CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

JANUARY 2021

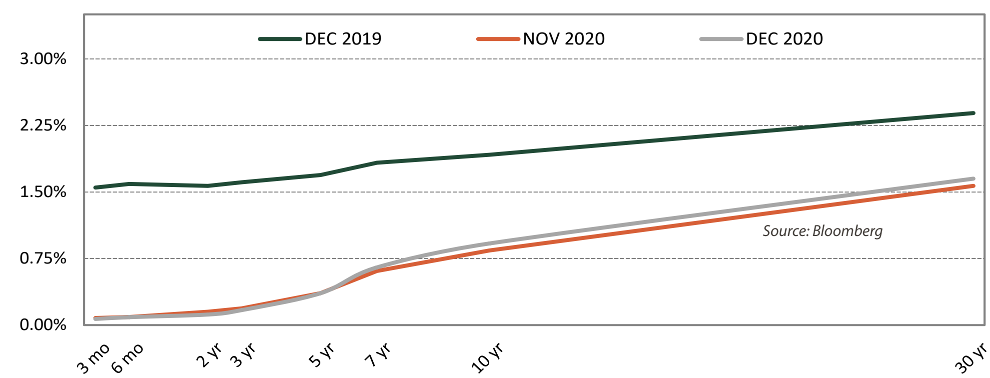
Market Summary

While we remain optimistic about the longer-term outlook, recent economic data suggests that the economy has lost momentum as virus cases have risen. We believe the near-term will remain challenging as the labor market remains under pressure and many regions have renewed business restrictions due to the virus. However, the passage of a new $900 billion COVID-19 fiscal relief bill should help cushion the economy over the next few months, and we believe the incoming Presidential administration will have a keen focus on accelerating vaccine distribution and getting the economy back on track. While the vaccine rollout has gotten off to a slow start, we expect more widespread distribution of vaccines in the second and third quarter of 2021. We also expect the Fed's highly accommodative monetary policy framework will continue to provide support for the financial markets.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at their December meeting as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed intends to remain highly accommodative until their goals of maximum employment and higher inflation are achieved. The Fed's summary of economic projections continues to signal that the target fed funds rate will remain unchanged until at least 2023, as policymakers do not expect inflation to exceed 2.0% during that timeframe. Until the Fed has made substantial progress toward achieving their dual mandate of maximum employment and price stability, they have set a floor for monthly asset purchases of at least $80 billion per month of Treasuries and $40 billion per month of agency mortgage-backed securities. Notably, the Fed's outlook for GDP over the next few years was revised higher and the outlook for unemployment was revised lower compared with their previous forecasts in September, which suggests increased optimism. Nevertheless, the outlook remains uncertain and Fed Chair Powell indicated that the Fed would increase policy accommodation further if progress toward their dual mandate slows.

The Treasury yield curve steepened in December, due at least in part by favorable developments on the vaccine front and anticipation of improving economic activity in 2021. The yield on 2-year Treasuries was down slightly to 0.12% while the yield on 10-year Treasuries was up nearly eight basis point to 0.92%.

RATES REMAIN LOW BUT THE TREASURY YIELD CURVE HAS STEEPENED



In 2020, Treasury yields declined but the curve steepened as short-term rates declined more than long-term rates. The 3-month T-bill yield was down 149 basis points, the 2-year Treasury yield was down 145 basis points, and the 10-Year Treasury yield was down 100 basis points, year-over-year.

