BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

June 2024

Market Data

World Stock Market Indices
data as of 05/31/2024

		Change (4/30/2024)	%CHG
S&P 500	**5,277.51**	241.82	4.80%
NASDAQ	**16,735.02**	1,077.20	6.88%
DOW JONES	**38,686.32**	870.40	2.30%
FTSE (UK)	**8,275.38**	131.25	1.61%
DAX (Germany)	**18,497.94**	565.77	3.16%
Hang Seng (Hong Kong)	**18,079.61**	316.58	1.78%
Nikkei (Japan)	**38,487.90**	82.24	0.21%

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

CHANDLER ASSET MANAGEMENT

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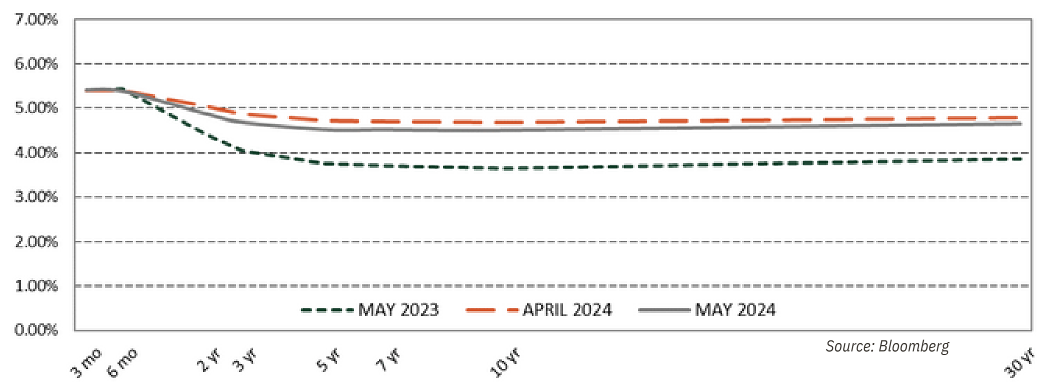
Market Summary

Recent economic data suggests positive but slower growth this year, primarily driven by consumer spending. Despite consumer resilience, declining savings, increasing credit card debt, higher delinquencies, and a moderating labor market pose potential headwinds to future economic growth. While inflationary trends are subsiding, core levels remain above the Fed's target. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we anticipate that the economy will gradually soften and that the Fed will loosen monetary policy in 2024.

As expected at the May meeting, the Federal Open Market Committee voted unanimously to leave the federal funds rate unchanged at a target range of 5.25-5.50%, while acknowledging the recent lack of progress in curbing inflation to its 2% target. Fed Chair Jerome Powell also indicated that the next move in interest rates is unlikely to be an increase, providing some relief to financial markets. The Fed announced a slower reduction in bond holdings on its balance sheet, with the monthly cap on Treasuries reduced to $25 billion from $60 billion, while maintaining the mortgage roll-off at $35 billion. These policy updates reflect the Fed's ongoing efforts to balance economic growth with the objective of returning inflation to its 2% target.

Early May inflation data increased the uncertainty surrounding the Federal Reserve's (Fed's) rate policy for the remainder of 2024. Later in the month, minutes from the Federal Open Market Committee (FOMC) meeting revealed that some members might lean towards maintaining a hawkish stance on rates. By the end of the month, new data indicated a potential economic slowdown and progress toward achieving the Fed's 2% inflation target. In response to the moderating economic data, the US Treasury yield curve shifted lower in May. The 2-year Treasury yield decreased by 16 basis points to 4.87%, the 5-year Treasury yield dropped by 21 basis points to 4.51%, and the 10-year Treasury yield fell by 18 basis points to 4.50%. These shifts highlight the Fed's challenging task of balancing rate adjustments while monitoring evolving economic signals and trends.

TREASURY YIELDS FELL IN MAY



At the end of May, the 2-year Treasury yield was 47 basis points higher year-over-year, and the 10-year Treasury yield was 85 basis points higher. The inversion between the 2-year and 10-year Treasury yields remained relatively stable at -37 basis points, compared to -36 basis points at the end of April. The average historical spread (since 2003) is about +130 basis points. The inversion between the 3-month and 10-year Treasuries widened to -91 basis points in May from -72 basis points in April. This yield curve inversion is likely to persist until the Federal Reserve begins to cut rates, although the timing of the first cut remains uncertain. Moving toward the Federal Reserve's 2% inflation target will help the Fed gain confidence for a potential cut in the federal funds rate later in 2024. Investors are closely monitoring these developments, expecting that improved economic indicators will lead to favorable monetary policy adjustments.

