BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

MAY 2023

Market Data

World Stock Market Indices
data as of 04/28/2023

		Change (03/31/2023)	%CHG
S&P 500	**4,169.48**	60.17	1.46%
NASDAQ	**12,226.58**	4.67	0.04%
DOW JONES	**34,098.16**	824.01	2.48%
FTSE (UK)	**7,870.57**	238.83	3.13%
DAX (Germany)	**15,922.38**	293.54	1.88%
Hang Seng (Hong Kong)	**19,894.57**	-505.54	-2.48%
Nikkei (Japan)	**28,856.44**	814.96	2.91%

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

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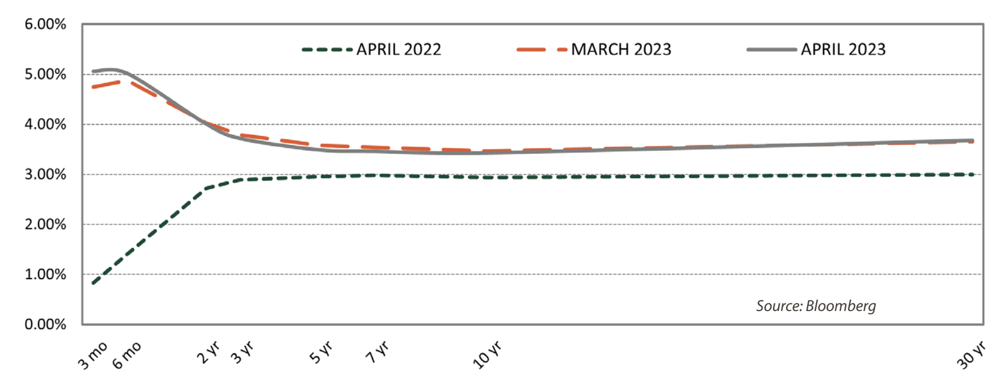
Market Summary

Economic trends have been decelerating along with tighter financial conditions and restrictive monetary policy. Recent data suggest positive but below-trend growth this year. Although the pace of job growth is moderating, labor markets remain solid, and the U.S. consumer has demonstrated resiliency. Market participants and the Federal Reserve are maintaining very divergent views regarding the future trajectory of monetary policy. Given the cumulative effects of tighter monetary policy and stress in the banking sector, we believe the Federal Reserve is likely near a pause in their rate-hiking campaign. If moderate growth continues, we believe the Fed will likely maintain the Federal Funds rate in restrictive territory until inflationary pressures subside.

At the May meeting, the Federal Open Market Committee voted unanimously to raise the target federal funds rate by 0.25% to a range of 5.00 - 5.25%. Notably, the committee omitted a line from its March statement referencing that "some additional policy firming may be appropriate." Instead, the FOMC will determine "the extent to which additional policy firming may be appropriate," implying a potential pause that is data dependent. Fed Chair Powell reiterated the committee's focus on bringing down inflation to their 2% target and indicated that their outlook did not support rate cuts, contrary to the market consensus. The statement also emphasized that the U.S. banking system is "sound and resilient" and acknowledged the tightening of financial conditions. Considering the totality of economic data, the Chandler team continues to believe the Fed is likely near a pause in their rate-hiking cycle and will maintain higher rates for some time.

In April, short-term Treasury yields increased while the yields in the 2-10 year segment of the yield curve decreased. The 2-year Treasury yield dropped 2 basis points to 4.01%, the 5-year Treasury yield declined 9 basis points to 3.49%, and the 10-year Treasury yield fell 5 basis points to 3.43%. The inversion between the 2-year and 10-year Treasury yields widened to -58 basis points at the end of April, compared to -56 basis points at the end of March. Given the current shape and the duration of the yield curve inversion, there is a growing probability of a recession.

Short Term Treasury Yields Increased While The Belly Of The Yield Curve Fell In April



The yield curve maintained its inversion in April, and bond yields remain significantly above levels seen a year ago. The 2-year Treasury yield was 129 basis points higher, while the 10-year Treasury yield was approximately 49 basis points higher, year-over-year. The inversion of the yield curve expanded in April, with the spread between the 2-year and 10-year Treasury yields increasing to -58 basis points at the end of April, from -56 basis points at the end of March. The yield spread between the 2-year and 10-year Treasury yields continues to sit substantially below the average spread of approximately +122 basis points since 2003. Given its current shape, the yield curve, a vital economic indicator, signals an increased probability of a recession.

