CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

NOVEMBER 2023

Market Data

World Stock Market Indices
data as of 10/31/2023

	Change (09/29/2023)	%CHG
S&P 500 **4,193.80**	(94.25)	(2.20%)
NASDAQ **12,851.24**	(368.08)	(2.78%)
DOW JONES **33,052.87**	(454.63)	(1.36%)
FTSE (UK) **7,321.72**	(286.36)	(3.76%)
DAX (Germany) **14,810.34**	(576.24)	(3.75%)
Hang Seng (Hong Kong) **17,112.48**	(697.18)	(3.91%)
Nikkei (Japan) **30,858.85**	(998.77)	(3.14%)

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

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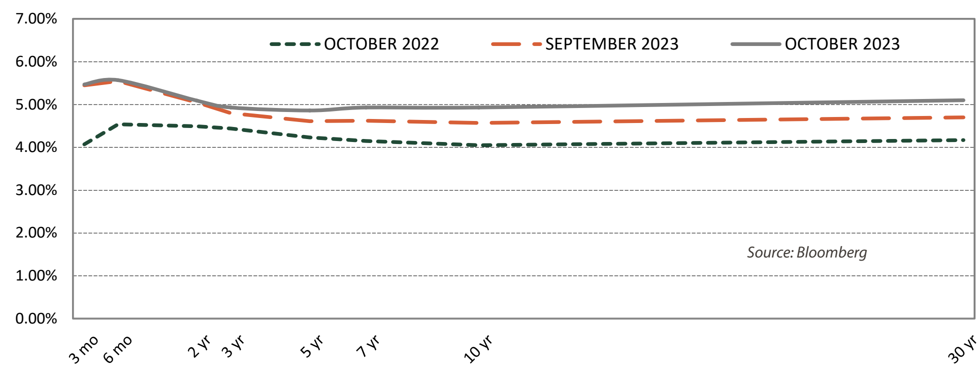
Market Summary

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 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.

The anticipation of the US Treasury's announcement of the quarterly refunding amount played a pivotal role in driving up interest rates in October. The upward trend in interest rates was particularly pronounced in longer maturity securities, with the 2-year Treasury yield rising by 4 basis points to 5.09%, the 5-year Treasury yield increasing by 24 basis points to 4.86%, and the 10-year Treasury yield climbing by 36 basis points to 4.93%. Recent market activity underscores the complex interplay of fiscal and monetary policies on the general level of interest rates. Market participants are likely to closely monitor any announcements by policymakers regarding the future direction of both fiscal and monetary policy as we approach the end of the year.

Treasury Yields Rose Across the Curve in October



Bond yields rose across the yield curve in October as market participants awaited the outcome of the November 1st meeting of the Federal Reserve's Federal Open Market Committee (FOMC) and additional supply from the upcoming quarterly refunding by the US Treasury. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -16 basis points at the end of October, from -47 basis points at the end of September. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -44 basis points. The inversion between 3-month and 10-year Treasuries narrowed to -54 basis points at the end of October from -88 basis points at the end of September. The shape of the yield curve indicates that the probability of a recession persists but has yet to materialize in the economic data.

TREASURY YIELDS	Trend (▲/▼)	10/31/2023	09/29/2023	Change
3-Month	▲	5.47	5.45	0.02
2-Year	▲	5.09	5.05	0.04
3-Year	▲	4.93	4.80	0.13
5-Year	▲	4.86	4.61	0.24
7-Year	▲	4.93	4.62	0.32
10-Year	▲	4.93	4.57	0.36
30-Year	▲	5.10	4.70	0.39

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 Widened in October

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.09	0.05	0.04
2-year A corporate note	0.49	0.41	0.08
5-year A corporate note	0.77	0.72	0.05
5-year Agency note	0.11	0.09	0.02

Source: Bloomberg

Data as of 10/31/2023

Recent Inflation Data Continue to Ease

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(61.54) $Bln SEP 23	(58.66) $Bln AUG 23	(71.73) $Bln SEP 22
Gross Domestic Product	4.90% SEP 23	2.10% JUN 23	2.70% SEP 22
Unemployment Rate	3.90% OCT 23	3.80% SEP 23	3.70% OCT 22
Prime Rate	8.50% OCT 23	8.50% SEP 23	6.25% OCT 22
Refinitiv/CoreCommodity CRB Index	281.15 OCT 23	284.53 SEP 23	274.13 OCT 22
Oil (West Texas Int.)	$81.02 OCT 23	$90.79 SEP 23	$86.53 OCT 22
Consumer Price Index (y/o/y)	3.20% OCT 23	3.70% SEP 23	7.70% OCT 22
Producer Price Index (y/o/y)	2.30% SEP 23	2.10% AUG 23	11.60% SEP 22
Euro/Dollar	1.06 OCT 23	1.06 SEP 23	0.99 OCT 22

Source: Bloomberg

Economic Roundup

Consumer Prices

In October, U.S. inflation data continued to show encouraging indications of moderating inflation trends, as the Consumer Price Index (CPI) remained unchanged from the September reading. The Core CPI (excluding food and energy costs), which increased by 0.2% compared to September, was slightly below market expectations. Overall, inflation has decreased significantly from last year's 40-year high. The Bureau of Labor Statistics reported increases in rent, personal-care products, and health insurance were offset by declines in airfares and used-car prices. The moderation in shelter prices, comprising a substantial part of the CPI index, is seen as an important factor for the Federal Reserve to reach its 2% inflation target. Excluding housing and energy, services prices climbed 0.2% from September and 3.7% from a year ago, the lowest in nearly two years. Overall, the data suggests moderating inflationary pressures that are likely to influence future policy decisions by policymakers at the Federal Reserve.

Retail Sales

Retail Sales rose 0.7% in September after an upward revision to 0.8% in August, exceeding the consensus forecast. Control Group Sales, which are used to calculate gross domestic product and exclude food services, auto dealers, building materials stores and gasoline stations, rebounded 0.6% and reflected broad increases across sectors. On a year-over-year basis, Retail Sales growth accelerated 3.8% in September versus an upwardly revised 2.9% gain in August. The Conference Board's Consumer Confidence Index dropped to 102.6 in October from an upwardly revised 104.3 in September, primarily due to inflation concerns and geopolitical developments. 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 150,000 jobs in October, versus consensus expectations of 180,000, and the last two months were revised downward by 101,000 jobs. The largest gains came from education and health services, while the United Auto Workers strike contributed to the softer results for the month. The trajectory of job creation is moderating, with the three-month moving average payrolls at 204,000 and the six-month moving average at 206,000. The unemployment rate ticked up 0.1% to 3.9%, and the labor participation rate fell slightly to 62.7%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons rose to 7.2% from 7.0% last month. Average hourly earnings declined to 4.1% year-over-year in October from 4.3% in September. Employment remains strong by historical standards, but data are trending toward a less robust labor market outlook.

Housing Starts

Housing Starts recovered 7% in September to an annual rate of 1.358 million units. Starts were up 17.6% for multi-family units and 3.2% for single-family. Total starts of new homes are down 7.2% year-over-year. According to Freddie Mac, average 30-year fixed rate mortgage rates were 7.72% as of November 2nd. According to the Case-Shiller 20-City Home Price Index, housing prices rose 2.2% year-over-year in August, improving from a 0.2% gain in July. 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.