BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

SEPTEMBER 2022

Market Data

World Stock Market Indices
data as of 8/31/2022

		Change (7/29/2022)	%CHG
S&P 500	**3,955.00**	-175.29	-4.24%
NASDAQ	**11,816.20**	-574.49	-4.64%
DOW JONES	**31,510.43**	-1,334.70	-4.06%
FTSE (UK)	**7,284.15**	-139.28	-1.88%
DAX (Germany)	**12,834.96**	-649.09	-4.81%
Hang Seng (Hong Kong)	**19,954.39**	-202.12	-1.00%
Nikkei (Japan)	**28,091.53**	289.89	1.04%

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

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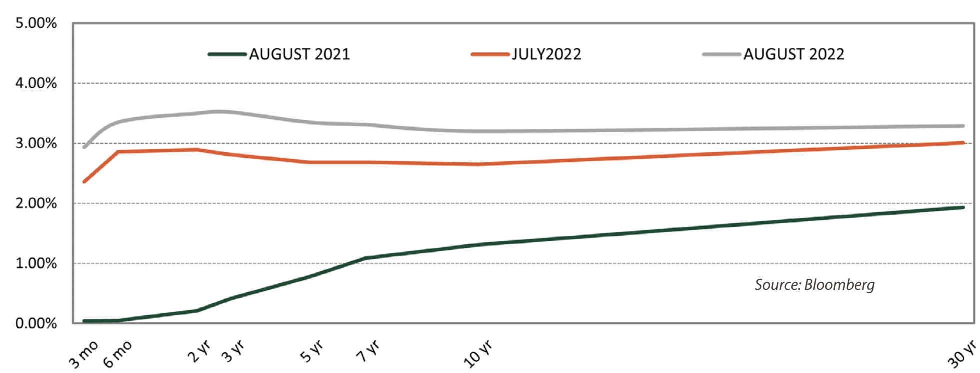
Market Summary

Persistently high inflation and more restrictive monetary policies around the globe are setting the tone for financial markets. 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. 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 to tighten with persistent inflation, geopolitical risk, supply chain bottlenecks, and the Fed's hawkish monetary policy.

At the July meeting, the Federal Open Market Committee (FOMC) delivered another 75-basis point increase to the Fed Funds Rate, increasing the range to 2.25% to 2.50%. The FOMC acknowledged spending and production were trending lower, offset by a strong labor market and elevated inflation metrics. Although declining to provide “forward guidance”, Fed Chair Powell acknowledged current policy settings are close to neutral but emphasized policy would need to move to a more restrictive stance to counterbalance the elevated inflation trends. We anticipate additional rates hikes as the Fed remains focused on lowering inflation.

In August, yields rose, and the curve inverted further. The 2-year Treasury yield increased 61 basis points to 3.50%, the 5-year Treasury yield rose 68 basis points to 3.35%, and the 10-year Treasury yield gained 54 basis points to 3.20%. The spread between the 2-year Treasury yield and 10-year Treasury yield became more inverted at -30 basis points at August month-end versus -24 basis points at July month-end. The spread was a positive 110 basis points one year ago. The spread between 3-month and 10-year treasuries compressed 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 August



At the end of August, the 2-year Treasury yield was 329 basis points higher, and the 10-Year Treasury yield was about 189 basis points higher, year-over-year. The spread between the 2-year Treasury yield and 10-year Treasury yield became more inverted at -30 basis points at August month-end versus -24 basis points at July month-end. The average historical spread (since 2003) is about 130 basis points.

