CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

OCTOBER 2022

Market Data

World Stock Market Indices
data as of 9/30/2022

	Change (8/31/2022)	%CHG
S&P 500		
3,585.62	-369.38	-9.34%
NASDAQ		
10,575.62	-1,240.58	-10.50%
DOW JONES		
28,725.51	-2,784.92	-8.84%
FTSE (UK)		
6,893.81	-390.34	-5.36%
DAX (Germany)		
12,114.36	-720.60	-5.61%
Hang Seng (Hong Kong)		
17,222.83	-2,731.56	-13.69%
Nikkei (Japan)		
25,937.21	-2,154.32	-7.67%

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

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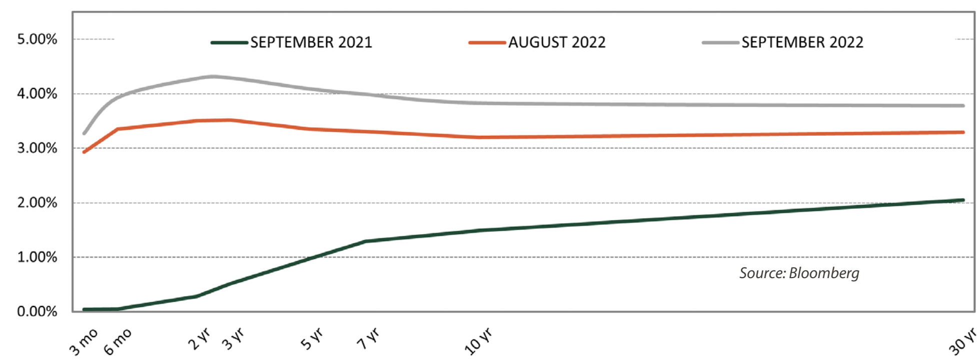
Market Summary

Market volatility has intensified as financial conditions 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 has 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 intensified and conditions tighter with persistent inflation, geopolitical risk, and the Fed's hawkish monetary policy.

At the September meeting, the Federal Open Market Committee (FOMC) delivered the third 75-basis point increase to the Fed Funds Rate, increasing the range from 3.00% to 3.25%. The FOMC acknowledged spending and production are experiencing modest growth, offset by a robust labor market and elevated inflation metrics. We expect the Fed to continue to increase the federal funds rate in the near term until inflationary pressures weaken.

In September, yields rose significantly across the curve. The 2-year Treasury yield increased 79 basis points to 4.28%, the 5-year Treasury yield rose 74 basis points to 4.09%, and the 10-year Treasury yield gained 64 basis points to 3.83%. The spread between the 2-year Treasury yield and 10-year Treasury yield became more inverted at -45 basis points at September month-end versus -30 basis points at August month-end. The spread was a positive 121 basis points one year ago. The spread between 3-month and 10-year treasuries widened to 56 basis points in September compared to just 27 basis points in August. The shape of the curve does not necessarily indicate an imminent recession but bears watching as a better predictor of recession over the medium-term.

Treasury Yields Rose in September



US Treasury yields rose sharply in September. On a year-to-date basis, the 2-year Treasury yield was up 355 basis points, the 5-year Treasury yield rose 283 basis points, and the 10-year Treasury yield gained 232 basis points. The spread between the 2-year Treasury yield and 10-year Treasury yield inverted to -45 basis points versus +78 basis points at year-end. The average historical spread (since 2003) is about 130 basis points. The spread between 3-month and 10-year treasuries was 56 basis points in September compared to about 148 basis points at the start of the year.

TREASURY YIELDS	Trend (▲/▼)	9/30/2022	8/31/2022	Change
3-Month	▲	3.27	2.93	0.35
2-Year	▲	4.28	3.50	0.79
3-Year	▲	4.29	3.52	0.77
5-Year	▲	4.09	3.35	0.74
7-Year	▲	3.99	3.31	0.68
10-Year	▲	3.83	3.20	0.64
30-Year	▲	3.78	3.29	0.49

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 August

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.48	0.12	0.36
2-year A corporate note	0.46	0.37	0.09
5-year A corporate note	0.91	0.78	0.13
5-year Agency note	0.09	0.10	(0.01)

Source: Bloomberg

Data as of 9/30/2022

Persistent Inflationary Pressures Remain in the US Economy

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(67.40) $Bln AUG 22	(70.46) $Bln JUL 22	(71.43) $Bln AUG 21
Gross Domestic Product	(0.60%) JUN 22	(1.60%) MAR 22	7.00% JUN 21
Unemployment Rate	3.50% SEP 22	3.70% AUG 22	4.70% SEP 21
Prime Rate	6.25% SEP 22	5.50% AUG 22	3.25% SEP 21
Refinitiv/CoreCommodity CRB Index	268.29 SEP 22	290.41 AUG 22	228.92 SEP 21
Oil (West Texas Int.)	$79.49 SEP 22	$89.55 AUG 22	$75.03 SEP 21
Consumer Price Index (y/o/y)	8.20% SEP 22	8.30% AUG 22	5.40% SEP 21
Producer Price Index (y/o/y)	11.50% SEP 22	12.80% AUG 22	11.80% SEP 21
Euro/Dollar	0.98 SEP 22	1.01 AUG 22	1.16 SEP 21

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) increased more than expected in September, with increases were broad based led by gains in shelter, food, and medical care while prices for gasoline and used cars declined. Headline CPI increased 8.2% year-over-year in September, versus expectations for an 8.1% increase, and down from an 8.3% year-over-year gain in August. Core CPI, which excludes food and energy, increased 6.6% from a year ago, the highest level since 1982. The Personal Consumption Expenditures (PCE) index rose 6.2% in August, higher than consensus estimates of up 6.0%, but down from a 6.4% increase last month. Core PCE was up 4.9% year-over-year in August, versus up 4.7% year-over-year in July. Persistently elevated inflation is likely to keep the Federal Reserve on the path of tightening monetary policy as long as it continues to run well above the Fed's longer-run target of around 2.0%.

Retail Sales

Retail sales were 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 rose for the second month in a row to 108.0 in September, with gains in both the present situation and future expectation components. The strength was tied directly to the consumer's assessment of the labor market, which continues to reflect the demand for labor outstripping supply.

Labor Market

The U.S. economy added 263,000 jobs in September, surpassing market expectations of 255,000, and gains were revised upward by 11,000 for the prior two months. Trends in employment remain strong, with the three-month moving average payrolls at 372,000 and the six-month moving average at 360,000. Hiring was widespread, with solid increases in education and health services, leisure and hospitality, and professional and business services. The unemployment rate fell to 3.5% from 3.7%, as the labor participation rate edged down to 62.3% in September from 62.4% in August. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons dropped to 6.7% from 7.0% last month. Average hourly earnings rose 5.0% year-over-year in September compared to 5.2% year-over-year in August, a constructive development for the inflation outlook. The strong September labor report bolsters the case for the Fed to continue raising the federal funds rate.

Housing Starts

Total housing starts increased 12.2% to an annual rate of 1,575,000 in August, from a revised 1,404,000 units in July. Single-family home starts increased 3.4% and multi-family homes increased 28% month-over-month. On a year-over-year basis, total housing starts decreased 0.1% 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 2007 at 6.7%. According to the Case-Shiller 20-City Home Price Index, the year-over-year increase receded from 18.7% in June to 16.1% in July, 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.