BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

JANUARY 2024

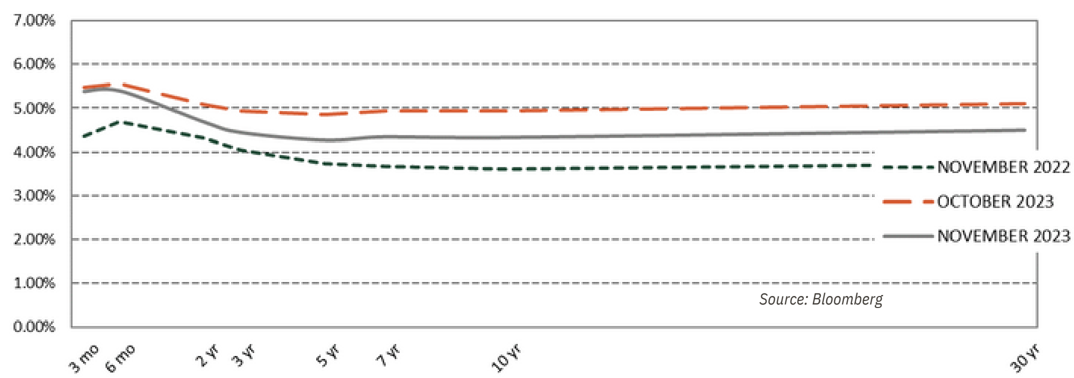
Market Summary

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 December meeting, the Federal Open Market Committee voted unanimously to leave the Federal Funds rate unchanged at a target range of 5.25 - 5.50%. Fed Chair Powell signaled that the federal funds rate is likely at or near its peak. The new Summary of Economic Projections reflected Core PCE inflation reaching the target 2% level in 2026 without a significant increase in unemployment. We believe the FOMC will loosen monetary policy in mid-2024 as inflation and economic growth continue to moderate.

Treasury yields declined across the yield curve in December as market participants priced in higher probabilities of Federal Reserve rate cuts in 2024. After reaching their peak in 2023, interest rates followed a more accommodative stance by the Federal Reserve later in the year, resulting in yield declines across the board and signaling a less restrictive monetary policy for 2024. By the end of December, the 2-year Treasury yield dropped 43 basis points to 4.25%, the 5-year Treasury yield fell 42 basis points to 3.85%, and the 10-year Treasury yield decreased by 45 basis points to 3.88%. Recent market activity emphasizes the significant influence of the Federal Reserve on interest rates. While many anticipate multiple rate cuts in 2024, some investors may have grown overly optimistic about the timing and extent of these cuts. Market participants will closely scrutinize Federal Reserve Chair Jerome Powell and the Federal Open Market Committee's policy announcement on January 31st, 2024, to ascertain the future path of monetary policy.

Treasury Yields Fell Across the Curve in December



At the end of December, the 2-year Treasury yield had declined by 18 basis points to 4.25%, while the 10-Year Treasury yield remained stable at 3.88% compared to the previous year, and the spread between the 2-year and 10-year Treasury yields widened to -37 basis points, up from -35 basis points at the close of November. For reference, the average historical spread since 2003 has been approximately +130 basis points. Furthermore, the inversion between 3-month and 10-year Treasuries deepened to -146 basis points in December, compared to -107 basis points in November. It's worth noting that the inversion of the yield curve is likely to persist until the Federal Reserve begins to cut rates, a probability that has increased in recent months.

TREASURY YIELDS	Trend (▲/▼)	12/29/2023	11/30/2023	Change
3-Month	▼	5.34	5.39	-0.05
2-Year	▼	4.25	4.68	-0.43
3-Year	▼	4.01	4.44	-0.43
5-Year	▼	3.85	4.27	-0.42
7-Year	▼	3.88	4.34	-0.46
10-Year	▼	3.88	4.33	-0.45
30-Year	▼	4.03	4.50	-0.47

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 12/29/2023

	Change (11/30/2023)	%CHG
S&P 500		
4,769.83	202.03	4.42%
NASDAQ		
15,011.35	785.13	5.52%
DOW JONES		
37,689.54	1,738.65	4.84%
FTSE (UK)		
7,733.24	279.49	3.75%
DAX (Germany)		
16,751.64	536.21	3.31%
Hang Seng (Hong Kong)		
17,047.39	4.51	0.03%
Nikkei (Japan)		
33,484.17	(22.72)	(0.07%)

