BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

APRIL 2021

Market Data

World Stock Market Indices
data as of 3/31/2021

		Change (2/26/21)	%CHG
S&P 500	3,972.89	161.74	4.24%
NASDAQ	13,246.87	54.52	0.41%
DOW JONES	32,981.55	2,049.18	6.62%
FTSE (UK)	6,713.63	230.20	3.55%
DAX (Germany)	15,008.34	1,222.05	8.86%
Hang Seng (Hong Kong)	28,378.35	-601.86	-2.08%
Nikkei (Japan)	29,178.80	212.79	0.73%

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

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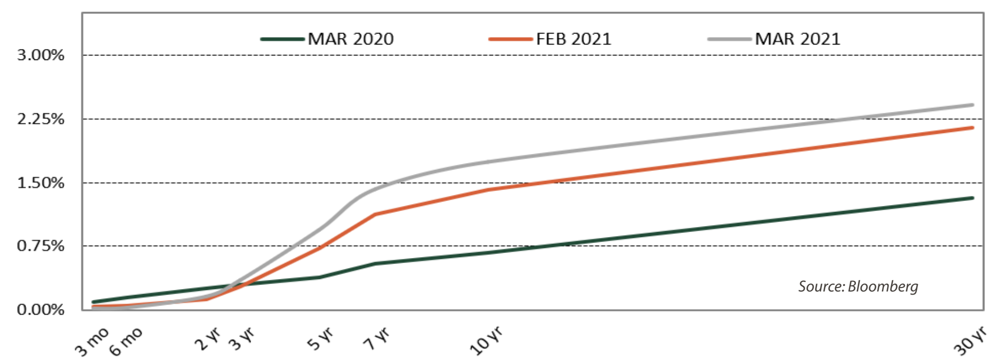
Market Summary

We believe economic growth is poised to accelerate meaningfully in the current quarter as vaccine distribution becomes more widespread in the US amid an ongoing backdrop of robust fiscal support, low interest rates, and accommodative monetary policy. The vaccine rollout has been faster than expected and roughly 20% of the US population is now fully vaccinated, and more than one third has received at least one dose. Meanwhile, robust fiscal spending along with the Federal Reserve's highly accommodative monetary policy continues to provide support for the economy and financial markets. Last month, President Biden signed a $1.9 trillion fiscal relief plan (bringing the total amount of pandemic-related fiscal relief legislation in the last year to about $5.5 trillion) and at then end of March he unveiled a $2.3 trillion infrastructure spending proposal. We expect some version of an infrastructure spending bill to come to fruition later this year. Estimates for US gross domestic product (GDP) growth this year continue to migrate higher. The current Bloomberg consensus estimate for 2021 US GDP growth is now 6.2%.

The Federal Open Market Committee kept monetary policy unchanged at their March meeting as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed also continues to purchase $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. The Fed intends to remain highly accommodative until the labor market has made a strong recovery and inflation is sustainably on track to achieve their 2.0% longer-run target. The Fed has signaled a willingness to let the economy run hot, in order to reach their goals. Most Fed policymakers still expect to keep the fed funds rate unchanged through 2023. Though inflation rates are likely to increase in the coming months, the Fed believes the increase is likely to be transient and the Fed intends to remain on the sidelines.

The yield curve is steeper on a year-over-year and year-to-date basis. At the end of March, the yield on 2-year Treasuries was about four basis points higher while the yield on 10-year Treasuries was nearly 83 basis points higher, on a year-to-date basis. In April, we have seen a modest retreat in longer-term Treasury yields. Nevertheless, we believe the Treasury yield curve is poised to modestly steepen further as the year progresses, which would be consistent with an improving economic outlook, more widespread vaccine distribution, the anticipation of ongoing fiscal spending, and a moderate pick-up in inflation.

THE TREASURY YIELD CURVE IS STEEPER



The treasury yield curve is much steeper relative to this time last year. The 3-month T-bill yield is about five basis points lower, and the 2-year Treasury yield is about nine basis points lower, while the 10-Year Treasury yield is about 107 basis points higher, year-over-year, as of March month-end. Yields declined precipitously in March 2020, with the Fed cutting rates by a total of 150 basis points and a flight to safe-haven assets driving down yields across the curve. The Fed has signaled plans to keep the front end of the Treasury yield curve anchored near zero until at least 2023.