TREASURY YIELDS	Trend (▲/▼)	12/31/2020	11/30/2020	Change
3-Month	▼	0.07	0.08	-0.01
2-Year	▼	0.12	0.15	-0.03
3-Year	▼	0.17	0.19	-0.02
5-Year	-	0.36	0.36	0.00
7-Year	▲	0.65	0.61	0.04
10-Year	▲	0.92	0.84	0.08
30-Year	▲	1.65	1.57	0.08

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 12/31/2020

	Change (11/30/20)	%CHG
S&P 500		
3,756.07	134.44	3.71%
NASDAQ		
12,888.28	689.54	5.65%
DOW JONES		
30,606.48	967.84	3.27%
FTSE (UK)		
6,460.52	194.33	3.10%
DAX (Germany)		
13,718.78	427.62	3.22%
Hang Seng (Hong Kong)		
27,231.13	889.64	3.38%
Nikkei (Japan)		
27,444.17	1,010.55	3.82%

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

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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 December

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.08	0.10	(0.02)
2-year A corporate note	0.20	0.21	(0.01)
5-year A corporate note	0.41	0.45	(0.04)
5-year Agency note	0.06	0.10	(0.04)

Source: Bloomberg

Data as of 12/31/2020

Economic Data has Softened with a Resurgence of the Virus

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(68.14) $Bln NOV 20	(63.11) $Bln OCT 20	(41.05) $Bln NOV 19
Gross Domestic Product	33.40% SEP 20	(31.40%) JUN 20	2.60% SEP 19
Unemployment Rate	6.70% DEC 20	6.70% NOV 20	3.60% DEC 19
Prime Rate	3.25% DEC 20	3.25% NOV 20	4.75% DEC 19
Commodity Research Bureau Index	167.80 DEC 20	160.06 NOV 20	185.79 DEC 19
Oil (West Texas Int.)	$48.52 DEC 20	$45.34 NOV 20	$61.06 DEC 19
Consumer Price Index (y/o/y)	1.20% NOV 20	1.20% OCT 20	2.10% NOV 19
Producer Price Index (y/o/y)	(1.30%) NOV 20	(1.10%) OCT 20	(1.00%) NOV 19
Dollar/Euro	1.22 DEC 20	1.19 NOV 20	1.12 DEC 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.2% year-over-year in November, unchanged from October. Core CPI (CPI less food and energy) was up 1.6% year-over-year in November, also unchanged from October. The Personal Consumption Expenditures (PCE) index was up 1.1% year-over-year in November, versus up 1.2% year-over-year in October. Core PCE, which is the Fed's primary inflation gauge, was up 1.4% year-over-year in November, unchanged from October. Inflation remains below the Fed's target.

Retail Sales

Consumer spending trends softened in November. On a year-over-year basis, retail sales were up 4.1% in November versus 5.5% in October. On a month-over-month basis, retail sales declined 1.1% in November, with broad-based declines in many categories on a seasonally adjusted basis. Excluding vehicles and gas, retail sales fell 0.8% in November, following a 0.1% decline in October. Notably, retail sales make up roughly one third of the personal consumption expenditures component of US gross domestic product (GDP), while services revenue comprises roughly two thirds. Spending on services has been hit particularly hard by the pandemic and lagged the pick-up in overall third quarter GDP. While retail sales remain higher on a year-over-year basis, we believe this has been partially boosted by the contraction in spending on services.

Labor Market

U.S. nonfarm payrolls declined by 140,000 in December. It was the first monthly decline in nonfarm payrolls since April of last year and came in well below expectations for a 50,000 gain. The monthly decline was led by the leisure and hospitality sector which experienced a 498,000 net decline in payrolls in December, along with modest declines in government jobs and education and health services. The unemployment rate was unchanged in December at 6.7% and has improved significantly from the peak of 14.8% last April. Nevertheless, more than 10.7 million people remain unemployed. Workers who classified themselves as employed but absent from work in December continued to understate the unemployment rate by about 0.6%. 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 declined to 11.7% in December from 12.0% in November. The labor participation rate was unchanged at 61.5% in December and remains well below pre-pandemic levels.

Housing Starts

Total housing starts increased 1.2% in November to an annual pace of 1,547,000. Single family starts inched up 0.4% to a very strong annualized rate of 1,186,000, while multi-family starts increased 4.0% to an annualized rate of 361,000. On a year-over-year basis, total housing starts were up 12.8% in November, driven by growth in single-family starts. Meanwhile, permits were up 6.2% on a month-over-month basis in November, to an annualized rate of 1,639,000 (the strongest rate since 2006).

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.