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

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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 Tightened in December

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	5.44	5.53	(0.09)
2-year A corporate note	4.71	5.15	(0.44)
5-year A corporate note	4.44	4.98	(0.54)
5-year Agency note	3.96	4.43	(0.47)

Source: Bloomberg

Data as of 11/30/2023

Crude Oil Prices Eased

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(63.21) $B In NOV 23	(64.26) $B In OCT 23	(63.82) $B In NOV 22
Gross Domestic Product	4.90% SEP 23	2.10% JUN 23	2.70% SEP 22
Unemployment Rate	3.70% DEC 23	3.80% NOV 23	3.50% DEC 22
Prime Rate	8.50% DEC 23	8.50% NOV 23	7.50% DEC 23
Refinitiv/CoreCommodity CRB Index	263.83 DEC 23	273.64 NOV 23	276.01 DEC 22
Oil (West Texas Int.)	$71.65 DEC 23	$75.96 NOV 23	$78.40 DEC 22
Consumer Price Index (y/o/y)	3.40% DEC 23	3.70% NOV 23	6.50% DEC 22
Producer Price Index (y/o/y)	(0.20%) DEC 23	2.10% NOV 23	8.90% DEC 22
Euro/Dollar	1.10 DEC 23	1.09 NOV 23	1.07 DEC 22

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) increased by 0.2% month-over-month and by 3.4% year-over-year in December, marking a slight uptick from the 3.1% year-over-year rate observed in November. The Core CPI, which excludes volatile food and energy components, rose by 0.3% month-over-month and by 3.9% year-over-year, showing a slight decrease compared to the November figure of 4.0%. In November, the Personal Consumption Expenditures (PCE) Index declined more than expected, with headline inflation dropping by 0.1% month-over-month and increasing by 2.6% year-over-year, down from the 2.9% increase seen in October. Core PCE, the Federal Reserve's preferred inflation gauge, saw a 0.1% month-over-month increase and a deceleration in year-over-year growth to 3.2% in November, down from the 3.4% year-over-year increase reported in October. While the inflation trend is moderating, it's important to note that inflation continues to exceed the Fed's 2% target.

Retail Sales

Retail Sales rose 0.3% in November after a downwards revision to -0.2% in October, exceeding the -0.1% consensus forecast. On a year-over-year basis, Retail Sales growth accelerated to 4.1% in November from 2.2% in October buoyed by non-store retailers up 10.6%, as well as food services and drinking places up 11.3%. The Conference Board's Consumer Confidence Index surged to 110.7 in December from 101.0 in November, far surpassing consensus expectations. Positive ratings of job availability and increased confidence in personal income prospects contributed to the substantial increase. 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 216,000 jobs in December, exceeding consensus expectations of 175,000, and the last two months were revised down by 71,000 jobs. Leading sectors included government, leisure and hospitality, and healthcare. The trajectory of job creation is gradually moderating, with the three-month moving average payrolls at 165,000 and the six-month moving average at 193,000. The unemployment rate remained unchanged at 3.7%, and the labor participation rate decreased to 62.5% from 62.8%, falling well 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 rose to 7.1% from 7.0% last month. Average hourly earnings rose 4.1% year-over-year in December, increasing from a 4.0% gain last month. Employment remains strong by historical standards, but data are trending toward a less robust labor market outlook.

Housing Starts

Housing Starts increased sharply month-over-month in November by 14.8% to an annual rate of 1.560 million units. Starts were up 18% for single-family units and up 6.9% for multi-family. Total starts of new homes are up 9.3% year-over-year. The pick-up in growth can be partially attributed to lower costs of construction materials and homebuilders adjusting projects to accommodate the higher interest rate environment. According to Freddie Mac, average 30-year fixed rate mortgage rates declined to 6.49% as of December 21st, paralleling the drop in the 10-year US Treasury yield. According to the Case-Shiller 20-City Home Price Index, housing prices rose 4.9% year-over-year in October, accelerating from a 3.9% year-over-year gain in September. 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.

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