CHANDLER ASSET MANAGEMENT

April 2008

Bond Market Review

A monthly review of fixed income markets

What's Inside

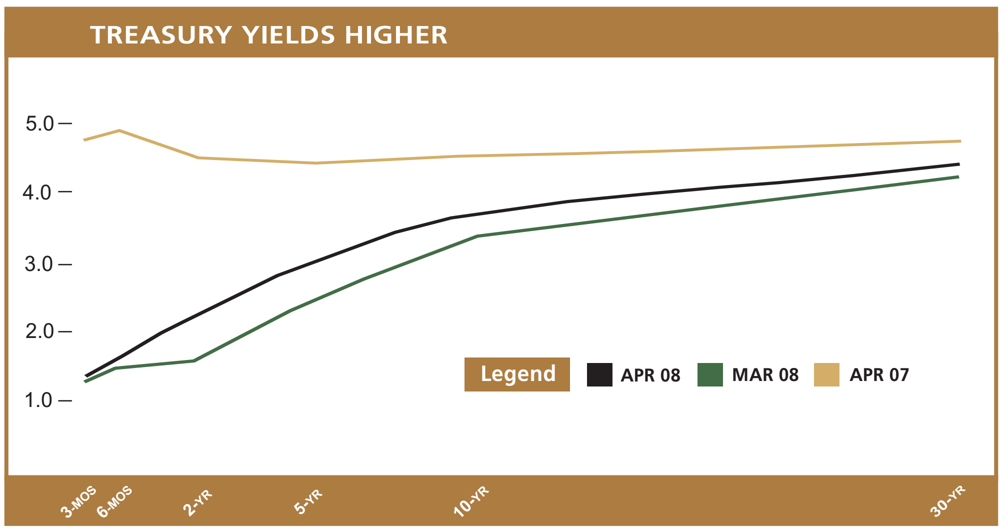
Since 1988, Chandler Asset Management has specialized in the management of portfolios of high quality, fixed income securities. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our client's portfolios.

Market Summary

Bond yields were much higher in April. The market's recent activity stems from some easing of fear among financial market participants. Nevertheless, there is still concern that difficulties in the housing and mortgage market have resulted in slower economic growth. The global market volatility has lessened, but market participants remain extremely sensitive to signs of housing, mortgage, and credit weakness.

The economy displayed slower growth in April. The Non-Farm Payroll number showed a decrease of 20,000 jobs, but the unemployment rate declined to 5.0%. Even though the data was slightly better than expected, this was the fourth straight report that demonstrated negative job growth and increased fears that the economy has entered a recessionary period. Housing data remains weak. Inflation readings have moved slightly higher, raising concerns that the recent decline in inflation may be ending. Going forward, market participants will continue to look for signs as to whether or not weakness in the housing, mortgage and credit markets is reflected in the broader economy.

The FOMC lowered the federal funds rate and the discount rate 25 basis points at their meeting on April 30. The federal funds rate currently stands at 2.00%. The next scheduled FOMC meeting is on June 25th.



Treasury yields were much higher in April as market participants attempted to ascertain the consequences of financial market volatility, a housing-led economic slowdown and Federal Reserve interest rate cuts. The yield curve retained its normal shape.

YIELDS	4/30/08	3/31/08	Change
3 Month	1.37	1.30	0.07
2 Year	2.26	1.61	0.65
5 Year	3.03	2.46	0.57
10 Year	3.76	3.43	0.33
30 Year	4.50	4.30	0.20

YIELD SPREADS	4/30/08	3/31/08	Change
5yr - 2yr T-Note	0.77	0.85	(0.08)
10yr - 2yr T-Note	1.50	1.82	(0.32)

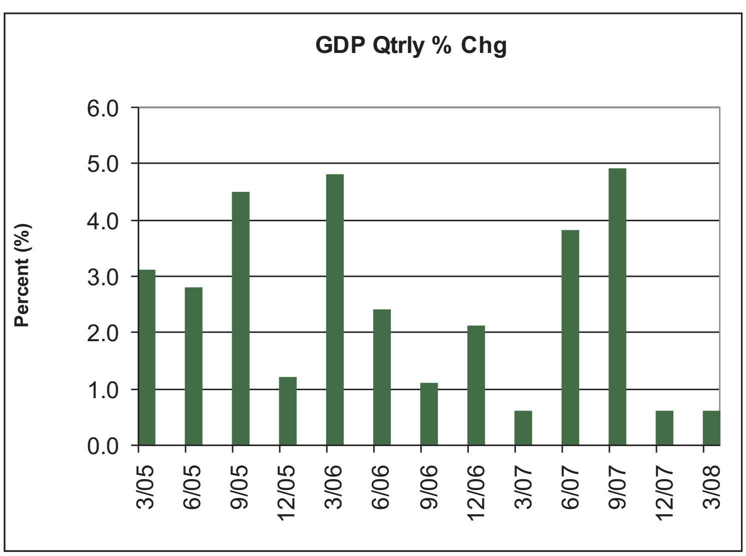
Source: Bloomberg

What is a Recession?

