BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

NOVEMBER 2022

Market Data

World Stock Market Indices
data as of 10/31/2022

		Change (9/30/2022)	%CHG
S&P 500	3,871.98	286.36	7.99%
NASDAQ	10,988.15	412.53	3.90%
DOW JONES	32,732.95	4,007.44	13.95%
FTSE (UK)	7,094.53	200.72	2.91%
DAX (Germany)	13,253.74	1,139.38	9.41%
Hang Seng (Hong Kong)	14,687.02	-2,535.81	-14.72%
Nikkei (Japan)	27,587.46	1,650.25	6.36%

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

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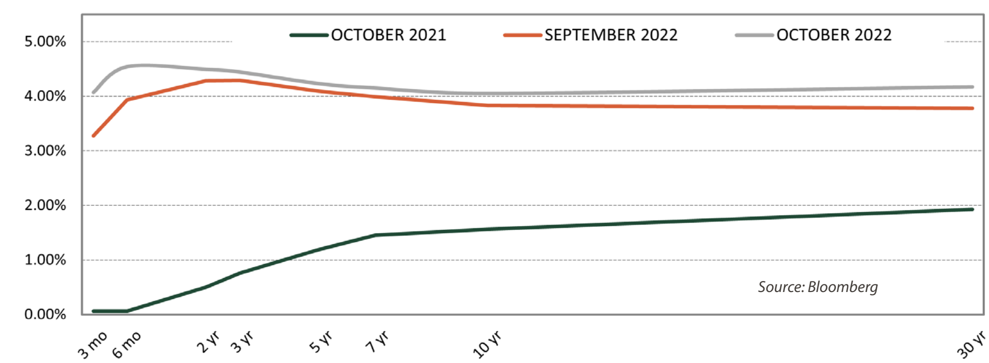
Market Summary

Heightened financial market volatility remains as financial conditions continue to tighten and global central banks pursue monetary policies to combat persistently high inflation and maintain financial market stability. Labor markets and consumer balance sheets remain strong; however, inflation is weighing heavily on consumer sentiment and beginning to impact discretionary spending. Corporate earnings have generally performed better than expected, but warnings are growing along with wider credit spreads. While evidence of slower economic conditions have begun to mount, we expect the Federal Reserve to continue to raise rates until a sustainable improvement in inflationary conditions has been achieved. Over the near-term, we expect financial market volatility to remain elevated and financial conditions to continue to tighten due to persistent inflation, geopolitical risks, and the Fed's hawkish stance on monetary policy.

At their November 2nd meeting, the Federal Open Market Committee (FOMC) raised the fed funds target rate by 75 basis points, as expected, for the fourth consecutive time to a range of 3.75 – 4.00%, the highest level since 2008. Federal Reserve Chairman Powell reiterated that the risks of pausing too soon outweigh the risks of slower economic growth. He commented that rates would likely reach higher levels than projected and that policy would need to remain restrictive for some time. We believe the FOMC will continue to implement restrictive monetary policy until inflationary pressures subside but they will look for an opportunity to slow the pace of rate hikes as economic growth moderates.

In October, yields rose across the curve. The 2-year Treasury yield increased 20 basis points to 4.49%, the 5-year Treasury yield rose 14 basis points to 4.23%, and the 10-year Treasury yield gained 22 basis points to 4.05%. The spread between the 2-year Treasury yield and 10-year Treasury yield remained inverted at -44 basis points at October month-end versus -45 basis points at September month-end. The spread was a positive 106 basis points one year ago. The inverted shape of the yield curve indicates that the probability of recession is increasing.

Treasury Yields Rose in October



US Treasury yields rose sharply in October. On a year-to-date basis, the 2-year Treasury yield rose 398 basis points, the 5-year Treasury yield increased 304 basis points, and the 10-year Treasury yield gained 250 basis points. The spread between the 2-year Treasury yield and 10-year Treasury yield inverted to -44 basis points versus +77 basis points at year-end. The average historical spread (since 2003) is about 126 basis points.

