BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

JULY 2021

Market Data

World Stock Market Indices
data as of 6/30/2021

		Change (5/31/21)	%CHG
S&P 500	**4,297.50**	93.39	2.22%
NASDAQ	**14,503.95**	755.21	5.49%
DOW JONES	**34,502.51**	-26.94	-0.08%
FTSE (UK)	**7,037.47**	14.86	0.21%
DAX (Germany)	**15,531.04**	109.91	0.71%
Hang Seng (Hong Kong)	**28,827.95**	-323.85	-1.11%
Nikkei (Japan)	**28,791.53**	-68.55	-0.24%

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

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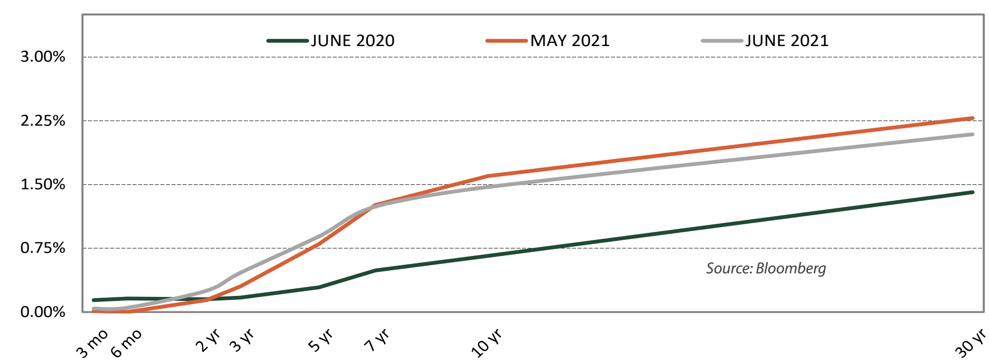
Market Summary

We believe the outlook for US economic growth in the second half of the year is strong, fueled by ongoing fiscal support, accommodative monetary policy, widespread vaccinations, and the continued reopening of the economy. Although some of these factors have begun to moderate, we expect they will continue to provide tailwinds for the economy through year-end. Vaccination rates in the US have slowed, and infection rates have recently increased but remain well below their peak. Thus far, US-approved vaccines have shown to be effective against COVID-19 as well as more aggressive variants. As such, we remain optimistic about the continued reopening of the US economy. Meanwhile, although some pandemic-related fiscal relief is starting to phase out, President Biden and a group of bipartisan senators have agreed to an overall framework for an infrastructure plan. Though the details haven't been finalized or approved by Congress, the negotiations signal that more fiscal stimulus is likely on the horizon. Meanwhile, the Federal Reserve continues to signal that it will look past the near-term uptick in inflation to facilitate continued improvement in the labor market. While we believe financial market volatility is likely to increase in the second half of the year, we anticipate that gross domestic product (GDP) will continue to grow at an above-trend pace.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged in June. The Fed has started to discuss the idea of reducing its asset purchases at some point, but that decision remains uncertain. FOMC members' updated economic projections also suggest that the Fed may start to raise interest rates in 2023. Overall, monetary policy remains highly accommodative for now, but the Fed seems to be inching toward a path of policy normalization. We believe the Fed will proceed with caution, particularly given the high number of people who remain unemployed and continued uncertainty about the pandemic. Should the U.S. economy remain on its current trajectory, and global vaccination rates improve meaningfully, we believe there is a high probability that the Fed will begin tapering its asset purchases during the first half of next year.

The yield curve flattened in June. We believe multiple factors influenced Treasury rates in June, including market technicals, dollar strengthening, uneven global vaccination rates, and a more modest forecast for U.S. infrastructure spending than initially expected. Nevertheless, we believe longer-term rates have room to move higher this year and we believe the Treasury yield curve is poised to steepen in the second half of the year.