With the US economy experiencing a slowdown, this seemed like an opportune time to examine the definition and characteristics of a recession. There are two popular, but incorrect, definitions that are often used by the media. The first, tongue in cheek definition, is that a recession is when your neighbor is out of work. (A really bad recession, or a depression, is when you, yourself, are out of work!) The second definition, often stated as fact, is that a recession consists of two consecutive quarters of negative gross domestic product (GDP) growth. This definition, while commonly used, is inaccurate.

Recessions are officially identified by the National Bureau of Economic Research (NBER). The NBER analyzes available economic data and then determines the starting and ending dates for a recession. The NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough. Between trough and peak, the economy is in an expansion. Expansion is the normal state of the economy; most recessions are brief and they have been rare in recent decades.

With this definition in mind, let's take a look at recent trends in some of the economic indicators that the NBER identified. The first and broadest measure of economic output is GDP. The trend here has not been good. While Gross Domestic Product readings have not turned negative, recent growth has been anemic. The past two quarters each registered growth of only 0.6%. Another broad-based measure of economic performance is personal income. While GDP measures economic output, personal income measures the rewards that accrue to American citizens from their employment activities. The trend in personal income has been poor, with readings declining for more than a year.



Consumer activity represents approximately 70% of the total economy. For this reason, economic indicators that measure the strength of the consumer are extremely important. One of the best measures of future consumer activity is the non-farm payroll employment reading. Non-farm payrolls measures the number of new jobs created in the economy in a given month. Traditionally, a period of three or more consecutive months of job losses has coincided with a recessionary period. Currently, the economy has lost jobs for four consecutive months, a very negative sign for the state of the economy. The retail sales index is another excellent measure of consumer activity. During the most recent economic expansion, retail sales were extremely strong. Therefore, this indicator is being closely examined for signs of a slowdown. Recent retail sales readings indicate that Americans have indeed cut back on their purchases, particularly if we take out the effects of higher gasoline and food prices.

Manufacturing activity has been declining in importance over the past several decades and currently represents less than 15% of the US economy. Nevertheless, trends in manufacturing are still important in measuring the overall direction of economic growth. One good measure of manufacturing output, industrial production, has been declining for the past several months. However, many readings of the manufacturing sector remain relatively resilient, and anecdotal evidence also indicates that this remains a relatively strong sector of the economy.

Many economists believe that current economic indicators, taken as a whole, are consistent with the early stages of a mild recession. Whether we have indeed entered a recession will ultimately be decided, in retrospect, by the National Bureau of Economic Research. In the end though, recession is just a word. For all practical purposes, there is very little difference between a period of slow economic growth and a recessionary period of economic contraction. For investors, the key is to adhere to an investment plan regardless of media headlines or economic cycles.

1) From the National Bureau of Economic Research; "The NBER's Business-Cycle Dating Procedure"; October 2003

Brian Perry, Vice President, Portfolio Specialist

Economic Roundup

Consumer Prices

During March, the economy's headline inflation reading showed a 4.0% year-over-year rate, the same as in February. The year-over-year Core CPI (CPI less food and energy) rose at a 2.4% rate, higher than February's 2.3%. Although inflation readings remain somewhat elevated, the Fed continues to expect inflation to moderate as growth slows in the months ahead.

Retail Sales

During March, Retail Sales declined as the year-over-year growth decreased to 2.0% from a revised growth rate of 2.9% in February. Over the last several months, consumers have slowed their spending in reaction to higher energy prices, the housing market contraction, and a general tightening of credit standards.

Housing starts

Single-family housing starts declined by 5.7% in March, to a 0.68 million annual pace. This follows February's reading of 0.72 million. The latest decline was the lowest level since March 1991. Recent data has supported the financial market concern that the decline in the housing market has not yet run its course.

Labor Markets

The April non-farm payroll employment report showed a decrease of 20,000 jobs and the unemployment rate decreased to 5.0%. This month's report was slightly better than expected but still represented the fourth consecutive month of negative job growth. April's employment report validates the recent financial market concern about a slowing economy impacting the labor markets.

Credit Spreads Mixed

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	1.39	1.30	0.09
2-year AA corporate note	1.19	1.37	(0.18)
5-year AA corporate note	1.55	1.62	(0.07)
5-year Agency note	0.59	0.83	(0.24)

Source: Bloomberg *Data as of 4/30/08*

Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(62.3) $Bln FEB 08	(58.9) $Bln JAN 08	(58.2) $Bln FEB 07
GDP	0.6% MAR 08	0.6% DEC 07	0.6% MAR 07
Unemployment Rate	5.00% APR 08	5.10% MAR 08	4.50% APR 07
Prime Rate	5.00% APR 08	5.25% MAR 08	8.25% APR 07
CRB Index	409.27 APR 08	386.89 MAR 08	312.71 APR 07
Oil (West Texas Int.)	$113.46 APR 08	$101.58 MAR 08	$65.71 APR 07
Consumer Price Index (y/o/y)	4.0% MAR 08	4.0% FEB 08	2.8% MAR 07
Producer Price Index (y/o/y)	6.9% MAR 08	6.4% FEB 08	3.1% MAR 07
Dollar / EURO	1.56 APR 08	1.58 MAR 08	1.36 APR 07

Source: Bloomberg *Data as of 4/30/08*

CHANDLER ASSET MANAGEMENT ■ 9255 Towne Centre Drive, Ste 350 ■ San Diego, CA 92121 ■ 800 317 4747 ■ chandlerasset.com