BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

September 2024

Market Data

World Stock Market Indices
data as of 08/30/2024

	Change (7/31/2024)	%CHG
S&P 500 **5,648.40**	126.10	2.28%
NASDAQ **17,713.62**	114.22	0.65%
DOW JONES **41,563.08**	720.29	1.76%
FTSE (UK) **8,376.63**	8.65	0.10%
DAX (Germany) **18,906.92**	398.27	2.15%
Hang Seng (Hong Kong) **17,989.07**	644.47	3.72%
Nikkei (Japan) **38,647.75**	(454.07)	-1.16%

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

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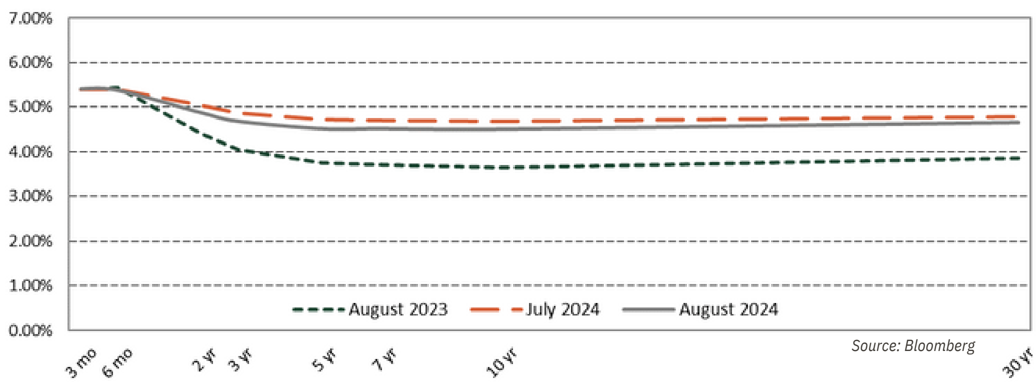
Market Summary

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 begin lowering interest rates at upcoming meetings with pace and magnitude determined by the incoming data.

At the July meeting, the Federal Open Market Committee (FOMC) voted unanimously to leave the federal funds rate unchanged at a target range of 5.25-5.50%. Although this was the eighth straight meeting the committee left the overnight rate unchanged, they noted that risks to achieving their employment and inflation goals are moving "into better balance". In addition, the FOMC adjusted their evaluation of the labor market pointing out that job gains have moderated. The market is now pricing in more aggressive easing in the coming months.

The US Treasury yield curve shifted significantly lower in August as economic data continued to moderate. The 2-year Treasury yield fell 34 basis points to 3.92%, the 5-year Treasury dropped 21 basis points to 3.70%, and the 10-year Treasury yield declined 13 basis points to 3.90%. The inversion between the 2-year Treasury yield and 10-year Treasury yield narrowed to -2 basis points at August month-end versus -23 basis points at July month-end. The spread between the 2-year Treasury and 10-year Treasury yield one year ago was -75 basis points. The inversion between 3-month and 10-year Treasuries ended the month of August at -121 basis points.

TREASURY YIELDS FELL IN AUGUST



In August, the downward trend in yields observed in the bond market over the past three months continued. Treasury yields declined across the yield curve as the first interest rate cut in the federal funds rate by the Federal Reserve in 2024 is widely anticipated to be announced at the September FOMC meeting. Chair Jerome Powell's remarks following the 2024 Economic Policy Symposium in Jackson Hole, Wyoming were perceived as particularly dovish as he chose not to counter market expectations for near-term rate cuts. This sentiment is supported by continued cooling of inflation and normalization of the labor market, which has brought inflationary pressures and labor market risks into closer alignment. Investors are now factoring in a 0.25-0.50% rate cut at the September FOMC meeting, with further reductions expected through early 2025. Despite the prevailing dovishness in the market, Chair Powell reiterated that rate cuts will depend on incoming economic data, stating, "the timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks."