TREASURY YIELD CURVE POISED TO STEEPEN



The treasury yield curve is steeper on a year-over-year basis. The 3-month T-bill yield was about nine basis points lower, while the 2-year Treasury yield was about ten basis points higher, and the 10-Year Treasury yield was about 81 basis points higher, year-over-year, as of June month-end. The Fed has signaled plans to keep the front end of the Treasury yield curve anchored near zero until 2023. We believe longer-term rates still have room to move higher this year.

TREASURY YIELDS	Trend (▲/▼)	6/30/2021	5/31/2021	Change
3-Month	▲	0.04	0.01	0.03
2-Year	▲	0.25	0.14	0.11
3-Year	▲	0.46	0.30	0.16
5-Year	▲	0.89	0.80	0.09
7-Year	▼	1.24	1.26	-0.02
10-Year	▼	1.47	1.60	-0.13
30-Year	▼	2.09	2.28	-0.20

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 June

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.12	0.04	0.08
2-year A corporate note	0.14	0.15	(0.01)
5-year A corporate note	0.31	0.36	(0.05)
5-year Agency note	0.00	0.01	(0.01)

Source: Bloomberg

Data as of 6/30/2021

Economy Is Poised for Continued Above-Trend Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(71.24) $Bln MAY 21	(69.07) $Bln APR 21	(54.92) $Bln MAY 20
Gross Domestic Product	6.40% MAR 21	4.30% DEC 20	(5.00%) MAR 20
Unemployment Rate	5.90% JUN 21	5.80% MAY 21	11.10% JUN 20
Prime Rate	3.25% JUN 21	3.25% MAY 21	3.25% JUN 20
Commodity Research Bureau Index	213.39 JUN 21	205.70 MAY 21	137.97 JUN 20
Oil (West Texas Int.)	$73.47 JUN 21	$66.32 MAY 21	$39.27 JUN 20
Consumer Price Index (y/o/y)	5.00% MAY 21	4.20% APR 21	0.10% MAY 20
Producer Price Index (y/o/y)	8.70% MAY 21	9.50% APR 21	(3.20%) MAY 20
Dollar/Euro	1.19 JUN 21	1.22 MAY 21	1.12 JUN 20

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 5.0% year-over-year in May versus up 4.2% in April. Core CPI (CPI less food and energy) was up 3.8% year-over-year in May, versus up 3.0% in April. The Personal Consumption Expenditures (PCE) index was up 3.9% year-over-year in May, versus up 3.6% year-over-year in April. Core PCE was up 3.4% year-over-year in May, versus up 3.1% year-over-year in April. Current inflation readings are running well above the Fed's longer-run target of around 2.0%, though many of the factors are expected to be temporary.

Retail Sales

On a year-over-year basis, retail sales were up 28.1% in May versus up 53.4% in April. The year-over-year gains are distorted by the drop-off in spending and activity at the early stage of the pandemic last year. On a month-over-month basis, retail sales declined 1.3% in May, following a 0.9% increase in April. Retail sales have been somewhat uneven due to the timing of fiscal stimulus and economic reopening. Overall, we believe consumer spending remains healthy and consistent with an ongoing recovery in economic activity.

Labor Market

Job growth was stronger than expected in June. U.S. nonfarm payrolls increased by 850,000, versus the consensus forecast of 720,000. May payrolls were also revised up by 24,000 to 583,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 567,000 and 543,000 per month, respectively, which is indicative of a steady recovery in the labor market. The leisure and hospitality sectors continue to drive the job gains in June and increased by 343,000. Government payrolls also posted a solid increase of 188,000 in June. The labor participation rate was unchanged at 61.6% in June. The unemployment rate ticked higher to 5.9% in June from 5.8% in May. 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 9.8% in June from 10.2% in May. The index of aggregate private weekly payrolls was up 2.8% in June from February 2020, suggesting a solid increase in aggregate wages.

Housing Starts

Total housing starts rose 3.6% in May to an annual pace of 1,572,000. Single-family starts rose 4.2% in May while multi-family starts were up 2.4%. On a year-over-year basis, housing starts were up 50.3% in May, due in part to the steep decline in activity during the early stage of the pandemic last year.

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.

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