TREASURY YIELDS	Trend (▲/▼)	8/31/2022	7/29/2022	Change
3-Month	▲	2.93	2.36	0.56
2-Year	▲	3.50	2.89	0.61
3-Year	▲	3.52	2.81	0.71
5-Year	▲	3.35	2.68	0.68
7-Year	▲	3.31	2.68	0.63
10-Year	▲	3.20	2.65	0.54
30-Year	▲	3.29	3.01	0.28

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 August

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.12	0.46	(0.34)
2-year A corporate note	0.37	0.41	(0.04)
5-year A corporate note	0.78	0.85	(0.07)
5-year Agency note	0.10	0.18	(0.08)

Source: Bloomberg

Data as of 8/31/2022

Inflationary Pressures Remain the Primary Headwind to Economic Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(70.65) $Bln JUL 22	(80.88) $Bln JUN 22	(69.38) $Bln JUL 21
Gross Domestic Product	(0.60%) JUN 22	(1.60%) MAR 21	6.70% JUN 21
Unemployment Rate	3.70% AUG 22	3.50% JUL 22	5.20% AUG 21
Prime Rate	5.50% AUG 22	5.50% JUL 22	3.25% AUG 21
Refinitiv/CoreCommodity CRB Index	290.41 AUG 22	292.06 JUL 22	218.17 AUG 21
Oil (West Texas Int.)	$89.55 AUG 22	$98.62 JUL 22	$68.50 AUG 21
Consumer Price Index (y/o/y)	8.30% AUG 22	8.50% JUL 22	5.30% AUG 21
Producer Price Index (y/o/y)	12.70% AUG 22	15.40% JUL 22	10.70% AUG 21
Euro/Dollar	1.01 AUG 22	1.02 JUL 22	1.18 AUG 21

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) increased 8.3% year-over-year in August as shelter, food, and medical care were among the largest contributors along with several other categories that posted record increases. Core CPI (CPI less food and energy) rose 6.3% year-over-year in August, the first annual rate acceleration in six months. Meanwhile, the Personal Consumption Expenditures (PCE) index came in better than expected, up 6.3% year-over-year in July, versus a 6.8% year-over-year increase June. Core PCE was up 4.6% year-over-year in July, versus up 4.8% year-over-year in June. The surprisingly strong core CPI in August and persistently elevated inflation above the Federal Reserve's (Fed) longer-run target of around 2.0% is likely to keep the Fed on a path toward tighter monetary policy and another increase in the federal funds rate at its next meeting on September 21, 2022.

Retail Sales

Retail sales were unchanged month-over-month in July, led by a significant dollar value decrease in gasoline sales. Second quarter eCommerce sales accounted for 14.5% of total sales up from 14.3% in first quarter 2022. Retail sales growth is at risk as consumers dip into savings and assume more debt. On a year-over-year basis, retail sales were up 10.3% in July. The Consumer Confidence index rose to 103.2 in August from a downwardly revised 95.3 in July. Both current conditions and future expectations improved from last month. Energy prices have eased; however, discretionary spending decisions remain pressured by broad-based inflation.

Labor Market

The U.S. economy added 315,000 jobs in August, surpassing market expectations of 298,000, while gains were revised downward by 107,000 for the prior two months. Trends in employment remain strong, with the three-month moving average payrolls at 378,000 and the six-month moving average at 381,000. Hiring was widespread, led by professional and business services, healthcare, and retail. The unemployment rate rose to 3.7% from 3.5%, as the labor participation rate increased to 62.4% from 62.1% in July. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons increased to 7.0% from 6.7% last month. Average hourly earnings rose 5.2% year-over-year in August, remaining consistent with July, adding to broader inflationary pressures in the economy. The strong August labor report bolsters the case for the Fed to continue raising the federal funds rate.

Housing Starts

Total housing starts declined 9.6% to an annual rate of 1,446,000 in July, from a revised 1,599,000 in units in June. Single-family home starts fell by 10.1% and multi-family decreased by 8.6% month-over-month. On a year-over-year basis, total housing starts decreased 8.1%, driven by a drop in all home types as homebuyers struggle with a combination of elevated prices and higher mortgage rates. According to the Case-Shiller 20-City home price index, home prices were up 18.6% year-over-year in June, easing from a 20.5% year-over-year increase in May. The rate of home price increases will likely continue to decelerate as the year progresses due to the substantial rise in mortgage rates and the negative performance of financial markets.

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.