CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

MAY 2024

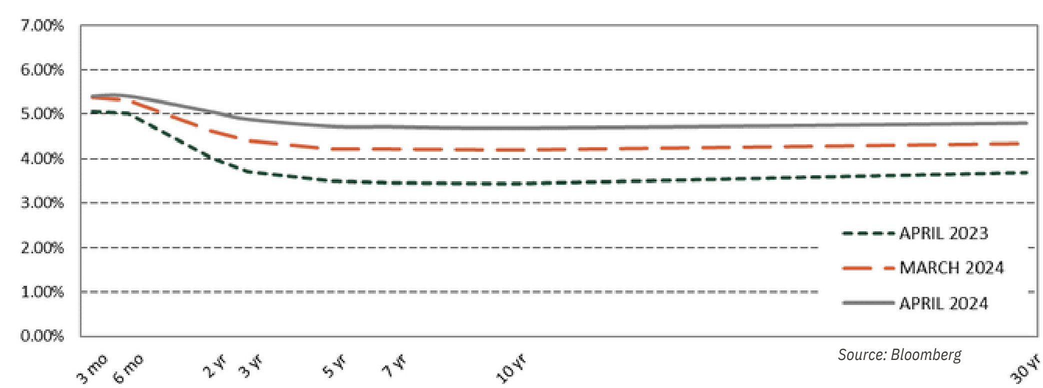
Market Summary

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 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 loosen monetary policy in 2024.

As expected at the March meeting, the Federal Open Market Committee voted unanimously to leave the Federal Funds rate unchanged at a target range of 5.25-5.50%. The March Summary of Economic Projections (SEP) showed a stronger real GDP growth outlook and higher core inflation projections for 2024, based on resilient labor market and consumer data. The median projection for the Federal Funds rate by year-end remained the same at 4.625%, implying three 0.25% cuts. We continue to believe the FOMC will loosen monetary policy in mid-2024 as inflation and economic growth continue to moderate.

US Treasury yields increased in April as inflationary pressures persisted and investors priced in fewer rate cuts by the Federal Reserve in 2024. In light of April's hotter inflation data, the 2-year Treasury yield rose 41 basis points to 5.04%, the 5-year Treasury surged 50 basis points to 4.72%, and the 10-year Treasury yield increased 48 basis points to 4.68%. Interest rates continued to be volatile during the month as market participants awaited the results of the upcoming meeting of the Federal Reserve's Federal Open Market Committee on May 1.

TREASURY YIELDS INCREASED IN APRIL



The inversion between the 2-year Treasury yield and the 10-year Treasury yield narrowed to -36 basis points at the end of April, compared to -42 basis points at the end of March. The average historical spread (since 2003) is about +130 basis points. It is worth noting that the inversion of the yield curve is likely to persist until the Federal Reserve begins to cut rates, although the timing of the first cut remains uncertain. Looking ahead, moderation in labor market growth and the Fed's cautious stance on monetary policy underscore the delicate balance between economic expansion and inflation management. Despite ongoing concerns, the market's response suggests cautious optimism about the economy's resilience and the potential for the Federal Reserve to cut rates later in 2024.

TREASURY YIELDS	Trend (▲/▼)	4/30/2024	3/28/2024	Change
3-Month	▲	5.40	5.37	0.03
2-Year	▲	5.04	4.62	0.41
3-Year	▲	4.88	4.41	0.47
5-Year	▲	4.72	4.21	0.50
7-Year	▲	4.71	4.21	0.50
10-Year	▲	4.68	4.20	0.48
30-Year	▲	4.79	4.34	0.44

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 04/30/2024

	Change (3/28/2024)	%CHG
S&P 500		
5,035.69	(218.66)	(4.16%)
NASDAQ		
15,657.82	(721.64)	(4.41%)
DOW JONES		
37,815.92	(1,991.45)	(5.00%)
FTSE (UK)		
8,144.13	191.51	2.41%
DAX (Germany)		
17,932.17	(560.32)	(3.03%)
Hang Seng (Hong Kong)		
17,763.03	1,221.61	7.39%
Nikkei (Japan)		
38,405.66	(1,762.41)	(4.39%)

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

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BOND MARKET REVIEW

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 Tightened in April

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	5.35	5.37	(0.02)
2-year A corporate note	0.26	0.36	(0.10)
5-year A corporate note	0.53	0.58	(0.05)
5-year Agency note	0.05	0.06	(0.01)

