

# BOND MARKET REVIEW

A MONTHLY REVIEW OF  
FIXED INCOME MARKETS



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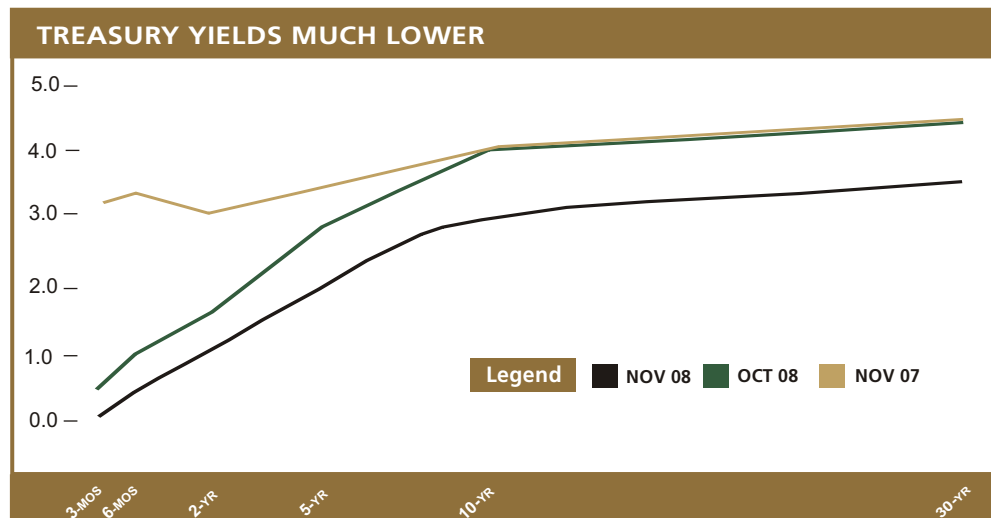
Since 1988, Chandler Asset Management has specialized in the management of portfolios of high quality, fixed income securities. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our client's portfolios.

## MARKET SUMMARY

Treasury bond yields were much lower in November as market volatility and the credit crisis continued. Credit availability remained impaired and companies and banks had difficulty accessing credit. Global stock markets continued their decline. The National Bureau of Economic Research (NBER) also officially declared that the US has been in a recession since December 2007.

Recent economic releases are reflecting the impact of financial market turmoil and economic data in November was much weaker, as the economy lost jobs for the eleventh straight month. The October Non-Farm Payroll number showed a decrease of 533,000 jobs and the unemployment rate increased to 6.7%. This was the largest monthly job loss since 1974. Retail sales declined as consumers sharply cut back their spending. Housing continued to decline. Forecasts for 4th quarter GDP call for a very sharp contraction in economic output.

The next scheduled FOMC meeting is on December 16th.



Treasury yields were lower in November as economic growth slowed sharply and market participants sought safety in Treasuries due to global market volatility. The yield curve retained its normal shape.

YIELDS	11/30/08	10/31/08	Change
3 Month	0.02	0.44	(0.42)
2 Year	1.00	1.56	(0.56)
5 Year	1.93	2.82	(0.89)
10 Year	2.96	3.97	(1.01)
30 Year	3.48	4.37	(0.89)

YIELD SPREADS	11/30/08	10/31/08	Change
5yr - 2yr T-Note	0.93	1.26	(0.33)
10yr - 2yr T-Note	1.96	2.41	(0.45)

Source: Bloomberg

## ECONOMIC ROUNDUP

### CONSUMER PRICES

In October, the CPI increased by 3.7% on a year-over-year basis, compared to September's 4.9% reading. The year-over-year Core CPI (CPI less food and energy) rose at a 2.2% y-o-y rate. Inflation has moderated in recent months as lower energy prices and slowing economic growth have resulted in a slower pace of price increases.

### HOUSING STARTS

Single-family housing starts declined by 12.9% in September, to a 544,000 annual pace, the lowest since January 1991. This follows August's reading of 618,000. The fall in housing starts is supporting the financial market concern that the decline in the housing market has not yet run its course.

### RETAIL SALES

In October, Retail Sales declined at a year-over-year rate of -4.1%. Recently, consumers have sharply slowed their spending in reaction to financial market turmoil, a general tightening of credit standards, higher energy prices, and the housing market contraction. Retail spending is expected to remain weak in the months ahead.

### LABOR MARKETS

The November non-farm payroll employment report showed a decrease of 533,000 jobs and the unemployment rate increased to 6.7%. The previous two months' data were also revised significantly lower. The payroll data reflected the eleventh consecutive month of negative job growth. November's employment report indicates that the slowing economy and financial crisis are significantly impacting the labor markets.

### CREDIT SPREADS

SECTOR	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	2.11	2.29	(0.18)
2-year AA corporate note	2.26	2.17	0.09
5-year AA corporate note	2.45	2.33	0.12
5-year Agency note	1.23	1.67	(0.44)

Source: Bloomberg

Data as of 11/30/08

### ECONOMIC DATA

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(56.5) \$Bln SEP 08	(59.1) \$Bln AUG 08	(55.5) \$Bln SEP 07
GDP	(0.5%) SEPT 08	2.8% JUN 08	4.8% SEPT 07
Unemployment Rate	6.7% NOV 08	6.5% OCT 08	4.7% NOV 07
Prime Rate	4.00% NOV 08	4.00% OCT 08	7.50% NOV 07
CRB Index	242.2 NOV 08	268.4 OCT 08	339.8 NOV 07
Oil (West Texas Int.)	\$54.43 NOV 08	\$67.81 OCT 08	\$88.71 NOV 07
Consumer Price Index (y/o/y)	3.7% OCT 08	4.9% SEP 08	3.5% OCT 07
Producer Price Index (y/o/y)	5.2% OCT 08	8.7% SEP 08	6.1% OCT 07
Dollar / EURO	1.27 NOV 08	1.27 NOV 08	1.46 NOV 07

Source: Bloomberg

Data as of 11/30/08

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# SEASON'S GREETINGS

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The staff at Chandler Asset Management  
would like to wish you a Happy Holiday  
season and a healthy and Happy New Year!



Ned

Kay

Marty

Jed

Marco

Brian

Jayce

Mia

Nicole

Mike

Jeanie

Eric

Gary