BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

CHANDLER ASSET MANAGEMENT

DECEMBER 2020

Market Data

World Stock Market Indices
data as of 11/30/2020

		Change (10/30/20)	%CHG
S&P 500	**3,621.63**	351.67	10.75%
NASDAQ	**12,198.74**	1,287.15	11.80%
DOW JONES	**29,638.64**	3,137.04	11.84%
FTSE (UK)	**6,266.19**	688.92	12.35%
DAX (Germany)	**13,291.16**	1,734.68	15.01%
Hang Seng (Hong Kong)	**26,341.49**	2,234.07	9.27%
Nikkei (Japan)	**26,433.62**	3,456.49	15.04%

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

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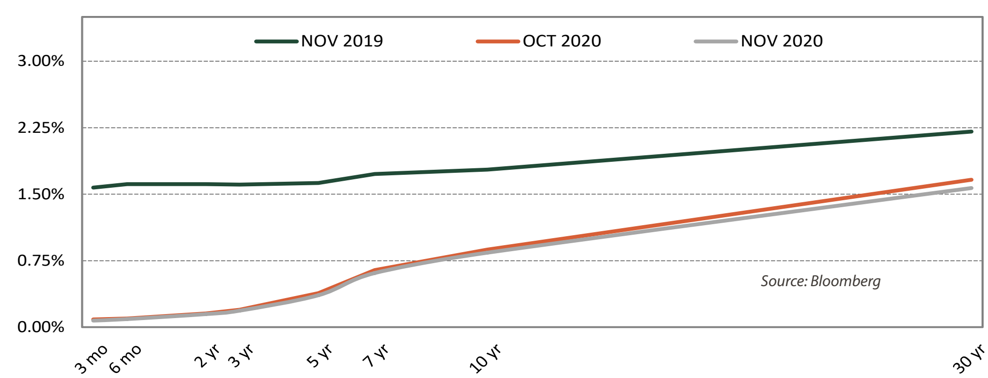
Market Summary

The economy has improved significantly from the early stage of the pandemic, but GDP remains well below its pre-pandemic peak and unemployment remains elevated. In the near-term, we believe downside risks to the economy remain due to a resurgence of the virus and the ongoing stalemate in Congress over additional fiscal relief. Economic data is likely to soften in the next few months, in our view, as many regions implement renewed lockdown measures. Looking further ahead, however, we remain very optimistic about progression toward a vaccine, which should help propel the economic recovery next year. A limited number of vaccine doses are expected to be available before year-end, and we expect more widespread distribution of a vaccine by the second or third quarter of next year. We believe ongoing progress on both vaccines and therapeutics will help fuel the economic recovery in 2021, especially in the back half of the year. We also expect the Fed's highly accommodative monetary policy framework will continue to provide support for the financial markets.

The Fed intends to remain highly accommodative until their goals of maximum employment and higher inflation are achieved. The Fed has signaled that the fed funds rate may remain unchanged (in a range of 0.0% to 0.25%) until at least 2023. We expect the FOMC to remain quite dovish over the near term, even as new voting members rotate onto the committee in January. However, some of the Federal Reserve's emergency lending facilities (which were created to help stabilize the financial markets earlier this year) are set to expire at year-end and have not been renewed. This includes the Fed's corporate credit, asset-backed securities, municipal lending, and Main Street Lending programs. We believe the Fed would request approval to reestablish those programs if financial market volatility were to pick up significantly.

The Treasury yield curve flattened slightly in November on a month-over-month basis, likely due to the resurgence of the virus. On a year-to-date basis, the yield on 2-year Treasuries was down 142 basis points to 0.15% and the yield on 10-year Treasuries was down about 108 basis points to 0.84% at the end of November. We believe the Treasury yield curve is poised to steepen in 2021 as the economy reopens, driven by an increase in longer-term rates as the front end of the curve is likely to remain anchored near 0.0%.

RELATIVE TO LAST YEAR, THE TREASURY YIELD CURVE IS STEEPER



At November month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 150 basis points, the 2-year Treasury yield was down 146 basis points, and the 10-Year Treasury yield was down 94 basis points, year-over-year. However, relative to this time last year, the yield curve is steeper, as short-term rates have declined more than long-term rates.