Source: Bloomberg

Data as of 04/30/2024

Crude Oil Prices Eased in April

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(69.37) $B In MAR 24	(69.46) $B In FEB 24	(59.58) $B In MAR 23
Gross Domestic Product	1.60% MAR 24	3.40% DEC 23	2.20% MAR 23
Unemployment Rate	3.90% APR 24	3.80% MAR 24	3.40% APR 23
Prime Rate	8.50% APR 24	8.50% MAR 24	8.00% APR 23
Refinitiv/CoreCommodity CRB Index	291.46 APR 24	290.29 MAR 24	268.16 APR 23
Oil (West Texas Int.)	$81.93 APR 24	$83.17 MAR 24	$76.75 APR 23
Consumer Price Index (y/o/y)	3.40% APR 24	3.50% MAR 24	4.90% APR 23
Producer Price Index (y/o/y)	2.10% APR 24	1.90% MAR 24	2.60% APR 23
Euro/Dollar	1.07 APR 24	1.08 MAR 24	1.10 APR 23

Source: Bloomberg.

Economic Roundup

Consumer Prices

The Bureau of Labor Statistics (BLS) reported that the Consumer Price Index (CPI), a measure of underlying US inflation, cooled in April for the first time in six months, increasing 0.3% from the prior month and 3.4% from a year ago. The Core CPI, which excludes volatile food and energy components, climbed 0.3% from the prior month and 3.6% from a year ago. Shelter and gasoline accounted for over 70% of the increase, with shelter prices climbing 0.4% for a third month and owners' equivalent rent, the largest individual component of the CPI, rising at a similar pace. The increase in CPI was also driven by services like car insurance and medical care. The Personal Consumption Expenditures (PCE) Index headline inflation increased 0.3% month-over-month and rose 2.7% year-over-year in March. Core PCE, the Federal Reserve's preferred inflation gauge, remained at 2.8% year-over-year, still above the Fed's 2% inflation target. Much of the lingering inflation has been driven by rents and demand for services, especially in transportation, as spring break travel surged in March. Personal spending jumped 0.8% over the month, an increase of 0.5% after adjusting for inflation. While inflation trends continue to moderate, the path to the Fed's 2% inflation target remains uneven.

Retail Sales

March Retail Sales rose above expectations at +0.7% after a sizable upward revision to +0.9% in February. On a year-over-year basis, Retail Sales growth increased by 4.0% for March. Sales were supported by higher gas prices and higher volume sales during a busy travel period for spring break at schools, as well as strength from non-store retailers. The Conference Board's Consumer Confidence Index declined to 97.0 in April, its lowest level since mid-2022, after a sizable downward revision to 103.1 in March. The drop reflected concerns about job availability, income prospects, and overall economic conditions. 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

In April, the US labor market showed signs of moderation. The U.S. economy added 175,000 jobs in April, and the prior two months were revised down by 22,000. Sectors such as leisure and hospitality, construction, and government experienced slowdowns in job growth, while healthcare, transportation, and retail trade saw more substantial gains. While April's data may indicate potential cooling, the three-month moving average and six-month moving average payrolls both remain at a healthy 242,000. The unemployment rate edged up to 3.9% in April. The labor participation rate was unchanged at 62.7% but remained below the pre-pandemic level of 63.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part-time for economic reasons, ticked up to 7.4%. Average hourly earnings rose 3.9% year-over-year in April, down from 4.1% last month. Employment remains strong by historical standards, but April data may indicate potential moderation in labor market growth.

Housing Starts

Housing Starts plunged 14.7% month-over-month in March to 1.321 million units, due to declining confidence among homebuilders as mortgage rates topped 7%. Starts for multi-family homes dropped 21.7%, while single-family homes fell 12.4% for the month. According to Freddie Mac, 30-year fixed mortgage rates averaged 7.2% as of May 2nd. According to the Case-Shiller 20-City Home Price Index, housing prices rose 7.3% year-over-year in February, accelerating from a 6.6% year-over-year gain in January. 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.

 Data source: Bloomberg, Federal Reserve, and the US Department of Labor. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation, or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment. Fixed income investments are subject to interest rate, credit, and market risk. Interest rate risk: The value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low-rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market, in general, could decline due to economic conditions, especially during periods of rising interest rates. The S&P Corelogic Case-Shiller home price index tracks monthly changes in the value of residential real estate in 20 metropolitan regions across the nation.