TREASURY YIELDS	Trend (▲/▼)	8/30/24	7/31/24	Change
3-Month	▼	5.12	5.29	-0.17
2-Year	▼	3.92	4.26	-0.34
3-Year	▼	3.78	4.06	-0.28
5-Year	▼	3.70	3.91	-0.21
7-Year	▼	3.80	3.95	-0.15
10-Year	▼	3.90	4.03	-0.13
30-Year	▼	4.20	4.30	-0.11

Source: Bloomberg

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 where unchanged in August

CREDIT SPREADS	Spread to Treasuries	One Month Ago	Change
3-month top rated commercial paper	(%) 5.24	(%) 5.34	(0.10)
2-year A corporate note	0.48	0.46	0.02
5-year A corporate note	0.65	0.66	(0.01)
5-year Agency note	0.11	0.09	0.02

Source: Bloomberg

Data as of 08/30/2024

Crude Oil prices Fell in August

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(78.79) $B In JULY 31	(73.02) $B In JUNE 30	(64.61) $B In JULY 31
Gross Domestic Product	3.00% JUNE 30	3.00% JUNE 30	2.10% JUNE 30
Unemployment Rate	4.20% AUG. 31	4.30% JULY 31	3.80% AUG. 31
Prime Rate	8.50% AUG. 30	8.50% JULY 31	8.50% AUG. 31
Refinitiv/CoreCommodity CRB Index	277.03 AUG. 30	278.12 JULY 31	281.91 AUG. 31
Oil (West Texas Int.)	$73.55 AUG. 30	$77.91 JULY 31	$83.63 AUG. 31
Consumer Price Index (y/o/y)	2.50% AUG. 31	2.90% JULY 31	3.70% AUG. 31
Producer Price Index (y/o/y)	0.20% AUG. 31	1.80% JULY 31	2.10% AUG. 31
Euro/Dollar	1.10 AUG. 30	1.08 JULY 31	1.08 AUG. 31

Source: Bloomberg.

Economic Roundup

Consumer Prices

In August, the Consumer Price Index (CPI) rose 0.2% month-over-month and 2.5% year-over-year, down from 2.9% in July, largely due to a drop in gasoline prices. The Core CPI, which excludes volatile food and energy components, rose more than expected in August by 0.3% month-over-month and 3.2% year-over-year. The Personal Consumption Expenditures (PCE) Index rose 0.2% from the previous month and 2.5% year-over-year in July. The Core PCE deflator (the Fed's preferred gauge) increased 0.2% month-over-month and 2.6% 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 grew more than expected month-over-month in July at 1.0% after a downwardly revised -0.2% in June. On a year-over-year basis, Retail Sales growth increased to 2.7% in July from 2.0% in June. Auto sales bounced back sharply after a cyberattack on dealerships caused a sizable decline in June. Control-group sales, which are used to calculate gross domestic product, rose 0.3% in July, down from June's 0.9% increase. The Conference Board's Consumer Confidence Index rose to 103.3 in August, up from July's upwardly revised 101.9 reading. Both the present situation index and expectations index improved. While the consumer has been resilient, consumption has begun to moderate in the face of declining savings rates, growing credit card debt, higher delinquencies, and a moderating labor market.

Labor Market

The U.S. economy added 142,000 jobs in August, below expectations of 165,000. The three-month moving average and six-month moving average payrolls continued to trend weaker to 116,000 and 163,000 respectively. The unemployment rate increased to 4.2% in August, 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, rose to 7.9% from 7.8%. Average hourly earnings rose 3.8% year-over-year in August. The labor markets continue to show signs of cooling, in line with the Federal Reserve's view that there has been "substantial" progress toward better balance in the labor market between demand and supply for workers.

Housing Starts

Housing starts were down 6.8% month-over-month in July to 1.238 million units, with the decline attributable to weak single-family home starts. Total starts were down 16.0% year-over-year. The Freddie Mac average rate for a 30-year fixed mortgage edged down to 6.35% in August from 6.85% in July. According to the Case-Shiller 20-City Home Price Index, housing prices rose 6.5% year-over-year in June, decelerating from 6.9% reported in the previous month. 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.