BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

OCTOBER 2023

Market Data

World Stock Market Indices
data as of 09/29/2023

	Change (08/31/2023)	%CHG
S&P 500		
4,288.05	(219.61)	(4.87%)
NASDAQ		
13,219.32	(815.65)	(5.81%)
DOW JONES		
33,507.50	(1,214.41)	(3.50%)
FTSE (UK)		
7,608.08	168.95	2.27%
DAX (Germany)		
15,386.58	(560.50)	(3.51%)
Hang Seng (Hong Kong)		
17,809.66	(572.40)	(3.11%)
Nikkei (Japan)		
31,857.62	(761.72)	(2.34%)

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

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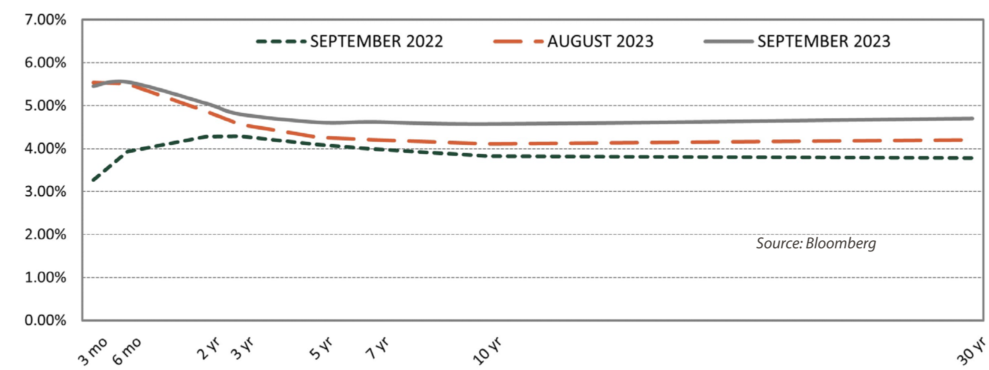
Market Summary

Recent economic data continues to suggest positive but below trend growth this year. 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.

As anticipated at the September meeting, the Federal Open Market Committee voted unanimously to maintain the target Federal Funds at the range of 5.25 - 5.50%. The Fed's Summary of Economic Projections (SEP) also revealed expectations of higher economic growth, reduced unemployment, and a gradual easing of inflation compared to earlier forecasts. The Fed is continuing to focus on achieving price stability and bringing inflation down toward their 2% policy objective, while leaving the option open for the possibility of additional rate hikes in the future if needed.

Bond yields rose in September, with the long end of the curve bearing the brunt of the increase. During the month, the 2-year Treasury yield increased by 18 basis points, ending at 5.04%, while the 5-year Treasury yield increased by 36 basis points to 4.61%. Additionally, the 10-year Treasury yield saw a notable uptick of 46 basis points, reaching 4.57%. The yield curve remains inverted but has become less so over the past few months as market participants adjust to the Fed's new narrative of higher for longer. It is worth noting that the yield curve has remained inverted since July 2022, signaling potential economic concerns or uncertainties.

Treasury Yields Rose Across the Curve in September



Bond yields rose across the yield curve in September as the Federal Reserve and market participants adopted the narrative of higher for longer related to interest rates. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -48 basis points at September month-end, from -76 basis points at August month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -45 basis points. The inversion between 3-month and 10-year Treasuries narrowed to -88 basis points in September from -134 basis points in August. The shape of the yield curve indicates that the probability of recession persists.

