CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

JUNE 2023

Market Data

World Stock Market Indices
data as of 05/31/2023

	Change (04/28/2023)	%CHG
S&P 500		
4,179.83	10.35	0.25%
NASDAQ		
12,935.29	708.71	5.80%
DOW JONES		
32,908.27	-1,189.89	-3.49%
FTSE (UK)		
7,446.14	-424.43	-5.39%
DAX (Germany)		
15,664.02	-258.36	-1.62%
Hang Seng (Hong Kong)		
18,234.27	-1,660.30	-8.35%
Nikkei (Japan)		
30,887.88	2,031.44	7.04%

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

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Toll Free: 800.317.4747
info@chandlerasset.com
chandlerasset.com

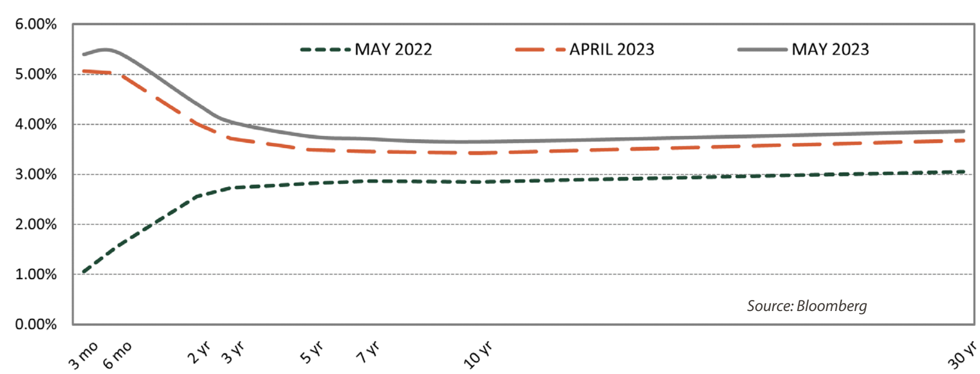
Market Summary

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. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we believe the Federal Reserve is likely near a pause in their rate hiking campaign. If moderate growth continues, we believe the Fed will likely maintain the Federal Funds rate in restrictive territory until inflationary pressures subside.

At the May meeting, the Federal Open Market Committee (FOMC) voted unanimously to raise the target federal funds rate by 0.25% to a range of 5.00 - 5.25%. Notably, the committee omitted a line from its March statement referencing that "some additional policy firming may be appropriate." Instead, the FOMC will determine "the extent to which additional policy firming may be appropriate", implying a potential pause that is data dependent. Fed Chair Powell reiterated the committee's focus on bringing down inflation to their 2% target and indicated that their outlook did not support rate cuts, contrary to the market consensus. The statement also emphasized that the U.S. banking system is "sound and resilient" and acknowledged the tightening of financial conditions. Considering the totality of economic data, the Chandler team continues to believe the Fed is likely near a pause in their rate hiking cycle and will maintain higher rates for some time.

In May, yields increased across the curve as legislation to lift the debt ceiling started to move its way through the US Congress, calming fears in the financial markets. The 2-year Treasury yield increased by 40 basis points to 4.41%, the 5-year Treasury yield increased by 27 basis points to 3.76%, and the 10-year Treasury yield increased by 22 basis points to 3.65%. The inversion between the 2-year Treasury yield and the 10-year Treasury yield increased to -76 basis points at the end of May, compared to -58 basis points at the end of April.

