CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

JULY 2022

Market Data

World Stock Market Indices
data as of 6/30/2022

		Change (5/31/2022)	%CHG
S&P 500	**3,785.38**	-346.77	-8.39%
NASDAQ	**11,028.74**	-1,052.65	-8.71%
DOW JONES	**30,775.43**	-2,214.69	-6.71%
FTSE (UK)	**7,169.28**	-438.38	-5.76%
DAX (Germany)	**12,783.77**	-1,604.58	-11.15%
Hang Seng (Hong Kong)	**21,859.79**	444.59	2.08%
Nikkei (Japan)	**26,393.04**	-886.76	-3.25%

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

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Toll Free: 800.317.4747
info@chandlerasset.com
chandlerasset.com

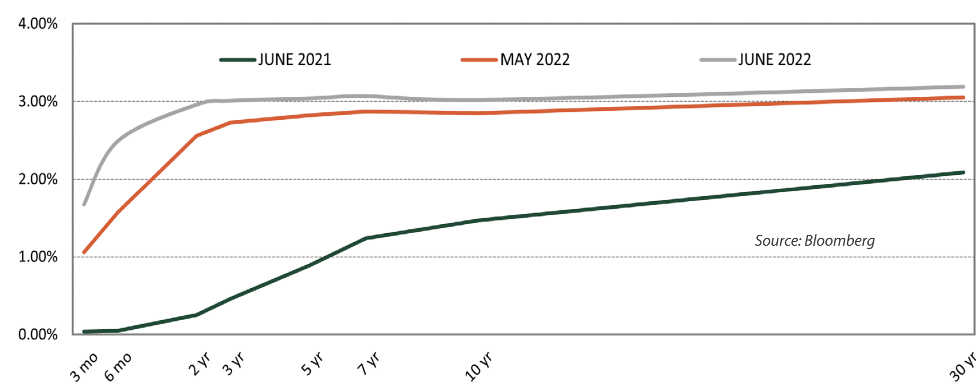
Market Summary

Financial markets are experiencing heightened volatility and tighter conditions as central banks employ more restrictive monetary policies to combat persistent inflation. The conflict between Russia and Ukraine has exacerbated inflationary pressures, particularly with energy and commodities, and strict COVID lockdowns in China are intensifying distressed supply chains. Inflation is weighing heavily on consumer sentiment and beginning to impact discretionary spending. Labor markets remain strong, but wage gains are not keeping up with inflation. While we expect the Fed to continue to tighten monetary policy, the FOMC has very little margin for error as it attempts to combat inflation without pushing the economy into a recession. We continue to believe the risk of an economic slowdown later this year has increased. Over the near-term, we expect financial market volatility to remain intensified and conditions to remain tighter with persistent inflation, geopolitical risk, supply chain bottlenecks, and the Fed's shift to a more hawkish monetary policy.

At the June meeting, persistently high inflation led the Federal Open Market Committee (FOMC) to announce a 0.75% federal funds rate increase to 1.50% - 1.75%. Federal Reserve Chair Powell indicated the committee may raise rates by 0.50% or 0.75% at the July meeting and continue to tighten as needed to dampen inflation. The Fed will continue shrinking its $9 trillion balance sheet by $47 billion per month as of June, increasing to $95 billion in September. We anticipate additional rates hikes as the Fed remains “committed” to the 2% long-term inflation target. In the second half of the year, monetary policy will be dependent on how the economy responds to tighter conditions.

In June, yields rose, and the curve flattened. The 2-year Treasury yield soared 40 basis points to 2.96%, the 5-year Treasury yield increased 22 basis points to 3.04%, and the 10-year Treasury yield rose 17 basis points to 3.02%. The spread between the 2-year and 10-year Treasury yield fell to 6 basis points at June month-end, down from 29 basis points at May month-end, and down significantly from 122 basis points one year ago. The spread between 3-month and 10-year treasuries is wider at about 135 basis points but continues to compress with each Fed rate hike. The shape of the curve bears watching but does not indicate a high probability of an imminent recession.

Treasury Yields Moved Higher in June



At the end of June, the 2-year Treasury yield increased to 2.96%, and the 10-Year Treasury yield increased to 3.02%. The spread between the 2-year Treasury yield and 10-year Treasury yield fell to 6 basis points at the end of June compared to the average historical 20-year spread (since 2002) of 129 basis points.

