BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

MAY 2022

Market Data

World Stock Market Indices
data as of 4/29/2022

		Change (3/31/2022)	%CHG
S&P 500	**4,131.93**	-398.48	-8.80%
NASDAQ	**12,334.64**	-1,885.88	-13.26%
DOW JONES	**32,977.21**	-1,701.14	-4.91%
FTSE (UK)	**7,544.55**	28.87	0.38%
DAX (Germany)	**14,097.88**	-316.87	-2.20%
Hang Seng (Hong Kong)	**21,089.39**	-907.46	-4.13%
Nikkei (Japan)	**26,847.90**	-973.53	-3.50%

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

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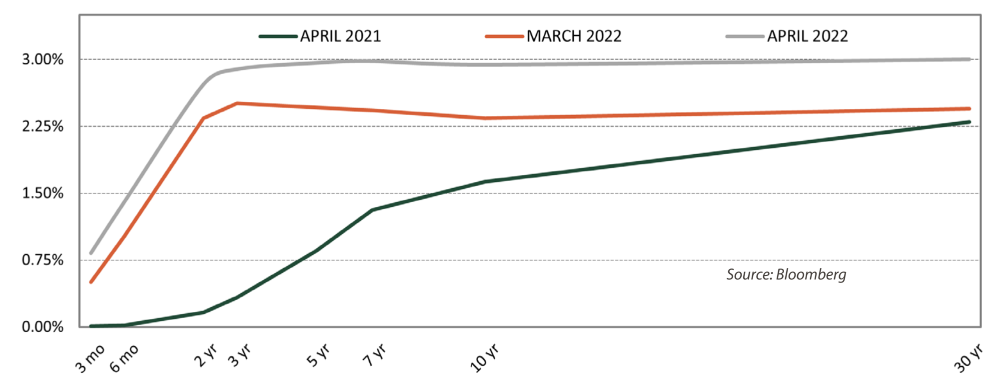
Market Summary

Financial markets are experiencing heightened volatility and tighter conditions as central banks employ more restrictive monetary policies to combat persistent inflation. Risk assets have sold off and bond returns have been negatively impacted by the dramatic rise in rates. The conflict between Russia and Ukraine has exacerbated inflationary pressures, particularly with energy and commodities, and shows no sign of abating in the short run. Additionally, strict COVID lockdowns in China are intensifying distressed supply chains. Although labor markets and consumer spending remain strong, we believe the risk of an economic slowdown later this year is increasing. Although 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. 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.

As expected at the May meeting, the Federal Open Market Committee (FOMC) announced it would raise the federal funds rate by 0.50% to a range of 0.75% - 1.00% and begin shrinking its $9 trillion balance sheet starting June 1st. Federal Reserve Chair Powell indicated that a 75 basis point increase is not currently under consideration, and the Treasury yield curve steepened after the announcement. We anticipate additional rate hikes by the Fed in the near term, however, we do not believe that monetary policy is not on a pre-set course and the timing and magnitude of rate hikes in the second half of this year will be dependent on how economic and geopolitical conditions continue to transpire.

In April, yields continued to rise, and the curve steepened: the 2-year Treasury yield increased 38 basis points to 2.72%, the 5-year Treasury yield increased 50 basis points to 2.96%, and the 10-year Treasury yield increased 60 basis points to 2.94%. The spread between the 2-year and 10-year Treasury yield increased to 22 basis points at April month-end versus zero basis points at March month-end, but down from 147 basis points one year ago. While the flat yield curve bears watching over the longer run, the spread between 3-month and 10-year treasuries is still steep at about 210 basis points, which indicates likely economic growth in the coming year.

Treasury Yields Rose in April



At the end of April, the 2-year Treasury yield increased to 2.72%, and the 10-Year Treasury yield rose to 2.94%. The spread between the 2-year Treasury yield and 10-year Treasury yield was 22 basis points at the end of April compared to the average historical 20-year spread (since 2002) of 131 basis points.