Treasury Yields Increased Across the Curve in May



The Treasury yield curve remains inverted, with the inversion between the 2-year Treasury yield and the 10-year Treasury yield increasing to -76 basis points at the end of May, compared to -58 basis points at the end of April. One year ago, the spread between the 2-year Treasury and the 10-year Treasury yield was +28 basis points. Additionally, the inversion between the 3-month and 10-year Treasuries widened to -175 basis points in May from -163 in April. 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 (▲/▼)	05/31/2023	4/28/2023	Change
3-Month	▲	5.40	5.06	0.35
2-Year	▲	4.41	4.01	0.40
3-Year	▲	4.05	3.72	0.33
5-Year	▲	3.76	3.49	0.27
7-Year	▲	3.71	3.46	0.25
10-Year	▲	3.65	3.43	0.22
30-Year	▲	3.86	3.68	0.19

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 Slightly Wider in May

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.04	0.16	(0.13)
2-year A corporate note	0.56	0.60	(0.04)
5-year A corporate note	0.96	0.87	0.09
5-year Agency note	0.13	0.18	(0.05)

Source: Bloomberg Data as of 05/31/2023

Inflationary Trends Continue to Ease but Remain Above the Federal Reserve's Target

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(74.55) $Bln APR 23	(60.59) $Bln MAR 23	(86.02) $Bln APR 22
Gross Domestic Product	1.30% MAR 23	2.60% DEC 22	(1.60%) MAR 22
Unemployment Rate	3.70% MAY 23	3.40% APR 23	3.60% MAY 22
Prime Rate	8.25% MAY 23	8.00% APR 23	4.00% MAY 22
Refinitiv/CoreCommodity CRB Index	253.85 MAY 23	268.16 APR 23	316.54 MAY 22
Oil (West Texas Int.)	$68.09 MAY 23	$76.78 APR 23	$114.67 MAY 22
Consumer Price Index (y/o/y)	4.00% MAY 23	4.90% APR 23	8.60% MAY 22
Producer Price Index (y/o/y)	2.60% APR 23	3.00% MAR 23	15.70% APR 22
Euro/Dollar	1.07 MAY 23	1.10 APR 23	1.07 MAY 22

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) increased by 0.1% month-over-month and 4.0% year-over-year in May, down from 4.9% in April. The Core CPI, which excludes volatile food and energy components, rose by 0.4% month-over-month and 5.3% year-over-year, decelerating from 5.5% in April. The Personal Consumption Expenditures (PCE) index rose by 4.4% year-over-year in April, up from a 4.2% year-over-year gain in March. Core PCE, the Federal Reserve's preferred inflation gauge, increased by 4.7% year-over-year in April, slightly up from a 4.6% increase in March. Core inflation remains stubbornly elevated above the Fed's 2% target, with service-sector inflation and strong wage growth as headwinds.

Retail Sales

Advance Retail Sales rose by 0.4% month-over-month in April, rebounding from a decline of 0.7% in March. The gains were broad-based and resulted in a year-over-year increase of 1.6% in April, compared to a downwardly revised 2.4% increase in March. The Consumer Confidence Index, as measured by The Conference Board, fell to 102.3 in May, following an upward revision to 103.7 in April. Both current conditions and future expectations declined, indicating higher risks of a future recession.

Labor Market

The latest US jobs report showed mixed signals regarding the state of the labor market in May. The US economy added 339,000 jobs in May, following an upward revision of 41,000 to 294,000 jobs for the month of April. The pace of job growth remains healthy, with the three-month moving average payrolls at 283,000 and the six-month moving average at 302,000. The unemployment rate increased to 3.7% due to a decline in household employment, while the labor force participation rate remained at 62.6% in May. 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 6.7% from the previous month's 6.6%. Average hourly earnings decelerated to a 4.3% year-over-year increase in May, down from a 4.4% increase in March. Job openings in April edged up to 10.1 million, while separations decreased to 5.7 million, indicating continued demand for labor. Although the overall pace of hiring is slowing, the levels remain consistent with a solid labor market.

Housing Starts

Total housing starts rose by 2.2% month-over-month in April to 1,401,000 units from a downwardly revised 1,371,000 in March and were down 22.3% compared to April 2022. Both single-family and multi-family construction increased as the low supply of existing inventory drove higher builder confidence. The 30-year fixed-rate mortgage averaged approximately 6.79% at May month-end according to Freddie Mac, down from a peak of 7.08% in October, but up over 100 basis points from a year ago. According to the Case-Shiller 20-City Home Price Index, housing prices declined -1.15% in March, after rising +0.36% in February, 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.