TREASURY YIELDS	Trend (▲/▼)	6/30/2022	5/31/2022	Change
3-Month	▲	1.67	1.06	0.61
2-Year	▲	2.96	2.56	0.40
3-Year	▲	3.01	2.73	0.29
5-Year	▲	3.04	2.82	0.22
7-Year	▲	3.07	2.87	0.20
10-Year	▲	3.02	2.85	0.17
30-Year	▲	3.19	3.05	0.14

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 widened in June

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.65	0.46	0.19
2-year A corporate note	0.58	0.41	0.17
5-year A corporate note	0.95	0.73	0.22
5-year Agency note	0.15	0.14	0.01

Source: Bloomberg

Data as of 6/30/2022

Inflationary Pressures Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(85.55) $Bln MAY 22	(86.69) $Bln APR 22	(66.63) $Bln MAY 21
Gross Domestic Product	(1.60%) MAR 22	(6.90%) DEC 21	6.30% MAR 21
Unemployment Rate	3.60% JUN 22	3.60% MAY 22	5.90% JUN 21
Prime Rate	4.75% JUN 22	4.00% MAY 22	3.25% JUN 21
Refinitiv/CoreCommodity CRB Index	291.15 JUN 22	316.54 MAY 22	213.39 JUN 21
Oil (West Texas Int.)	$105.76 JUN 22	$114.67 MAY 22	$73.47 JUN 21
Consumer Price Index (y/o/y)	9.10% JUN 22	8.60% MAY 22	5.40% JUN 21
Producer Price Index (y/o/y)	16.70% MAY 22	15.60% APR 22	8.70% MAY 21
Euro/Dollar	1.05 JUN 22	1.07 MAY 22	1.19 JUN 21

Source: Bloomberg

Economic Roundup

Consumer Prices

US inflation data was worse than expected in June, hitting a 40-year high with broad based price increases for most goods and services. The consumer price index (CPI) increased 1.3% for the month of June and 9.1% from a year earlier. The core CPI, which removes more volatile food and energy components, rose 0.7% in June and 5.9% from a year earlier. Persistent elevated levels of inflation are likely to keep the Federal Reserve (Fed) on the path of tightening monetary policy. The most recent inflation data suggests that the Fed is likely to raise the federal funds rate between 0.50%-0.75% at its July 27, 2022 meeting.

Retail Sales

Retail sales fell 0.3% in May from downwardly revised 0.7% April numbers, led by a significant decline in auto sales. Amid high inflation, consumers are showing softer demand for goods and are spending more on services. Retail sales growth is at risk as consumers dip into savings and assume more debt. On a year-over-year basis, retail sales were up 8.1% in May versus up 7.8% revised in April. The Consumer Confidence index fell to 98.7 in June from a downwardly revised 103.2 in May. U.S. consumer savings rates are declining, and the wealth effect is waning from recent financial market declines. While the average consumer still has capacity to spend from accumulated savings, higher wages, and credit lines, consumer balance sheets and discretionary spending decisions are increasingly pressured by elevated gas, food, and shelter costs.

Labor Market

The U.S. economy added 372,000 jobs in June, and job gains in May were revised down to 384,000 from 390,000. Trends in employment remain strong, with the three-month moving average payrolls at 375,000 and the six-month moving average at 457,000. Hiring was led by education and health services, followed by professional and business services, and leisure and hospitality. The unemployment rate remained unchanged at 3.6% for the fourth month, and 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 a seasonally adjusted 6.7% rate. Average hourly earnings rose 5.1% year-over-year in June, easing from a revised 5.3% year-over-year gain in May, which reflects a continuing, slow deceleration in wage growth that could help ease broad cyclical price pressures. The labor participation rate decreased to 62.2% from 62.3%, suggesting a slower pace for workers returning to the labor market despite higher wages.

Housing Starts

Total housing starts declined 14.4% to an annual rate of 1,549,000 in May, from a revised 1,810,000 in units in April. Single-family home starts fell by 9.2% and multi-family fell 23.7% month-over-month. On a year-over-year basis, total housing starts decreased 3.5%, driven by multi-family. According to the Case-Shiller 20-City home price index, home prices were up 21.2% in April versus 21.1% year-over-year in March, setting another new record. While tight supply has continued to support prices, rising mortgage rates and affordability could be headwinds to further price growth.

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.

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