TREASURY YIELDS	Trend (▲/▼)	3/31/2021	2/26/2021	Change
3-Month	▼	0.02	0.04	-0.02
2-Year	▲	0.16	0.13	0.03
3-Year	▲	0.35	0.28	0.07
5-Year	▲	0.94	0.73	0.21
7-Year	▲	1.42	1.12	0.30
10-Year	▲	1.74	1.41	0.34
30-Year	▲	2.41	2.15	0.26

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 Slightly in March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.19	0.08	0.11
2-year A corporate note	0.25	0.23	0.02
5-year A corporate note	0.39	0.35	0.04
5-year Agency note	(0.02)	(0.01)	(0.01)

Source: Bloomberg

Data as of 3/31/2021

The Economy is Poised for Accelerating Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(71.08) $Bln FEB 21	(67.82) $Bln JAN 21	(38.01) $Bln FEB 20
Gross Domestic Product	4.30% DEC 20	33.40% SEP 20	2.40% DEC 19
Unemployment Rate	6.00% MAR 21	6.20% FEB 21	4.40% MAR 20
Prime Rate	3.25% MAR 21	3.25% FEB 21	3.25% MAR 20
Commodity Research Bureau Index	184.96 MAR 21	190.43 FEB 21	121.79 MAR 20
Oil (West Texas Int.)	$59.16 MAR 21	$61.50 FEB 21	$20.48 MAR 20
Consumer Price Index (y/o/y)	1.70% FEB 21	1.40% JAN 21	2.30% FEB 20
Producer Price Index (y/o/y)	5.90% MAR 21	2.40 FEB 21	(1.50%) MAR 20
Dollar/Euro	1.17 MAR 21	1.21 FEB 21	1.10 MAR 20

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.7% year-over-year in February, versus up 1.4% year-over-year in January. However, Core CPI (CPI less food and energy) was up just 1.3% year-over-year in February, versus up 1.4% in January. The Personal Consumption Expenditures (PCE) index was up 1.6% year-over-year in February, versus up 1.4% year-over-year in January. Core PCE, which is the Fed's primary inflation gauge, was up 1.4% year-over-year in February, versus up 1.5% year-over-year in January. Inflation rates are likely to increase as we begin to cycle through the deflationary impact of the pandemic last year, but for now inflation remains below the Fed's longer-run 2.0% target.

Retail Sales

On a year-over-year basis, retail sales were up 6.3% in February versus up 9.5% in January. On a month-over-month basis, retail sales fell 3.0% in February, following a sizable 7.6% increase in January. While January sales were boosted by federal stimulus checks, February sales were likely hindered by severe winter weather. We expect retail sales to bounce back in March, as another round of federal stimulus checks were delivered in the month.

Labor Market

U.S. nonfarm payrolls were much stronger than expected in March, up 916,000, versus the Bloomberg consensus forecast of 660,000. February payrolls were also revised higher reflecting a 468,000 gain. Payrolls in the leisure and hospitality sector showed the strongest gains adding another 280,000 jobs. As expected, the unemployment rate declined to 6.0% in March from 6.2% in February. The participation rate increased in March to 61.5% from 61.4% last month but remains below pre-pandemic levels. Although the employment picture continues to improve, payrolls are approximately 8.4 million below the 152.5 million level prior to the pandemic. 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 10.7% in March from 11.1% in February.

Housing Starts

Total housing starts declined 10.3% in February to an annual pace of 1,421,000. Single family starts fell 8.5% to an annualized rate of 1,040,000, while multi-family starts fell 15.0% to an annualized rate of 381,000. On a year-over-year basis, total housing starts were down 9.3% in February. Meanwhile, permits declined 10.8% on a month-over-month basis in February, to an annualized rate of 1,682,000. It appears that rising mortgage rates is beginning to present a headwind to the housing sector which has been quite strong during the pandemic.

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.