CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

JUNE 2022

Market Data

World Stock Market Indices
data as of 5/31/2022

	Change (4/29/2022)	%CHG
S&P 500		
4,132.15	4,131.93	0.01%
NASDAQ		
12,081.39	12,334.64	-2.05%
DOW JONES		
32,990.12	32,977.21	0.04%
FTSE (UK)		
7,607.66	7,544.55	0.84%
DAX (Germany)		
14,388.35	14,097.88	2.06%
Hang Seng (Hong Kong)		
21,415.20	21,089.39	1.54%
Nikkei (Japan)		
27,279.80	28,246.53	-3.42%

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

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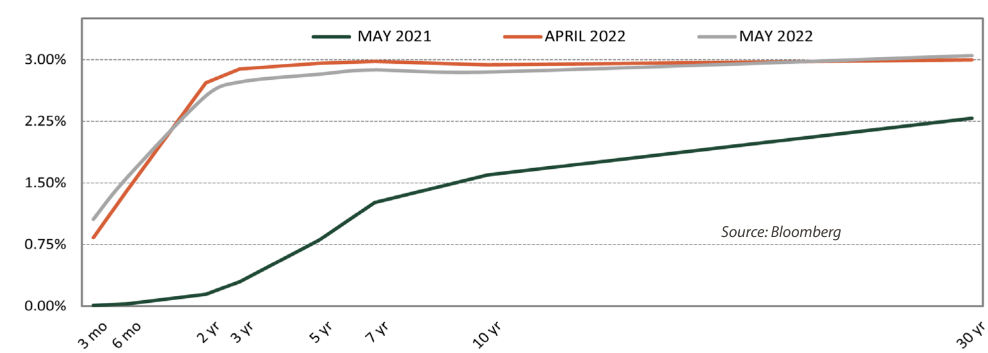
Market Summary

Financial markets are experiencing heightened volatility and tighter conditions as central banks employ more restrictive monetary policies to combat persistent inflation. The conflict between Russia and Ukraine has exacerbated inflationary pressures, particularly with energy and commodities, and strict COVID lockdowns in China are intensifying distressed supply chains. While US inflation may have approached a peak, elevated levels will likely persist. Labor markets and consumer spending remain strong, but we believe the risk of an economic slowdown later this year has increased. While we expect the Fed to continue to tighten monetary policy, the Federal Open Market Committee (FOMC) has very little margin for error as it attempts to combat inflation without pushing the economy into a recession. Over the near term, we expect financial market volatility to remain intensified and conditions to remain tighter with persistent inflation, geopolitical risk, supply chain bottlenecks, and the Fed's shift to a more hawkish monetary policy.

As expected at the May meeting, the Federal Open Market Committee (FOMC) announced it would raise the federal funds rate by 0.50% to a range of 0.75% - 1.00% and begin shrinking its $9 trillion balance sheet starting June 1st. Federal Reserve Chair Powell indicated that a 75-basis point increase is not currently under consideration, and the Treasury yield curve steepened after the announcement. We are anticipating additional rate hikes by the Fed in the near term, but we believe that monetary policy is not on a pre-set course, and the timing and magnitude of rate hikes in the second half of this year will be dependent on how economic and geopolitical conditions continue to transpire.

In May, yields fell and the curve steepened. The 2-year Treasury yield declined 16 basis points to 2.56%, the 5-year Treasury yield fell 14 basis points to 2.82%, and the 10-year Treasury yield dropped 9 basis points to 2.85%. The spread between the 2-year and 10-year Treasury yield increased to 29 basis points at May month-end versus 22 basis points at April month-end but down from 145 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 is still steep at about 179 basis points, which indicates likely economic growth in the coming year.

Treasury Yields Fell in May



At the end of May, the 2-year Treasury yield decreased to 2.56%, and the 10-Year Treasury yield fell to 2.85%. The spread between the 2-year Treasury yield and 10-year Treasury yield increased to 29 basis points at the end of May compared to the average historical 20-year spread (since 2002) of 130 basis points.