TREASURY YIELDS	Trend (▲/▼)	10/31/2022	9/30/2022	Change
3-Month	▲	4.07	3.27	0.80
2-Year	▲	4.49	4.28	0.20
3-Year	▲	4.44	4.29	0.15
5-Year	▲	4.23	4.09	0.14
7-Year	▲	4.15	3.99	0.16
10-Year	▲	4.05	3.83	0.22
30-Year	▲	4.17	3.78	0.39

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 changed a little in October

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.37	0.48	(0.11)
2-year A corporate note	0.56	0.46	0.10
5-year A corporate note	0.98	0.91	0.07
5-year Agency note	0.20	0.09	0.11

Source: Bloomberg

Data as of 10/31/2022

Inflationary Pressures Remain in the US Economy with some improvement

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(73.28) $Bln SEP 22	(65.68) $Bln AUG 22	(78.33) $Bln SEP 21
Gross Domestic Product	(2.60%) SEP 22	(0.60%) JUN 22	2.70% SEP 21
Unemployment Rate	3.70% OCT 22	3.50% SEP 22	4.60% OCT 21
Prime Rate	6.25% OCT 22	6.25% SEP 22	3.25% OCT 21
Refinitiv/CoreCommodity CRB Index	274.13 OCT 22	268.29 SEP 22	237.70 OCT 21
Oil (West Texas Int.)	$86.53 OCT 22	$79.49 SEP 22	$83.57 OCT 21
Consumer Price Index (y/o/y)	7.70% OCT 22	8.20% SEP 22	6.20% OCT 21
Producer Price Index (y/o/y)	11.20% OCT 22	11.60% SEP 22	12.70% OCT 21
Euro/Dollar	0.99 OCT 22	0.98 SEP 22	1.16 OCT 21

Source: Bloomberg

Economic Roundup

Consumer Prices

The pace of US consumer prices cooled, which offered comfort to households, investors, and Federal Reserve officials, but are still a long way from historical norms. The headline Consumer Price Index (CPI) increased 7.7%, year-over-year in October, which was the slowest increase since January. The inflation rate slowed across categories including food, apparel and used cars. Still, the figures are only an early step on a long path to tame inflation and still remain well above pre-pandemic levels. The Personal Consumption Expenditures (PCE) index rose 6.2% in September in line with prior and slightly lower than consensus estimates of 6.3%. Core PCE increased to 5.1% year-over-year in September versus up 4.9% year-over-year in August. Persistently elevated inflation is likely to keep the Federal Reserve on the path of tightening monetary policy in the near term as long as it continues to run well above the Fed's longer-run target of around 2.0%.

Retail Sales

Advance retail sales were flat for the month but up 8.2% year-over-year in September, slowing from August's 9.4% year-over-year gain that surprised to the upside. Retail sales growth is starting to reflect the headwinds from higher prices as consumers dip into savings and assume more debt. The Conference Board's Consumer Confidence Index declined in October to 102.5 after back-to-back monthly gains due to a sharp decrease in the present situation and dismal expectations of the short-term outlook. Renewed rises in gas and food prices drove increases in inflationary pressures, which will pose strong headwinds to consumer confidence and spending heading into the holiday season.

Labor Market

The U.S. economy added 261,000 jobs in October, surpassing market expectations of 193,000, and gains were revised upward by 29,000 for the prior two months. Trends in employment remain strong, with the three-month moving average payrolls at 289,000 and the six-month moving average at 347,000. Gains were broad-based, led by healthcare, professional and business services, and leisure and hospitality. The unemployment rate ticked up to 3.7% from 3.5%, and the labor participation rate dipped to 62.2% in October from 62.3% in September. 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 6.8% from 6.7% last month. Average hourly earnings rose 4.7% year-over-year in October compared to 5.0% year-over-year in September. While the pace of job growth is moderating, the report demonstrates a strong demand for labor and provides the Fed further support for continued rate hikes.

Housing Starts

Total housing starts declined 8.1% to an annual rate of 1,439,000 in September, after a downward revision to 1,566,000 units in August. Single-family home starts fell 4.7% and multi-family starts fell 13.2% month-over-month. On a year-over-year basis, total housing starts decreased 7.7% reflecting a shift from single-family units to more affordable multi-family units as homebuyers struggle with a combination of elevated prices and higher mortgage rates. Mortgage rates for a 30-year fixed-rate loan are higher than they have been since 2006 at 7.08%. According to the Case-Shiller 20-City Home Price Index, the year-over-year increase continued its declining rate of increase to +13.1% in August, clearly displaying the impact of higher mortgage rates which have reduced demand for homebuying as affordability has declined.

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.