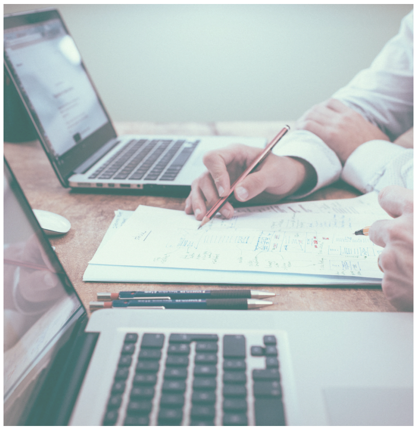
BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

October 2024



Market Data

World Stock Market Indices
data as of 09/30/2024

	Change (8/30/2024)	%CHG
S&P 500 **5,762.48**	114.08	2.02%
NASDAQ **18,189.17**	475.55	1.68%
DOW JONES **42,330.15**	767.07	1.85%
FTSE (UK) **8,236.95**	(139.68)	-1.67%
DAX (Germany) **19,324.93**	418.01	2.21%
Hang Seng (Hong Kong) **21,133.68**	3,144.61	17.48%
Nikkei (Japan) **37,919.55**	(728.20)	-1.88%

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

CHANDLER ASSET MANAGEMENT

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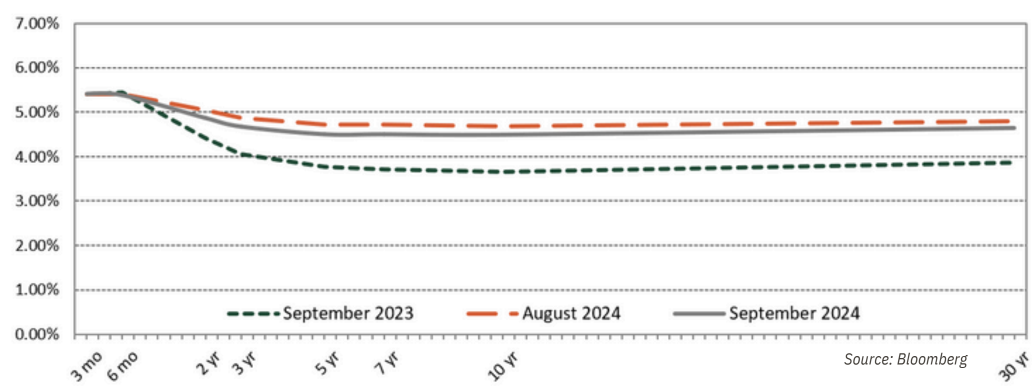
Market Summary

Recent economic data suggests positive but slower growth this year fueled by consumer spending. While the consumer has been resilient, declining savings rates, growing credit card debt, higher delinquencies, and a moderating labor market pose potential headwinds to future economic growth. Inflationary trends are subsiding, but core levels remain above the Fed's target. The labor market is showing signs of cooling, reflecting an improved balance between supply and demand for workers. Given the cumulative effects of restrictive monetary policy and tighter financial conditions, we believe the economy will gradually soften and the Fed will continue to lower rates at a measured pace through this year with the ability to move more aggressively should the employment data warrant.

The Federal Open Market Committee (FOMC) delivered the first rate cut of the easing cycle with a 50 basis point cut at the September meeting. Although a reduction in the Fed Funds Rate was widely anticipated, the magnitude was somewhat of a surprise, as market participants were split between whether the FOMC would cut by 25 basis points or 50 basis points. Chair Jerome Powell reiterated previous statements acknowledging that monetary policy has shifted into a more balanced approach addressing price stability and full employment in tandem. The Fed released the quarterly Summary of Economic Projections (SEP) which now forecasts a substantially lower median Fed Funds Rate expectation among Fed Governors in 2025 due to lower inflation expectations and a higher projected unemployment rate. We believe the Fed will continue to lower rates at a measured pace through this year with the ability to move more aggressively should the employment data warrant.

The US Treasury yield curve steepened in September following the 50 basis points rate cut by the FOMC mid-month. The 2-year Treasury yield fell 28 basis points to 3.64%, the 5-year Treasury dropped 15 basis points to 3.56%, and the 10-year Treasury yield declined 12 basis points to 3.78%. The 2-year and 10-year Treasury yield points on the curve began to normalize to +14 basis points at September month-end versus -2 basis points at August month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -47 basis points. The inversion between 3-month and 10-year Treasuries ended the month of September at -85 basis points.

TREASURY YIELDS TRENDED LOWER IN SEPTEMBER



Treasury yields declined across the yield curve in September after the first interest rate reduction by the Federal Reserve since the onset of the Covid-19 pandemic in March of 2020. The rate cut led to lower yields, along with decreased bond market volatility through September month-end. While the 50 basis point rate reduction was larger than many market participants had anticipated, Chair Jerome Powell substantiated the magnitude by citing economic data indicating inflation trending lower and a higher projected unemployment rate. The Fed Chair acknowledged continued strength in the labor market, however stated that the FOMC believed easing monetary policy prior to the material labor market weakening was warranted.