TREASURY YIELDS	Trend (▲/▼)	5/31/2024	4/30/2024	Change
3-Month	▲	5.41	5.40	0.01
2-Year	▼	4.87	5.04	-0.17
3-Year	▼	4.68	4.88	-0.20
5-Year	▼	4.51	4.72	-0.21
7-Year	▼	4.51	4.71	-0.20
10-Year	▼	4.50	4.68	-0.18
30-Year	▼	4.65	4.79	-0.14

Source: Bloomberg

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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 May

CREDIT SPREADS	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 5.35	(%) 5.35	0.00
2-year A corporate note	0.28	0.26	0.02
5-year A corporate note	0.53	0.53	0.00
5-year Agency note	0.07	0.05	0.02

Source: Bloomberg

Data as of 05/31/2024

Crude Oil Prices Fell in May

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(74.56) $B In APR 24	(68.58) $B In MAR 24	(72.46) $B In APR 23
Gross Domestic Product	1.30% MAR 24	1.30% MAR 24	2.20% MAR 23
Unemployment Rate	4.00% MAY 24	3.90% APR 24	3.70% MAY 23
Prime Rate	8.50% MAY 24	8.50% APR 24	8.25% MAY 23
Refinitiv/CoreCommodity CRB Index	290.16 MAY 24	291.46 APR 24	253.85 MAY 23
Oil (West Texas Int.)	$76.99 MAY 24	$81.93 APR 24	$68.09 MAY 23
Consumer Price Index (y/o/y)	3.30% MAY 24	3.40% APR 24	4.00% MAY 23
Producer Price Index (y/o/y)	2.40% MAY 24	2.00% APR 24	(0.90)% MAY 23
Euro/Dollar	1.08 MAY 24	1.07 APR 24	1.07 MAY 23

Source: Bloomberg.

Economic Roundup

Consumer Prices

In May, the Consumer Price Index (CPI) remained unchanged month-over-month and rose 3.3% year-over-year, reflecting broad-based cost reductions, according to the Bureau of Labor Statistics. The Core CPI, which excludes volatile food and energy components, was up 0.2% month-over-month and 3.4% year-over-year in May, down from 3.6% in April and lower than expected, reported Reuters. The Personal Consumption Expenditures (PCE) Index headline inflation increased 0.3% month-over-month and rose 2.7% year-over-year in March, according to the Bureau of Economic Analysis. Core PCE, the Federal Reserve's preferred inflation gauge, remained at 2.8% year-over-year, still above the Fed's 2% inflation target, as noted by the Federal Reserve. Much of the lingering inflation has been driven by shelter costs and demand for services.

Retail Sales

April retail sales came in below expectations at 0.0%, versus a downwardly revised +0.6% in March. On a year-over-year basis, retail sales growth slowed to +3.0% in April. The timing of the Easter holiday at the very end of March and school spring vacations caused a shift in some spending patterns for seasonal merchandise. The Conference Board's Consumer Confidence Index rose notably to 102.0 in May after a modest upward revision to 97.5 in April. Consumers were more optimistic about the labor market and business conditions. While consumers have been resilient, dwindling excess savings, rising credit card balances, and delinquencies pose potential headwinds to future economic growth.

Labor Market

The U.S. economy added 272,000 jobs in May, far surpassing consensus expectations of 180,000. The gains were broad-based, with health care, government, and leisure and hospitality posting the largest increases. The three-month and six-month moving average payrolls remain healthy at 249,000 and 255,000, respectively. The unemployment rate edged up to 4.0% in May, and the labor participation rate declined to 62.5%, remaining 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, remained steady at 7.4%. Average hourly earnings rose 4.1% year-over-year in May, up from 3.9% in April. Although the labor market has shown signs of softening recently, the May headline reading possibly received a boost from the spring hiring season.

Housing Starts

April Housing Starts increased 5.7% month-over-month in April to 1.360 million units, due to 31.4% increase in the starts of multi-unit housing, offset by -0.4% decline in single family housing starts. This equates to a -0.6% decline year-over-year. The Freddie Mac average rate for a 30-year fixed mortgage rose to 7.04% in April. According to the Case-Shiller 20-City Home Price Index, housing prices rose 7.4% in March, inching up from a 7.3% year-over-year gain in February. 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.