

BOND MARKET REVIEW

A MONTHLY REVIEW OF
FIXED INCOME MARKETS



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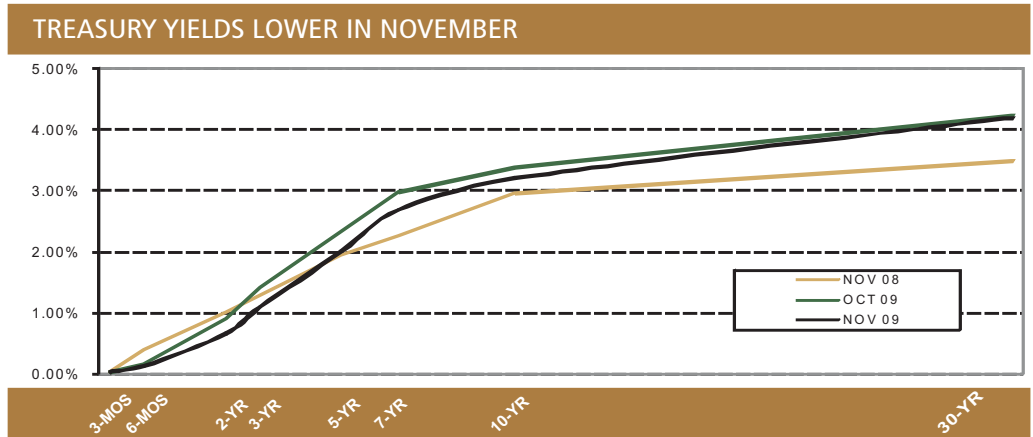
Since 1988, Chandler Asset Management has specialized in the management of portfolios of high quality, fixed income securities. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our client's portfolios.

MARKET SUMMARY

In a positive sign that the economy is recovering, the November nonfarm payrolls report showed a much better than expected decline of only 11,000 jobs, and the unemployment rate improved to 10.0%. This report has led to hope that the labor market is improving; however, it is important to note that monthly reports can be volatile. Nevertheless, the trend in the jobs market is improving, albeit at very low levels. Going forward, the unemployment rate is likely to be the single most important indicator of the strength of the economic recovery, and the timing of eventual Federal Reserve rate increases.

The FOMC remains on hold and most prognosticators forecast no increase in the fed funds rate during 2010. However, the Fed has already been removing some of the temporary liquidity measures put in place during the height of the credit crisis. As financial market conditions and the economy continue to improve, look for the Fed to continue removing excess liquidity in the marketplace. Although not as visible as an increase in the fed funds rate, these policy actions serve as a de facto tightening of monetary policy, and will help restrain inflation.

Market participants remain convinced that inflation will not increase significantly and may even decline in 2010, an outlook reinforced by the most recent CPI report (-0.2% YOY; +1.7% Core YOY.) In response to subdued inflation, as well as a desire to increase Treasury holdings into the year-end, market participants continue to buy Treasuries, both at auction and in the open market. These purchases resulted in a sharp decline in Treasury yields in November, with the 5-year Treasury yield declining 32 basis points.



Treasury yields declined in November as market participants sought the safety of Treasuries heading into year-end and considered the possibility of a zero percent Fed Funds rate for the near future. The belly of the yield curve (2 years through 7 years) outperformed as investors sought higher yields in longer-term securities.

YIELDS	11/30/09	10/30/09	Change
3 Month	0.03	0.03	0.00
2 Year	0.66	0.90	(0.24)
3 Year	1.10	1.41	(0.31)
5 Year	2.00	2.32	(0.32)
7 Year	2.69	2.98	(0.29)
10 Year	3.20	3.39	(0.19)
30 Year	4.20	4.23	(0.03)
YIELD SPREADS	11/30/09	10/30/09	Change
5yr - 2yr T-Note	1.34	1.42	(0.08)
10yr - 2yr T-Note	2.54	2.49	0.05

Source: Bloomberg

CONSUMER PRICES

In October, the CPI showed that consumer prices decreased 0.2% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 1.7% YOY rate. Despite hopes for an economic recovery and an increased money supply, many economists believe that inflation will remain moderate over the next 12 months.

RETAIL SALES

In October, Retail Sales declined 1.7% on a year-over-year basis, a significant improvement over the previous several months' readings. Consumers have increased their savings rate and slowed their spending in reaction to a general tightening of credit standards, job losses, and the housing market contraction.

LABOR MARKETS

The November nonfarm payroll employment report showed a much better than expected decrease of only 11,000 jobs while the unemployment rate declined to 10.0%. This employment report was much better than expected and reflected a trend towards an improving job market. Nevertheless, the jobs market is expected to remain relatively weak and it appears unlikely that the unemployment rate will meaningfully decline in the near future. The trend in the unemployment rate is likely to be the key to the strength and durability of the economic recovery.

HOUSING STARTS

Single-family housing starts declined 6.8% in October to 476,000, the lowest level since May. Recent data indicates a housing market that has stabilized, but remains weak.

CREDIT SPREADS WIDER

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.21	0.18	0.03
2-year AA corporate note	0.67	0.75	(0.08)
5-year AA corporate note	0.87	0.95	(0.08)
5-year Agency note	0.35	0.34	0.01

Source: Bloomberg

Data as of 11/30/09

MIXED ECONOMIC DATA

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(36.47) \$Bln SEP 09	(30.85) \$Bln AUG 09	(60.14) \$Bln SEP 08
GDP	(2.80%) SEP 09	(0.70%) JUN 09	(2.70%) SEP 08
Unemployment Rate	10.00% NOV 09	10.2% OCT 09	6.80% NOV 08
Prime Rate	3.25% NOV 09	3.25% OCT 09	4.00% NOV 08
CRB Index	277.40 NOV 09	270.38 OCT 09	242.20 NOV 08
Oil (West Texas Int.)	\$77.28 NOV 09	\$77.00 OCT 09	\$54.43 NOV 08
Consumer Price Index (y/o/y)	(0.20%) OCT 09	(1.30%) SEP 09	3.7% OCT 08
Producer Price Index (y/o/y)	(1.90%) OCT 09	(4.80%) SEP 09	5.2% OCT 08
Dollar / EURO	1.50 NOV 09	1.47 OCT 09	1.27 NOV 08

Source: Bloomberg

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SEASON'S GREETINGS

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

Brian

Shelly

Eric

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