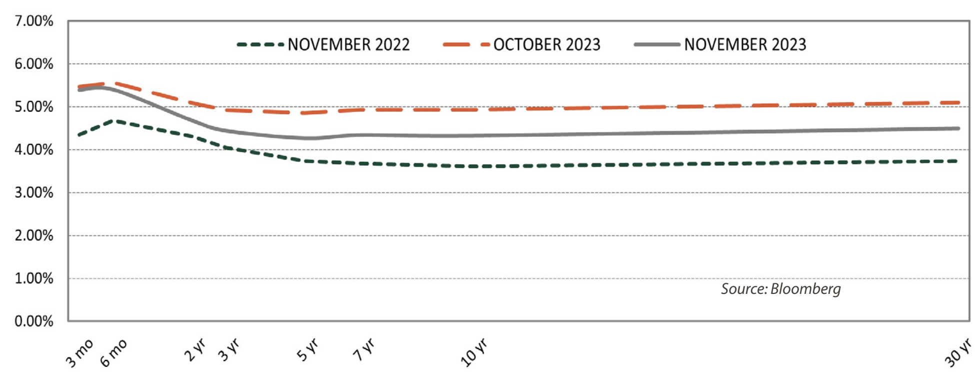
Market Summary

Recent economic data has shown above trend growth fueled by a rise in consumer spending and a continuing healthy US job market. Inflationary trends are subsiding, but core levels remain well above the Fed's 2% 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 expected at the November meeting, the Federal Open Market Committee voted unanimously to leave the Federal Funds rate unchanged at a target range of 5.25 - 5.50%. Market participants interpreted the FOMC statement as somewhat dovish, with the formal statement noting "tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation." Federal Reserve Chair Jerome Powell also noted the stance of policy is restrictive, the full effects of the tightening have yet to be felt, and the process of getting inflation to 2% has a long way to go. We believe monetary policy will remain restrictive for longer, but further tightening will not be required for the Federal Reserve to eventually achieve their policy objectives.

US Treasury rates fell sharply across the yield curve in November due to decelerating inflation readings and a more dovish outlook from the Federal Reserve (Fed). In response, bond market participants began pricing in cuts to the federal funds rate by the Fed of 1.00-1.25% throughout 2024, as early as the second quarter of 2024, leading to lower interest rates. At the end of November, the 2-year Treasury yield declined by 41 basis points to 4.68%, and the 10-year Treasury yield decreased by 60 basis points to 4.33%. Recent market activity continues to highlight the complex interplay of fiscal and monetary policies, and investors may be overly optimistic in their pricing of both the level and timing of rate cuts by the Fed. Fed Chair Jerome Powell will have the opportunity to clarify the Fed's position on the future course of monetary policy at the meeting of the Federal Open Market Committee in December and potentially push back on market expectations when announcing its latest policy decision.

Treasury Yields Fell Across the Curve in October



At the end of November, the 2-year Treasury yield declined by 41 basis points to 4.68%, and the 10-year Treasury yield decreased by 60 basis points to 4.33%. The inversion between the 2-year Treasury yield and 10-year Treasury yield widened to -35 basis points at the end of November compared to -16 basis points at the end of October. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -71 basis points. The inversion between 3-month and 10-year Treasuries widened to -107 basis points in November from -54 basis points in October. The shape of the yield curve continues to indicate that the probability of a recession persists or potentially signals slower future economic growth.

TREASURY YIELDS	Trend (▲/▼)	11/30/2023	10/31/2023	Change
3-Month	▲	5.39	5.47	-0.08
2-Year	▲	4.68	5.09	-0.41
3-Year	▲	4.44	4.93	-0.48
5-Year	▲	4.27	4.86	-0.59
7-Year	▲	4.34	4.93	-0.59
10-Year	▲	4.33	4.93	-0.61
30-Year	▲	4.50	5.10	-0.60

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 Tightened in November

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	5.53	5.62	(0.09)
2-year A corporate note	5.15	5.59	(0.44)
5-year A corporate note	4.98	5.64	(0.66)
5-year Agency note	4.43	4.94	(0.51)

