CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

MARCH 2022

Market Data

World Stock Market Indices
data as of 2/28/2022

	Change (1/31/2022)	%CHG
S&P 500		
4,373.94	-141.61	-3.14%
NASDAQ		
13,751.40	-488.48	-3.43%
DOW JONES		
33,892.60	-1,239.26	-3.53%
FTSE (UK)		
7,458.25	-6.12	-0.08%
DAX (Germany)		
14,461.02	-1,010.18	-6.53%
Hang Seng (Hong Kong)		
22,713.02	-1,089.24	-4.58%
Nikkei (Japan)		
26,526.82	-475.16	-1.76%

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

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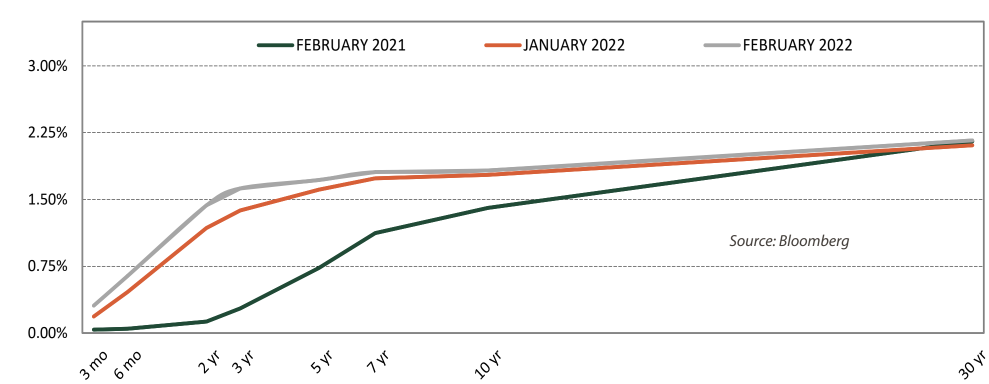
Market Summary

The Russian invasion into Ukraine and resulting Western sanctions on Russia have fueled volatility in financial markets. The latest escalation has exacerbated inflationary pressures, particularly in energy and commodities, and has caused tightening conditions in financial markets. While consumer spending and economic growth remain strong, we believe an extended conflict in Eastern Europe along with elevated energy prices increases the risk of an economic slowdown in the coming months. While we expect the Fed 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. Over the near-term, we expect financial market volatility to remain elevated and conditions to remain tighter with heightened geopolitical risk, supply chain bottlenecks, persistent inflation, and the Fed pivoting to less accommodative monetary policy.

The Federal Open Market Committee (FOMC) raised the federal funds rate by 0.25% at their March 16 meeting to a target range of 0.25% to 0.50%. This was the first increase since 2018, after two years of holding the federal funds rates near zero to insulate the economy from the impacts of the pandemic. The Federal Reserve (Fed) also ended their bond-buying program as expected in March, which included the purchase of treasury and agency mortgage-backed securities. The Fed also mentioned they would begin allowing their $8.9 trillion balance sheet to shrink, but did not give specific timing, only stating more information will be given at an upcoming meeting. Fed officials released updated economic projections and see inflation increasing at a significantly higher rate than previously anticipated, at 4.3% this year, but retreating to 2.3% in 2024. They also lowered their forecast for economic growth in 2022 from 4.0% to 2.8%, while unemployment projections were little changed. Chair Powell stated at the press conference "The American economy is very strong and well positioned to handle tighter monetary policy." The Fed's policy decisions will be led by incoming economic data and their evolving outlook. We are anticipating additional rate hikes by the Fed this year, but we do not believe that monetary policy is on a pre-set course and expect the Fed's policy adjustments will depend on developments in the economy.

In February, the 2-year Treasury yield increased 25 basis points to 1.43%, the 5-year Treasury yield increased 11 basis points to 1.72%, and the 10-year Treasury yield increased about 5 basis points to 1.83%. On a month-over-month basis, the yield curve continued to flatten. The spread between the 2-year and 10-year Treasury yield was roughly 40 basis points at February month-end, versus 60 basis points one month ago and 128 basis points one year ago.

Treasury Yields Continued To Rise in February



At the end of February, the 2-year Treasury yield was about 130 basis points higher, and the 10-Year Treasury yield was about 42 basis points higher, year-over-year. The spread between the 2-year Treasury yield and 10-year Treasury yield was 40 basis points at February month-end compared to the average historical spread (since 2003) of about 130 basis points.