TREASURY YIELDS	Trend (▲/▼)	9/30/24	8/30/24	Change
3-Month	▼	4.63	5.12	-0.49
2-Year	▼	3.64	3.92	-0.28
3-Year	▼	3.55	3.78	-0.23
5-Year	▼	3.56	3.70	-0.14
7-Year	▼	3.65	3.80	-0.15
10-Year	▼	3.78	3.90	-0.12
30-Year	▼	4.12	4.20	-0.08

Source: Bloomberg

BOND MARKET REVIEW

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 Fell in September

CREDIT SPREADS	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 4.82	(%) 5.24	(0.42)
2-year A corporate note	0.42	0.48	(0.06)
5-year A corporate note	0.58	0.65	(0.07)
5-year Agency note	0.07	0.11	(0.04)

Source: Bloomberg

Data as of 09/30/2024

Crude Oil prices Fell in August

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(70.43) $B In AUG. 31	(78.92) $B In JULY 31	(59.63) $B In AUG. 31
Gross Domestic Product	3.00% JUNE 30	3.00% JUNE 30	2.40% JUNE 30
Unemployment Rate	4.10% SEP. 30	4.20% AUG. 31	3.80% SEP. 30
Prime Rate	8.00% SEP. 30	8.50% AUG. 30	8.50% SEP. 23
Refinitiv/CoreCommodity CRB Index	284.94 SEP. 30	277.03 AUG. 30	284.53 SEP. 23
Oil (West Texas Int.)	$68.17 SEP. 30	$73.55 AUG. 30	$90.79 SEP. 23
Consumer Price Index (y/o/y)	2.40% SEP. 31	2.50% AUG. 31	3.70% SEP. 30
Producer Price Index (y/o/y)	(0.70)% SEP. 31	0.20% AUG. 31	2.30% SEP. 30
Euro/Dollar	1.11 SEP. 30	1.10 AUG. 30	1.06 SEP. 23

Source: Bloomberg.

Economic Roundup

Consumer Prices

In September, the Consumer Price Index (CPI) rose 0.2% month-over-month and 2.4% year-over-year, down from 2.5% in August, but slightly higher than expected. The Core CPI, which excludes volatile food and energy components, rose by 0.3% month-over-month and 3.3% year-over-year, also exceeding consensus forecasts. The Personal Consumption Expenditures (PCE) Index rose 0.1% from the previous month and 2.2% year-over-year in August. The Core PCE deflator (the Fed's preferred gauge) increased 0.1% month-over-month and 2.7% over the past year, still above the Fed's 2% inflation target. Much of the lingering inflation has been driven by shelter costs and demand for services, but recent data provide confirmation that inflation is moderating.

Retail Sales

Retail Sales showed an increase of 0.4% month-over-month, while the Retail Sales Control Group surprised with a 0.7% month-over-month increase over the 0.3% consensus estimate. The Control Group is a subset of the broader Retail Sales data which excludes certain categories that are more acutely affected by seasonality or volatility, giving a more stable assessment of sales. Control Group sales data is factored into the government's calculation for Gross Domestic Product (GDP). The recent upward trend in the value of retail purchases indicates continued economic growth for the start of the fourth quarter of 2024 as the resilient consumer drives growth. However, the increase in sales for items at general merchandise retailers could also indicate the price per item has risen. Apparel, grocery stores, and miscellaneous store retailers led the advance, while gas station sales fell reflecting lower gas prices. The single largest category in Retail Sales, new and used vehicle and parts dealers, remained unchanged in September.

Labor Market

The U.S. economy added 254,000 jobs in September, well above expectations of 150,000. The three-month moving average and six-month moving average payrolls continued to trend weaker to 186,000 and 167,000 respectively. The unemployment rate declined to 4.1% in September, and the labor participation rate remained at 62.7%, 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, declined to 7.7% from 7.9%. Average hourly earnings rose 4.0% year-over-year in September. U.S. labor market data from September surprised to the upside, with strong job growth and a sharper-than-expected drop in unemployment, suggesting the economy may be more resilient than anticipated. The Federal Reserve's view is that there has been "substantial" progress towards better balance in the labor market between demand and supply for workers.

Housing Starts

Housing Starts were down -0.5% month-over-month after an increase of 7.8% in August. The decline can be attributed to a drop in multi-family housing projects which declined -9.4% month-over-month marking the second consecutive monthly decline. Single-family starts mitigated the decline as they increased 2.7% month-over-month in September. According to the Case-Shiller 20-City Home Price Index, housing prices rose 5.9% year-over-year in July, decelerating from 6.5% reported in the previous month. Although the trend is gradually improving, 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.