BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

MARCH 2023

Market Data

World Stock Market Indices
data as of 02/28/2023

	Change (1/31/2022)	%CHG
S&P 500		
3,970.15	-106.45	-2.61%
NASDAQ		
11,455.54	-129.01	-1.11%
DOW JONES		
32,656.70	-1,429.34	-4.19%
FTSE (UK)		
7,876.28	104.58	1.35%
DAX (Germany)		
15,365.14	236.87	1.57%
Hang Seng (Hong Kong)		
19,785.94	-2056.39	-9.41%
Nikkei (Japan)		
27,445.56	118.45	0.43%

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

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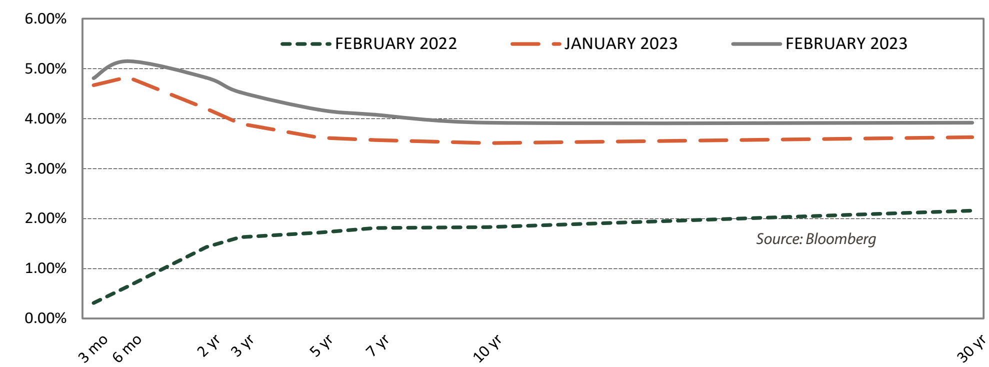
Market Summary

Investors continued to weigh the probabilities of a hard or soft economic landing in the face of continued rate increases by the Federal Reserve. Strength in the labor market has helped sustain economic growth, while inflation remains significantly higher than the Federal Reserve's target. The technology sector remains weak albeit after a strong run up during the pandemic. Geopolitical risks persist as the Russia and Ukraine war continues and tensions between the US and China linger. Domestically, a lack of progress toward a resolution of the debt ceiling continues to pose a risk to financial markets and economic growth. We believe the Fed will continue to raise rates and maintain a higher terminal rate for an extended period until inflation reaches the Fed's target range.

The Federal Reserve (Fed) raised the fed funds target rate by 25 basis points to a range of 4.50 - 4.75% on February 1st. The decision was unanimous, and the statement reflected inflation is easing "somewhat." The sentiment was hawkish and indicated that the extent of "ongoing increases" in the fed funds rate will be data dependent. The next meeting of the Fed's Federal Open Market Committee (FOMC) is on March 22. Elevated levels of inflation and strong employment data are a catalyst toward additional increases to the federal funds rate. Recent market turmoil regarding the failure of Silicon Valley Bank and Signature Bank could likely influence their decision along with inflation and employment data. We believe the FOMC will continue to implement tighter monetary policy at a slower pace and hold rates at restrictive levels for some time until inflationary pressures subside and remain in the Fed's target range.

Bond yields increased in February on the back of higher expectations by market participants of more hikes to the federal funds rates in 2023. The 2-year Treasury yield rose 62 basis points to 4.82%, the 5-year Treasury yield increased 57 basis points to 4.18%, and the 10-year Treasury yield climbed 41 basis points to 3.92%. The inversion between the 2-year Treasury yield and 10-year Treasury yield increased to -90 basis points at February month-end versus -69 basis points at January month-end. The spread was a positive 39 basis points one year ago. The shape of the yield curve indicates that the probability of recession is increasing.

Treasury Yields Increased in February



The yield curve inversion persisted in February, with the spread between the 2-year Treasury yield and the 10-year Treasury yield sitting at roughly -90 basis points. This time last year the spread was +30 basis points, well below the average spread since 2003 of around +125 basis points. An inversion of the yield curve is a leading indicator that recession risk has increased. Yields are higher across the curve on a year-over-year basis. The 3-month T-bill yield is up 453 basis points, the 2-Year Treasury yield is 338 basis points higher, and the 10-Year Treasury yield is up 209 basis points, on a year-over-year basis. The shape of the yield curve indicates that the probability of recession is increasing but recent economic data remains strong and above recessionary levels.

