

JULY 2020



## Market Data

World Stock Market Indices  
 data as of 6/30/2020

	Diff (5/31/20)	% Change
S&P 500	3,100.29	55.98 1.84%
NASDAQ	10,058.77	568.90 5.99%
DOW JONES	25,812.88	429.77 1.69%
FTSE (UK)	6,169.74	93.14 1.53%
DAX (Germany)	12,310.93	724.08 6.25%
Hang Seng (Hong Kong)	24,427.19	1,465.72 6.38%
Nikkei (Japan)	22,288.14	410.25 1.88%

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

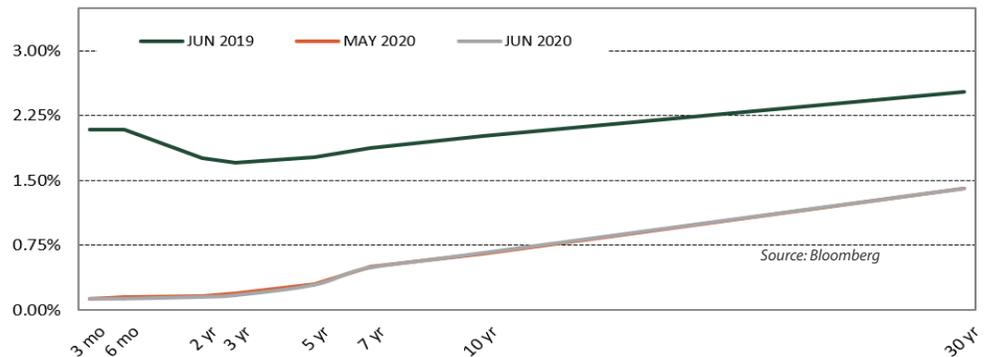
## Market Summary

We believe the economy contracted sharply in the second quarter, but market participants are expecting a meaningful rebound in the current quarter. Although we anticipate that the recovery will be somewhat bumpy, we believe the weakest economic data is in the rearview mirror. Robust fiscal and monetary relief should continue to fuel improvement in economic output in the second half of the year. Job destruction from the pandemic has been severe but many jobs have started to return as indicated by the better than expected employment reports for May and June. Nevertheless, we believe there will be a growing amount of pressure on the federal government to provide additional fiscal relief this month, particularly as some temporary unemployment benefits are set to expire at the end of July. We believe the call for more state and local government fiscal support as well as another round of direct payments to households is likely to mount in the coming weeks.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at its June 9-10 meeting, as expected, with the fed funds target rate in the range of 0%-0.25%. According to the Fed's economic projections, policymakers expect to keep that range unchanged through 2022. Although some economic data has recently surprised to the upside, Fed Chair Powell has maintained a dovish tone. Multiple Fed policymakers have cautioned that the outlook for the economy remains highly uncertain and depends largely on the path of the pandemic. Overall, the Fed remains highly accommodative and we believe the Fed will continue to use its balance sheet to any extent necessary to support the flow of credit and stability of financial markets.

Treasury yields were nearly unchanged in June. The yield on 2-year Treasuries declined about one basis point to 0.15% and the yield on 10-year Treasuries was essentially unchanged at 0.66%. Global economic weakness continues to put downward pressure on inflation expectations. An ongoing global demand for safe-haven assets has also kept a lid on Treasury rates.

### TREASURY YIELDS REMAIN LOW ON A HISTORICAL BASIS



At June month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 196 basis points, the 2-year Treasury yield was down 161 basis points, and the 10-Year Treasury yield was down 135 basis points, year-over-year. Much of the spread movement was in the month of March 2020, with the Fed cutting rates by a total of 150 basis points and concerns about a global recession and a flight to safe-haven assets driving down yields across the curve.

TREASURY YIELDS	Trend (▲/▼)	6/30/2020	5/31/2020	Change
3-Month	-	0.13	0.13	0.00
2-Year	▼	0.15	0.16	-0.01
3-Year	▼	0.17	0.19	-0.02
5-Year	▼	0.29	0.30	-0.01
7-Year	▼	0.49	0.50	-0.01
10-Year	▲	0.66	0.65	0.01
30-Year	-	1.41	1.41	0.00

Source: Bloomberg

# BOND MARKET REVIEW

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 Continued to Tighten in June

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.00	0.07	(0.07)
2-year A corporate note	0.35	0.43	(0.08)
5-year A corporate note	0.66	0.79	(0.13)
5-year Agency note	0.18	0.20	(0.02)

Source: Bloomberg

Data as of 6/30/2020

## Economic Data is Showing Early Signs of Improvement

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(54.60) \$Bln MAY 20	(49.80) \$Bln APR 20	(51.30) \$Bln MAY 19
Gross Domestic Product	(5.00%) MAR 20	2.10% DEC 19	3.10% MAR 19
Unemployment Rate	11.10% JUN 20	13.30% MAY 20	3.70% JUN 19
Prime Rate	3.25% JUN 20	3.25% MAY 20	5.50% JUN 19
Commodity Research Bureau Index	137.97 JUN 20	132.24 MAY 20	181.04 JUN 19
Oil (West Texas Int.)	\$39.27 JUN 20	\$35.49 MAY 20	\$58.47 JUN 19
Consumer Price Index (y/o/y)	0.10% MAY 20	0.30% APR 20	1.80% MAY 19
Producer Price Index (y/o/y)	(2.80%) MAY 20	(5.10%) APR 20	1.30% MAY 19
Dollar/Euro	1.12 JUN 20	1.11 MAY 20	1.14 MAY 19

Source: Bloomberg

## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 0.1% year-over-year in May, down from 0.3% in April. Core CPI (CPI less food and energy) was up just 1.2% year-over-year in May, down from 1.4% in April. The Personal Consumption Expenditures (PCE) index was up just 0.5% year-over-year in May, versus up 0.6% year-over-year in April and 1.3% in March. Core PCE, which is the Fed's primary inflation gauge, was up 1.0% year-over-year in May, versus up 1.0% year-over-year in April and 1.7% in March. Consumer pricing data indicate that the effect of the pandemic has been deflationary.

### Retail Sales

On a year-over-year basis, retail sales were down 6.1% in May versus down of 19.9% in April. On a month-over-month basis, retail sales jumped 17.7% in May (a much stronger rebound than expected), following a 14.7% decline in April. In May, month-over-month increases were particularly strong for clothing, furniture, sporting goods, electronics, appliances, and auto sales.

### Labor Market

U.S. nonfarm payrolls were better than expected in June increasing by 4,800,000 versus expectations of 3,230,000. The unemployment rate declined to 11.1% in June (versus expectations of 12.5%) from 13.3% in May. If the workers who classified themselves as employed but absent from work in the June survey had instead been classified as unemployed on temporary layoff, the total unemployment rate would have been about 1% higher. Job growth was broad-based in June, with particularly strong gains in leisure and hospitality and retail trade, but the improvement was still a long way from recovering the number of jobs lost in those sectors in April. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, remained very high but eased to 18.0% in June from 21.2% in May. The labor participation rate increased to 61.5% in June from 60.8% in May.

### Housing Starts

Housing starts rose 4.3% in May to an annual pace of 974,000. Single family starts were roughly flat at an annualized rate of 675,000, while multi-family starts increased 15.0% to an annualized rate of 299,000. Permits increased 14.4% in May to an annualized rate of 1,220,000.

### 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.

©2020 Chandler Asset Management, Inc, An Independent Registered Investment Adviser.

Data source: Bloomberg and the U.S. Department of Labor. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment. Fixed income investments are subject to interest, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.