TREASURY YIELDS	Trend (▲/▼)	11/30/2020	10/30/2020	Change
3-Month	▼	0.08	0.09	-0.01
2-Year	▼	0.15	0.16	-0.01
3-Year	▼	0.19	0.20	-0.01
5-Year	▼	0.36	0.39	-0.03
7-Year	▼	0.61	0.64	-0.03
10-Year	▼	0.84	0.88	-0.04
30-Year	▼	1.57	1.66	-0.09

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 November

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.10	0.10	0.00
2-year A corporate note	0.21	0.26	(0.05)
5-year A corporate note	0.45	0.53	(0.08)
5-year Agency note	0.10	0.11	(0.01)

Source: Bloomberg Data as of 11/30/2020

Economic Data has Softened with a Resurgence of the Virus

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(63.12) $Bln OCT 20	(62.08) $Bln SEP 20	(43.03) $Bln OCT 19
Gross Domestic Product	33.10% SEP 20	(31.40%) JUN 20	2.60% SEP 19
Unemployment Rate	6.70% NOV 20	6.90% OCT 20	3.50% NOV 19
Prime Rate	3.25% NOV 20	3.25% OCT 20	4.75% NOV 19
Commodity Research Bureau Index	160.06 NOV 20	144.73 OCT 20	176.66 NOV 19
Oil (West Texas Int.)	$45.34 NOV 20	$35.79 OCT 20	$55.17 NOV 19
Consumer Price Index (y/o/y)	1.20% OCT 20	1.40% SEP 20	1.80% OCT 19
Producer Price Index (y/o/y)	(1.10%) OCT 20	(1.20%) SEP 20	(0.20%) OCT 19
Dollar/Euro	1.19 NOV 20	1.16 OCT 20	1.10 NOV 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.2% year-over-year in October, versus up 1.4% in September. Core CPI (CPI less food and energy) was up 1.6% year-over-year in October, versus up 1.7% in September. The Personal Consumption Expenditures (PCE) index was up 1.2% year-over-year in October, versus up 1.4% year-over-year in September. Core PCE, which is the Fed's primary inflation gauge, was up 1.4% year-over-year in October, versus up 1.6% year-over-year in September. Inflation remains well below the Fed's target.

Retail Sales

Consumer spending trends were a bit softer than expected but remained healthy in October. On a year-over-year basis, retail sales were up 5.7% in October (a solid increase) versus 5.9% in September. On a month-over-month basis, retail sales increased 0.3% in October (versus the consensus forecast of 0.5%), driven in part by strong vehicle sales. Excluding vehicles and gas, retail sales increased just 0.2% versus expectations of 0.6%. On a seasonally adjusted basis, October retail sales eased in several categories including clothing, furniture, general merchandise, restaurants, and sporting goods. Meanwhile, non-store (i.e., online) sales remained very strong in October, which was likely driven in part by the shift of Amazon Prime Day into October this year.

Labor Market

The pace of job growth slowed in November, as U.S. nonfarm payrolls increased by just 245,000, following gains of 711,000 and 610,000 in September and October, respectively. On a cumulative basis, the labor market has added about 12.3 million jobs since May, more than half the 22.2 million lost in March and April. However, the labor market is still a long way from a full recovery as more than 10.7 million people remain unemployed. Nevertheless, the unemployment rate declined to 6.7% in November from 6.9% in October and has improved significantly from the peak of 14.7% in April. Workers who classified themselves as employed but absent from work in November continued to understate the unemployment rate by about 0.4%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, remained high but eased slightly to 12.0% in November from 12.1% in October. However, the labor participation rate declined to 61.5% in November from 61.7% in October, as about 400,000 people dropped out of the workforce in November. On a year-to-date basis, the size of the civilian workforce is lower by about 4.1 million participants.

Housing Starts

Total housing starts increased 4.9% in October to an annual pace of 1,530,000. Single family starts rose 6.4% to an annualized rate of 1,179,000, while multi-family starts were unchanged an annualized rate of 351,000. On a year-over-year basis, total housing starts were up 14.2% in October. Meanwhile, permits were unchanged on a month-over-month basis in October, at an annualized rate of 1,545,000. The housing market has been an area of strength during the pandemic. Very low mortgage rates, solid stock market performance, and a meaningful shift toward working from home are providing strong tailwinds for the housing sector.

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.