TREASURY YIELDS	Trend (▲/▼)	02/28/2023	01/31/2023	Change
3-Month	▲	4.81	4.67	0.15
2-Year	▲	4.82	4.20	0.62
3-Year	▲	4.53	3.90	0.63
5-Year	▲	4.18	3.62	0.57
7-Year	▲	4.08	3.57	0.51
10-Year	▲	3.92	3.51	0.41
30-Year	▲	3.92	3.63	0.28

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.

5-Year Credit Spreads Widened in February

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.09	0.13	(0.04)
2-year A corporate note	0.34	0.38	(0.04)
5-year A corporate note	0.83	0.79	0.04
5-year Agency note	0.25	0.20	0.05

Source: Bloomberg

Data as of 02/28/2023

Inflation Remains Above the Federal Reserve's Target

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(68.29) $Bln JAN 23	(67.21) $Bln DEC 22	(87.45) $Bln JAN 22
Gross Domestic Product	2.70% DEC 22	3.20% SEP 22	7.00% DEC 21
Unemployment Rate	3.60% FEB 23	3.40% JAN 23	3.80% FEB 22
Prime Rate	7.75% FEB 23	7.50% JAN 23	3.25% FEB 22
Refinitiv/CoreCommodity CRB Index	269.84 FEB 23	278.09 JAN 23	269.07 FEB 22
Oil (West Texas Int.)	$77.05 FEB 23	$78.87 JAN 23	$95.72 FEB 22
Consumer Price Index (y/o/y)	6.00% FEB 23	6.40% JAN 23	7.50% FEB 22
Producer Price Index (y/o/y)	8.70% JAN 23	8.90% DEC 22	12.70% JAN 22
Euro/Dollar	1.06 FEB 23	1.09 JAN 23	1.12 FEB 22

Source: Bloomberg

Economic Roundup

Consumer Prices

Inflations trends continue to subside from recent highs but remain above the Federal Reserve's long term target. The Consumer Price Index (CPI) increased 0.4% month-over-month in February and 6.0% year-over-year. The Core CPI, which excludes volatile food and energy components, rose 0.5% month-over-month and 5.5% year-over-year. The report showed shelter costs, which are the largest services component and make up about a third of the overall CPI index, rose 0.8% last month. The Personal Consumption Expenditures (PCE) index accelerated more than expected in January, increasing 5.4% year-over-year versus an upwardly revised 5.3% year-over-year gain in December. Core PCE increased 4.7% in January versus an upwardly revised 4.6% year-over-year gain in December. Inflationary trends remain well above the Fed's 2% target and support further rate hikes and tighter conditions for an extended period.

Retail Sales

Advance Retail Sales rose 3.0% in January after dropping 1.1% in December. Retail sales rose 6.4% year-over-year in January, up from December's downwardly revised 5.9% year-over-year gain. Growth was broad based, with strong gains in autos, restaurants, and a surprising surge in department store sales. The Conference Board's Consumer Confidence Index decreased more than expected to 102.9 in February from a downwardly revised 106.0 in January. While the index for current conditions rose slightly, future expectations declined materially as inflation continues to weigh on household budgets.

Labor Market

The U.S. economy added 311,000 jobs in February, continuing to surpass market expectations of 225,000, on the heels of a very strong January jobs report of 504,000 jobs. Trends in employment remain strong, with the three-month moving average payrolls at 351,000 and the six-month moving average at 336,000. There were broad gains in employment, led by roles in the private sector with leisure and hospitality employment growth remaining solid. The unemployment rate rose to 3.6% due to more workers entering the labor force as the participation rate increased to 62.5% from 62.4% in January, the highest level since March 2020. 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 6.8% from the prior month at 6.6%. Average hourly earnings rose 4.6% year-over-year in February from a 4.4% increase in January. Job Openings decreased to 10.8 million. Overall, the February employment report demonstrates a strong demand for labor and supports the case for the Fed to continue raising the federal funds rate at a slower pace.

Housing Starts

Total housing starts fell 4.5% month-over-month in January to 1,309,000 units and were down 21.4% compared to January 2022. Starts for both single-family and multi-family homes declined as mortgage rates rose. The 30-year fixed rate mortgage increased to an average of 6.34% according to Freddie Mac, down from a peak of over 7% in October, but up from the 5.95% low in January. According to the Case-Shiller 20-City Home Price Index, the year-over-year increase continued its declining rate of gain to +4.65% in December from +6.8% in November, clearly displaying the impact of higher mortgage rates year-over-year, which has reduced demand for homebuying as affordability has declined. This is the lowest rate of annual appreciation since July 2020, just prior to the pandemic housing boom.

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.