Source: Bloomberg Data as of 11/30/2023

Recent Inflation Data Ease

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(64.26) $Bln OCT 23	(58.66) $Bln SEP 23	(78.33) $Bln OCT 22
Gross Domestic Product	5.20% SEP 23	2.10% JUN 23	2.70% SEP 22
Unemployment Rate	3.70% NOV 23	3.80% OCT 23	3.60% NOV 22
Prime Rate	8.50% NOV 23	8.50% OCT 23	7.00% NOV 22
Refinitiv/CoreCommodity CRB Index	273.64 NOV 23	281.15 OCT 23	279.76 NOV 22
Oil (West Texas Int.)	$75.96 NOV 23	$81.02 OCT 23	$80.55 NOV 22
Consumer Price Index (y/o/y)	3.10% NOV 23	3.70% OCT 23	7.10% NOV 22
Producer Price Index (y/o/y)	(0.90%) NOV 23	2.10% OCT 23	10.50% NOV 22
Euro/Dollar	1.09 NOV 23	1.06 OCT 23	1.04 NOV 22

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) rose by +0.3% month-over-month and +3.1% year-over-year in November. This increase was driven by higher housing and service-sector costs. The Core CPI, excluding food and energy, also rose by +0.3% month-over-month and remained at +4.0% year-over-year, unchanged from the previous month. Rent, medical care, and motor-vehicle insurance costs increased, while used-car prices saw their first rise since May, offset by lower apparel and furniture costs. Shelter prices, a significant component of CPI, increased by +0.4%, offsetting declining gasoline prices. Conversely, core goods prices, excluding food and energy, fell for the sixth consecutive month. The Personal Consumption Expenditures (PCE) Index remained stable in October, with inflation unchanged month-over-month and a year-over-year increase of +3.0%, down from 3.4% in September. Core PCE, the Fed's preferred gauge, increased by +0.2% month-over-month and slowed to 3.5% year-over-year in October, compared to a +3.7% year-over-year increase in September. Inflation continues to exceed the Fed's 2% target.

Retail Sales

Retail Sales declined 0.1% in October after an upward revision to 0.9% in September, slightly exceeding the -0.3% consensus forecast. On a year-over-year basis, Retail Sales growth decelerated to 2.5% in October versus 4.1% in September. Food and beverage stores, along with health and personal care stores extended their gains in October while gasoline, furniture, car dealers and parts contributed to the month-over-month decline. E-commerce sales remain robust, rising 2.3% in the third quarter to represent 15.6% of total sales. The Conference Board's Consumer Confidence Index increased for the first time in four months in November, reaching an index level of 102.0, up from a downwardly revised 99.1 in October, despite concerns of rising prices and interest rates. While the consumer has been resilient, dwindling excess savings, rising credit card balances, and the resumption of student loan payments pose potential headwinds to future economic growth.

Labor Market

The U.S. economy added 199,000 jobs in November, exceeding consensus expectations of 185,000, with broad-based gains across industries. The trajectory of job creation is gradually moderating, with the three-month moving average payrolls at 204,000 and the six-month moving average at 186,000. The unemployment rate dropped to 3.7% from 3.9%, and the labor participation rate ticked up slightly to 62.8%. 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 7.0% from 7.2% last month. Average hourly earnings rose 4.0% year-over-year in November, consistent with the gradually decelerating trend this year. Employment remains strong by historical standards, but data are trending toward a less robust labor market outlook.

Housing Starts

Housing Starts decelerated month-over-month in October by 1.9% to an annual rate of 1.372 million units. Starts were up 4.9% for multi-family units and 0.2% for single-family. Total starts of new homes are down 4.2% year-over-year. According to Freddie Mac, average 30-year fixed rate mortgage rates declined to 6.80% as of December 7th, paralleling the 10-year US Treasury yields declining. According to the Case-Shiller 20-City Home Price Index, housing prices rose 3.9% year-over-year in September, improving from a 2.1% gain in August. 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.