CHANDLER ASSET MANAGEMENT

# BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

JULY 2023

## Market Data

*World Stock Market Indices*
*data as of 06/30/2023*

| | Change (05/31/2023) | %CHG |
|---|---|---|
| S&P 500 | | |
| **4,450.38** | 270.55 | 6.47% |
| NASDAQ | | |
| **13,787.92** | 852.63 | 6.59% |
| DOW JONES | | |
| **34,407.60** | 1,499.33 | 4.56% |
| FTSE (UK) | | |
| **7,531.53** | 85.39 | 1.15% |
| DAX (Germany) | | |
| **16,147.90** | 483.88 | 3.09% |
| Hang Seng (Hong Kong) | | |
| **18,916.43** | 682.16 | 3.74% |
| Nikkei (Japan) | | |
| **33,189.04** | 2,301.16 | 7.45% |

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

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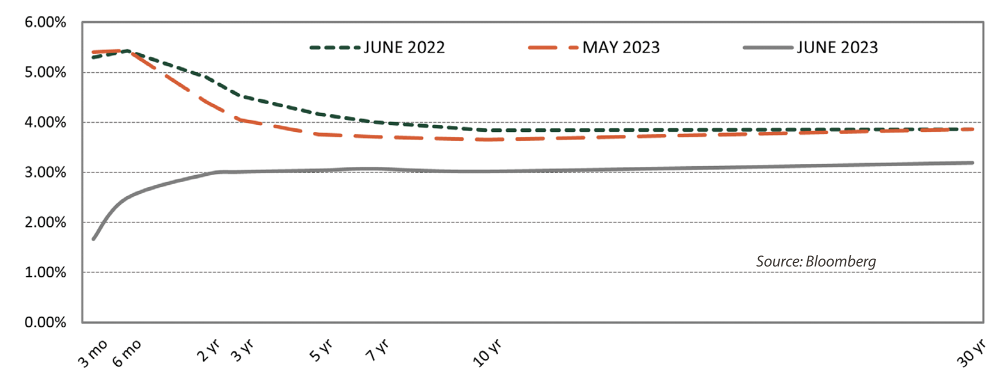
## Market Summary

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.

At the June meeting, the Federal Open Market Committee paused in their rate hiking campaign after ten straight rate increases and left the target Federal Funds rate in the current range of 5.00 - 5.25%. Market participants viewed the FOMC's decision as a 'hawkish' pause, expecting further tightening in the future, primarily based on the updated release of the FOMC's Summary of Economic Projections (SEP) forecast which reflected a stronger economic outlook and higher rates compared to the March forecast. We believe the resiliency of future economic data will determine if the Federal Reserve can stay on hold for a period of time or will be forced to tighten policy further to bring inflation back down towards their 2% policy objective.

In June, yields increased across the curve as Federal Reserve officials reiterated the need to raise the federal funds rate at their next meeting. The 2-year Treasury yield rose by 49 basis points to 4.90%, the 5-year Treasury yield increased by 40 basis points to 4.16%, and the 10-year Treasury yield rose by 19 basis points to 3.84%. The inversion between the 2-year Treasury yield and the 10-year Treasury yield increased to -106 basis points at the end of June, compared to -76 basis points at the end of May.

**Treasury Yields Increased Across the Curve in June**




The Treasury yield curve remains inverted, with the inversion between the 2-year Treasury yield and the 10-year Treasury yield increasing to -106 basis points at the end of June, compared to -76 basis points at the end of May. One year ago, the spread between the 2-year Treasury and the 10-year Treasury yield was +5 basis points. Additionally, the inversion between the 3-month and 10-year Treasuries tightened to -145 basis points in June from -174 in May. The shape of the yield curve continues to indicate a high probability of recession, although the timing remains uncertain, especially given the recent economic data, particularly the strong labor market.

| TREASURY YIELDS | Trend (▲/▼) | 06/30/2023 | 05/31/2023 | Change |
|---|---|---|---|---|
| 3-Month | ▼ | 5.30 | 5.40 | -0.11 |
| 2-Year | ▲ | 4.90 | 4.41 | 0.50 |
| 3-Year | ▲ | 4.53 | 4.05 | 0.48 |
| 5-Year | ▲ | 4.16 | 3.76 | 0.40 |
| 7-Year | ▲ | 4.00 | 3.71 | 0.29 |
| 10-Year | ▲ | 3.84 | 3.65 | 0.19 |
| 30-Year | - | 3.86 | 3.86 | 0.00 |