TREASURY YIELDS	Trend (▲/▼)	4/29/2022	3/31/2022	Change
3-Month	▲	0.83	0.50	0.34
2-Year	▲	2.72	2.34	0.38
3-Year	▲	2.89	2.51	0.37
5-Year	▲	2.96	2.46	0.50
7-Year	▲	2.98	2.43	0.55
10-Year	▲	2.94	2.34	0.60
30-Year	▲	3.00	2.45	0.55

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 April

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.67	0.42	0.25
2-year A corporate note	0.37	0.18	0.19
5-year A corporate note	0.75	0.61	0.14
5-year Agency note	0.07	0.08	(0.01)

Source: Bloomberg Data as of 4/29/2022

Supply and Demand Imbalances Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(109.80) $Bln MAR 22	(89.80) $Bln FEB 22	(71.40) $Bln MAR 21
Gross Domestic Product	(1.40%) MAR 22	6.90% DEC 21	6.30% MAR 21
Unemployment Rate	3.60% APR 22	3.60% MAR 22	6.00% APR 21
Prime Rate	3.50% APR 22	3.50% MAR 22	3.25% APR 21
Commodity Research Bureau Index	308.27 APR 22	295.18 MAR 22	199.76 APR 21
Oil (West Texas Int.)	$104.69 APR 22	$100.28 MAR 22	$63.58 APR 21
Consumer Price Index (y/o/y)	8.30% APR 22	8.50% MAR 22	4.20% APR 21
Producer Price Index (y/o/y)	15.70% APR 22	15.40% MAR 22	9.70% APR 21
Euro/Dollar	1.05 APR 22	1.11 MAR 22	1.20 APR 21

Source: Bloomberg

Economic Roundup

Consumer Prices

U.S. consumer price increases exceeded consensus forecasts in April, while moderating slightly from March. The Consumer Price Index (CPI) was up 8.3% year-over-year in April, higher than the 8.1% consensus estimate but down from 8.5% year-over-year in March. Core CPI (CPI less food and energy) was up 6.2% in April, exceeding the consensus forecast of 6.0%, but down from a 6.5% year-over-year gain in March. Data reflected a shift in spending from goods to services as the pandemic wanes, with shelter, food, airfares, and new vehicles contributing heavily to the increase. The decline came primarily from a slight easing in gasoline prices, which have since surged again. The Personal Consumption Expenditures (PCE) index was up 6.6% year-over-year in March, up from 6.3% in February. Core PCE was up 5.2% year-over-year in March, versus up 5.3% in February. Current inflation readings continue to run well above the Fed's longer-run target of around 2.0%.

Retail Sales

Retail sales edged higher in March, but there are signs that higher gas prices are impacting discretionary spending. On a year-over-year basis, retail sales were up 6.9% in March versus up 18.2% in February. On a month-over-month basis, retail sales moderated, rising 0.5% in March versus an upwardly revised increase of 0.8% in February. Excluding vehicles and gas, retail sales were up just 0.2% month-over-month. Gains in March were driven primarily by gasoline purchases, while e-commerce and vehicle sales declined. Although inflation threatens to put a dent in expected growth, 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. The Consumer Confidence index fell slightly to 107.3 in April from an upwardly revised 107.6 in March. While consumers' evaluations of the present situation weakened, future expectations picked up.

Labor Market

The U.S. economy added 428,000 jobs in April, with downward revisions from the prior months totaling 39,000. Trends in employment remain strong, with the three-month moving average payrolls at 535,000 and the six-month moving average at 558,000. Job gains were broad based in April, led by leisure and hospitality, manufacturing, and transportation and warehousing. The unemployment rate remained unchanged at 3.6%, and average hourly earnings rose 5.5% year-over-year in April, slightly lower than the 5.6% reading in March. The labor participation rate fell to 62.2% in April from 62.4% in March as labor shortages continue and workers remain on the sidelines.

Housing Starts

Total housing starts rose 0.3% to an annual rate of 1,793,000 in March. Single-family starts fell by -1.7% and multi-family starts rose 4.6%, month-over-month. On a year-over-year basis, total housing starts increased 3.9%, driven by multi-family. According to the Case-Shiller 20-City home price index, home prices were up 20.2% year-over-year in February versus up 18.9% in January, setting a 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.