TREASURY YIELDS	Trend (▲/▼)	04/28/2023	03/31/2023	Change
3-Month	▲	5.06	4.75	0.31
2-Year	▼	4.01	4.03	-0.02
3-Year	▼	3.72	3.79	-0.07
5-Year	▼	3.49	3.58	-0.09
7-Year	▼	3.46	3.54	-0.07
10-Year	▼	3.43	3.47	-0.05
30-Year	▲	3.68	3.65	0.03

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 tightened in April

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.16	0.41	(0.25)
2-year A corporate note	0.60	0.61	(0.01)
5-year A corporate note	0.87	0.85	0.02
5-year Agency note	0.18	0.20	(0.02)

Source: Bloomberg Data as of 04/28/2023

Inflationary Trends Continue to Ease but Remain Above the Federal Reserve's Target

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(64.23) $Bln MAR 23	(70.64) $Bln FEB 23	(106.45) $Bln MAR 22
Gross Domestic Product	1.10% MAR 23	2.60% DEC 22	(1.60%) MAR 22
Unemployment Rate	3.40% APR 23	3.50% MAR 23	3.60% APR 22
Prime Rate	8.00% APR 23	8.00% MAR 23	3.50% APR 22
Refinitiv/CoreCommodity CRB Index	268.16 APR 23	267.73 MAR 23	308.27 APR 22
Oil (West Texas Int.)	$76.78 APR 23	$75.67 MAR 23	$104.69 APR 22
Consumer Price Index (y/o/y)	4.90% APR 23	5.00% MAR 23	8.30% APR 22
Producer Price Index (y/o/y)	2.60% APR 23	3.00% MAR 23	15.70% APR 22
Euro/Dollar	1.10 APR 23	1.08 MAR 23	1.05 APR 22

Source: Bloomberg

Economic Roundup

Consumer Prices

The U.S. inflation rate showed signs of moderation in April, with the Consumer Price Index (CPI) increasing by 4.9% year-on-year, marking its first sub-5% rise in almost two years. The Core CPI, which excludes volatile food and energy components, increased 0.4% month-over-month and 5.5% year-over-year, a slight decrease from 5.6% in March. Shelter costs, the most significant services component making up approximately one-third of the overall CPI index, rose 0.4% last month, the smallest increase in over a year. The Personal Consumption Expenditures (PCE) index improved in March with a 4.2% year-over-year increase, down from a 5.1% increase in February. The Core PCE, the Federal Reserve's preferred inflation measure, rose 4.6% year-over-year in March, slightly down from a 4.7% increase in February. Despite the waning inflationary trends, a return to the Fed's 2% target appears remote due to strong wage growth.

Retail Sales

Advance Retail Sales fell more than expected month-over-month at -1.0% in March, which translated to a year-over-year deceleration to 2.9% from 5.9% in February. The report indicated a broad-based cooling in discretionary spending as consumers are becoming more cautious about the outlook for the US economy. The Conference Board's Consumer Confidence Index unexpectedly declined to 101.3 in April from a downwardly revised 104.0 in March. While the present situation was viewed favorably, future expectations declined sharply as the outlook for business conditions, employment, and income all deteriorated.

Labor Market

The U.S. economy added 253,000 jobs in April, following a downward revision of 71,000 to 165,000 jobs for the month of March. The pace of job growth is slowing, with the three-month moving average payrolls at 222,000 and the six-month moving average at 277,800. Broad-based gains in the private sector point to employment continuing to show strength, led by professional and business services. The unemployment rate fell to 3.4%, while the labor force participation rate remained at 62.6% in April. 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 6.6% from the prior month at 6.7%. Average hourly earnings accelerated to 4.4% year-over-year in April, up from a revised 4.3% increase in March. Job Openings in March decreased for the third consecutive month to 9.59 million, indicating a slower demand for labor and increased layoffs. While the overall pace of hiring is slowing, levels remain consistent with a solid labor market.

Housing Starts

Total housing starts fell 0.8% month-over-month in March to 1,420,000 units and were down 17.2% compared to March 2022. The decline was primarily driven by a drop in multifamily construction while single-family construction increased. The 30-year fixed-rate mortgage averaged approximately 6.52% in March according to Freddie Mac, down from a peak of 7.08% in October, but up from 4.67% a year ago. According to the Case-Shiller 20-City Home Price Index, the year-over-year increase continued its declining rate of gain to just +0.36% in February, the smallest gain since 2012, after rising +2.58% in January, clearly displaying the impact of higher mortgage rates year-over-year, which have reduced demand for homebuying as affordability has declined. The Southeast remains the strongest region, while the West continues to be the weakest.

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.