TREASURY YIELDS	Trend (▲/▼)	09/29/2023	08/31/2023	Change
3-Month	-	5.45	5.45	0.00
2-Year	▲	5.05	4.87	0.18
3-Year	▲	4.80	4.56	0.25
5-Year	▲	4.61	4.26	0.36
7-Year	▲	4.62	4.21	0.41
10-Year	▲	4.57	4.11	0.46
30-Year	▲	4.70	4.21	0.49

Source: Bloomberg

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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 Little Changed in September

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 09/29/2023

General Inflationary Trends Continue to Ease

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(58.30) $Bln AUG 23	(64.72) $Bln JUL 23	(67.32) $Bln AUG 22
Gross Domestic Product	2.10% JUN 23	2.20% MAR 23	(0.60%) JUN 22
Unemployment Rate	3.80% SEP 23	3.80% AUG 23	3.50% SEP 22
Prime Rate	8.50% SEP 23	8.50% AUG 23	6.25% SEP 22
Refinitiv/CoreCommodity CRB Index	284.53 SEP 23	281.91 AUG 23	268.29 SEP 22
Oil (West Texas Int.)	$90.79 SEP 23	$83.63 AUG 23	$79.49 SEP 22
Consumer Price Index (y/o/y)	3.70% SEP 23	3.70% AUG 23	8.20% SEP 22
Producer Price Index (y/o/y)	2.50% SEP 23	2.10% AUG 23	11.60% SEP 22
Euro/Dollar	1.06 SEP 23	1.08 AUG 23	0.98 SEP 22

Source: Bloomberg

Economic Roundup

Consumer Prices

Inflation data continues to provide encouraging indications of moderating inflation trends. The Consumer Price Index (CPI) witnessed a monthly increase of 0.6% in August, while the annual rate of the CPI rose to 3.7% due to an unfavorable year-over-year comparison. The core Consumer Price Index, excluding volatile food and energy costs, showed a modest 0.3% rise, reaching a year-over-year rate of 4.3%, down from 4.7% in July. The Personal Consumption Expenditures (PCE) index rose as expected by 3.3% year-over-year in July, up from a 3.0% year-over-year gain in June. Core PCE, the Federal Reserve's preferred inflation gauge, increased by 4.2% year-over-year in July, up from a 4.1% increase in June. Personal spending remained robust, but the personal savings rate decreased to 3.5% from 4.3% in July. Inflation remains above the Fed's 2% target.

Retail Sales

Retail Sales rose 0.6% in August, exceeding the consensus forecast. Sales of motor vehicles and higher gasoline prices drove greater than expected gains. However, Control Group Sales, which are used to calculate gross domestic product and exclude food services, auto dealers, building materials stores and gasoline stations, rose just 0.1%, the smallest advance in five months. On a year-over-year basis, retail sales growth decelerated to a 2.5% gain in August versus a downwardly revised 2.6% gain in July. The Conference Board's Consumer Confidence Index dropped more than expected to 103.0 in September from an upwardly revised 108.7 in August, primarily due to significantly weaker future expectations for employment. 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 336,000 jobs in September, exceeding consensus expectations of 170,000, and the last two months were revised upward by 119,000 jobs. The largest gains came from leisure and hospitality, bringing restaurant and bar employment back in-line with pre-pandemic levels. The pace of job growth has picked up recently, with the three-month moving average payrolls at 266,000 and the six-month moving average at 234,000. The unemployment rate was unchanged at 3.8%, and the labor participation rate was consistent with last month's report at 62.8%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons declined slightly to 7.0% from the prior month at 7.1%. Average hourly earnings declined to 4.2% year-over-year in September from 4.3% in August. Employment remains strong by historical standards.

Housing Starts

Starts of new homes slowed -11.3% to 1.283 million units at a seasonally adjusted annual rate in August after a downward revision to 1.447 million units in July. The slower starts came from both a 4.3% decline in single-family home starts and 26.3% decline in multi-family homes, continuing the reversal of strong multi-family homebuilding in the second half of 2022 and early 2023. Total starts of new homes are down 14.8% year-over-year. According to Freddie Mac, average 30-year fixed rate mortgage rates increased to 7.35% as of September 28th. Rising mortgage rates are prompting homebuilders to offer incentives to attract buyers and has caused homebuilder sentiment to reach a five-month low. According to the Case-Shiller 20-City Home Price Index, housing prices rose 0.1% year-over-year in July, improving from a 1.2% decline in June. 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.