TREASURY YIELDS	Trend (▲/▼)	5/31/2022	4/29/2022	Change
3-Month	▲	1.06	0.83	0.23
2-Year	▼	2.56	2.72	-0.16
3-Year	▼	2.73	2.89	-0.16
5-Year	▼	2.82	2.96	-0.14
7-Year	▼	2.87	2.98	-0.11
10-Year	▼	2.85	2.94	-0.09
30-Year	▲	3.05	3.00	0.05

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 Unchanged in May

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.44	0.38	0.06
2-year A corporate note	0.41	0.37	0.04
5-year A corporate note	0.73	0.75	(0.02)
5-year Agency note	0.14	0.07	0.07

Source: Bloomberg

Data as of 5/31/2022

Supply and Demand Imbalances Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(87.08) $Bln APR 22	(107.65) $Bln MAR 22	(65.72) $Bln APR 21
Gross Domestic Product	(1.50%) MAR 22	(1.50%) MAR 22	6.30% MAR 21
Unemployment Rate	3.60% MAY 22	3.60% APR 22	5.80% MAY 21
Prime Rate	4.00% MAY 22	3.50% APR 22	3.25% MAY 21
Commodity Research Bureau Index	316.54 MAY 22	308.27 APR 22	205.70 MAY 21
Oil (West Texas Int.)	$114.67 MAY 22	$104.69 APR 22	$66.32 MAY 21
Consumer Price Index (y/o/y)	8.60% MAY 22	8.30% APR 22	5.00% MAY 21
Producer Price Index (y/o/y)	15.70% APR 22	15.40% MAR 22	9.70% APR 21
Euro/Dollar	1.07 MAY 22	1.05 APR 22	1.22 MAY 21

Source: Bloomberg

Economic Roundup

Consumer Prices

US inflation data was worse than expected in May, hitting a 40-year high with broad-based price increases for most goods and services. The consumer price index (CPI) increased 1.0% for the month of May and 8.6% from a year earlier with shelter, food, and gasoline as the largest contributors. The core CPI, which removes more volatile food and energy components, rose 0.6% in May and 6.0% from a year earlier. Persistent elevated levels of inflation are likely to keep the Federal Reserve (Fed) on the path of tightening monetary policy. The most recent inflation data suggests that the Fed is all but certain to hike the federal funds rate by 0.50% at its June 15, 2022 meeting.

Retail Sales

Retail sales rose in April, with signs that consumers are spending more on services. On a year-over-year basis, retail sales were up 8.2% in April versus up 6.9% in March. On a month-over-month basis, retail sales rose 0.9% from the 1.4% upwardly revised figure for March. Excluding vehicles and gas, retail sales were up just 0.6% month-over-month. The Consumer Confidence index fell to 106.4 in May from an upwardly revised 108.6 in April. U.S. consumer savings rates are declining, and the wealth effect is waning from recent financial market declines. Although the average consumer still has the capacity to spend from accumulated savings, higher wages, and credit lines, consumer balance sheets and discretionary spending decisions are increasingly pressured by elevated gas, food, and shelter costs.

Labor Market

The U.S. economy added 390,000 jobs in May, and job gains in April were revised upward from 428,000 to 436,000. Trends in employment remain strong, with the three-month moving average payrolls at 408,000 and the six-month moving average at 505,000. Hiring was led by leisure and hospitality, responsible for more than a quarter of payroll gains for the month, followed by professional and business services. The unemployment rate remained unchanged at 3.6%, and the U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part-time for economic reasons, was 7.1%. Average hourly earnings rose 5.2% year-over-year in May, easing from a 5.5% year-over-year gain in April, which may reflect the beginning of a deceleration in wage growth that could help ease broad cyclical price pressures. The labor participation rate ticked up to 62.3% from 62.2%, a possible sign that higher wages and number of available jobs are compelling enough to draw workers back into the labor force.

Housing Starts

Total housing starts declined slightly to 0.2% to an annual rate of 1,724,000 in April, from a revised 1,728,000 units in March. Single-family home starts fell by 7.3% and multi-family starts increased 15.3% month-over-month. On a year-over-year basis, total housing starts increased by 14.6%, driven by multi-family. According to the Case-Shiller 20-City home price index, home prices were up 21.2% in March versus 20.3% year-over-year in February, setting another new record. While tight supply has continued 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.