TREASURY YIELDS	Trend (▲/▼)	2/28/2022	1/31/2022	Change
3-Month	▲	0.31	0.19	0.12
2-Year	▲	1.43	1.18	0.25
3-Year	▲	1.63	1.38	0.25
5-Year	▲	1.72	1.61	0.11
7-Year	▲	1.81	1.74	0.07
10-Year	▲	1.83	1.78	0.05
30-Year	▲	2.16	2.11	0.06

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 February

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.24	0.11	0.13
2-year A corporate note	0.32	0.20	0.13
5-year A corporate note	0.68	0.52	0.16
5-year Agency note	0.12	0.03	0.08

Source: Bloomberg

Data as of 2/28/2022

Supply and Demand Imbalances Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(89.69) $Bln JAN 22	(81.96) $Bln DEC 21	(65.12) $Bln JAN 21
Gross Domestic Product	7.00% DEC 21	2.30% SEP 21	4.50% DEC 20
Unemployment Rate	3.80% FEB 22	4.00% JAN 22	6.20% FEB 21
Prime Rate	3.25% FEB 22	3.25% JAN 22	3.25% FEB 21
Commodity Research Bureau Index	269.07 FEB 22	255.12 JAN 22	190.43 FEB 21
Oil (West Texas Int.)	$95.72 FEB 22	$76.99 DEC 21	$61.50 FEB 21
Consumer Price Index (y/o/y)	7.90% FEB 22	7.50% JAN 22	1.70% FEB 21
Producer Price Index (y/o/y)	13.80% FEB 22	12.50% JAN 22	2.50% FEB 21
Euro/Dollar	1.12 FEB 22	1.12 JAN 22	1.21 FEB 21

Source: Bloomberg

Economic Roundup

Consumer Prices

Although U.S. consumer prices were in line with expectations in February, inflation hit a 40-year high. The Consumer Price Index (CPI) was up 7.9% year-over-year in February, versus a 7.5% year-over-year gain in January. Core CPI (CPI less food and energy) was up 6.4% year-over-year in February, versus up 6.0% in January. Rising food and rent prices were primary contributors to the big increase, as well as the month-end surge in gas prices, which is likely to be even more pronounced in the March report. The Personal Consumption Expenditures (PCE) index was up 6.1% in January, up from 5.8% year-over-year in December. Core PCE was up 5.2% year-over-year in January, versus up 4.9% in December. Current inflation readings continue to run well above the Fed's longer-run target of around 2.0%. We believe pricing pressures are likely to increase in the coming months considering the recent surge in commodity prices and will likely remain elevated longer than anticipated as a result of the conflict in Europe.

Retail Sales

Retail sales edged higher in February, but there are signs that higher gas prices are impacting discretionary spending. On a year-over-year basis, retail sales were up 17.6% in February versus up 14% in January. On a month-over-month basis, retail sales moderated, rising 0.3% in February versus an upwardly revised increase of 4.9% in January. Excluding vehicles and gas, retail sales were down 0.4% month-over-month. Looking further ahead, we believe high levels of consumer savings along with improvement in the health situation and continued improvement in the labor market should provide a healthy tailwind for consumer spending, although inflation threatens to put a dent in expected growth. The Consumer Confidence index eased to 110.5 in February from 111.1 in January.

Labor Market

The February employment report was stronger than expected at 678,000 with upward revisions from the prior months totaling 92,000. The three-month moving average payrolls is 582,000, very close to the six-month moving average, signaling trends in employment remain robust. Job growth was broad-based, and the unemployment rate dropped from 4.0% in January to 3.8% in February. The labor participation rate increased marginally to 62.3% in February from 62.2% in January but remains lower than the pre-pandemic level of 63.4%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, edged up to 7.2% in February from 7.1% in January, and is close to its pre-pandemic level (7.0% in February 2020). Average hourly earnings were surprisingly unchanged month-over-month and were up 5.1% year-over-year in February versus 5.7% in January. As more participants enter the labor force, wage inflation dynamics should start to moderate, helping to lower the current elevated inflation readings.

Housing Starts

Total housing starts rebounded 6.8 percent to an annual rate of 1,769,000 in February. Single-family starts increased 5.7% and multi-family starts increased 9.3%, month-over-month. On a year-over-year basis, total housing starts were up 22.3% in February driven by multi-family starts. According to the Case-Shiller 20-City home price index, home prices were up 18.56% year-over-year in December versus up 18.35% year-over-year in November, suggesting tight supply may be continuing 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.