*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 were Tighter in June**

| CREDIT SPREADS | Spread to Treasuries (%) | One Month Ago (%) | Change |
|---|---|---|---|
| 3-month top rated commercial paper | 0.13 | 0.04 | 0.09 |
| 2-year A corporate note | 0.32 | 0.56 | (0.24) |
| 5-year A corporate note | 0.70 | 0.96 | (0.26) |
| 5-year Agency note | (0.12) | 0.13 | (0.25) |

*Source: Bloomberg*

Data as of 06/30/2023

**Inflationary Trends Continue to Ease**

| ECONOMIC INDICATOR | Current Release | Prior Release | One Year Ago |
|---|---|---|---|
| Trade Balance | (68.98) $Bln MAY 23 | (74.44) $Bln APR 23 | (84.08) $Bln MAY 22 |
| Gross Domestic Product | 2.00% MAR 23 | 2.60% DEC 22 | (1.60%) MAR 22 |
| Unemployment Rate | 3.60% JUN 23 | 3.70% MAY 23 | 3.60% JUN 22 |
| Prime Rate | 8.25% JUN 23 | 8.25% MAY 23 | 4.75% JUN 22 |
| Refinitiv/CoreCommodity CRB Index | 261.99 JUN 23 | 253.85 MAY 23 | 291.15 JUN 22 |
| Oil (West Texas Int.) | $70.64 JUN 23 | $68.09 MAY 23 | $105.76 JUN 22 |
| Consumer Price Index (y/o/y) | 3.00% JUN 23 | 4.00% MAY 23 | 9.10% JUN 22 |
| Producer Price Index (y/o/y) | (3.10%) JUN 23 | (1.00%) MAY 23 | 18.30% JUN 22 |
| Euro/Dollar | 1.09 JUN 23 | 1.07 MAY 23 | 1.05 JUN 22 |

*Source: Bloomberg*

## Economic Roundup

**Consumer Prices**

The Consumer Price Index (CPI) increased by 0.2% month-over-month and 3.0% year-over-year in June, down from 4.0% in May. The Core CPI, which excludes volatile food and energy components, rose 0.2% month-over-month and 4.8% year-over-year, showing a modest deceleration from 5.3% in May. The Personal Consumption Expenditures (PCE) index rose 3.8% year-over-year in May, down from a 4.4% gain in April. Core PCE, the Federal Reserve's preferred inflation gauge, increased by 4.6% year-over-year in May, slightly lower than the 4.7% reading in April. However, core inflation remains persistently high above the Fed's 2% target, with service-sector inflation and robust wage growth acting as significant challenges.

**Retail Sales**

Advance Retail Sales rose 0.3% month-over-month in May, beating expectations but slowing from a 0.4% increase in April. Gains were broad-based and translated to a year-over-year increase of 1.5% in May versus a downwardly revised 1.2% increase in April. The Conference Board's Consumer Confidence Index surged to a better than expected 109.7 in June from 102.5 in May. Both current conditions and future expectations gained strength.

**Labor Market**

The U.S. economy added 209,000 jobs in June, falling short of consensus expectations, and the last two months were revised downward by 110,000 jobs. Although decelerating, the pace of job growth remains healthy with the three-month moving average payrolls at 244,000 and the six-month moving average at 278,000. The unemployment rate declined to 3.6% in June from 3.7% in May, while the labor force participation rate remained 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, increased to 6.9% from the prior month at 6.7%. Average hourly earnings remained at 4.4% year-over-year in June, unchanged from an upwardly revised 4.4% increase in May. While the longer-term trend of hiring is slowing, levels remain consistent with a solid labor market.

**Housing Starts**

Total housing starts rose 21.7% month-over-month in May to 1,631,000 units from a downwardly revised 1,340,000 in April and were up 5.7% compared to May 2022. Both single-family and multi-family construction increased as expectations for lower rates and greater availability of construction labor and materials drove the surge in starts. 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% in April after falling 1.1% in March, clearly displaying the impact of higher mortgage rates year-over-year, which have reduced demand for homebuying as affordability has declined. The Southeast remains the strongest region, while the West continues to be the weakest.

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.