

MARCH 2021



Market Data

World Stock Market Indices
 data as of 2/26/2021

	Change (1/29/21)	%CHG
S&P 500	3,811.15	96.91 2.61%
NASDAQ	13,192.35	121.66 0.93%
DOW JONES	30,932.37	949.75 3.17%
FTSE (UK)	6,483.43	75.97 1.19%
DAX (Germany)	13,786.29	353.42 2.63%
Hang Seng (Hong Kong)	28,980.21	696.50 2.46%
Nikkei (Japan)	28,966.01	1,302.62 4.71%

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

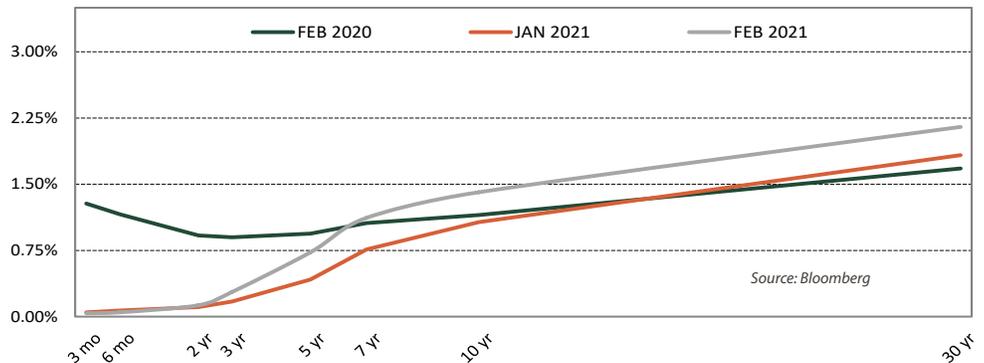
Market Summary

Estimates for US gross domestic product (GDP) growth this year have been revised higher. The current Bloomberg consensus estimate for 2021 US GDP growth is 5.5% (following a 3.5% decline last year). Although the labor market is still a long way from a full recovery, robust fiscal support should help support the economy in the near-term. During 2020, Congress approved about \$3.6 trillion in COVID-19 fiscal relief and the passage of an additional \$1.9 trillion relief package is imminent. The White House is also crafting a proposal for an approximate \$2 trillion infrastructure spending plan. Meanwhile, Fed policymakers remain dovish and monetary policy remains highly accommodative. Moreover, the vaccine rollout is accelerating at a faster than expected pace. Altogether, we believe these factors could set the economy up for a fairly strong second half of the year.

The next FOMC meeting is scheduled for March 16-17, 2021. Monetary policy remains highly accommodative 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. Fed Chair Powell has clearly indicated that the Fed plans to keep rates low and that the Fed's bond purchases will continue at least at the current pace until there is more substantial improvement in the labor market and inflation. While the Fed anticipates that inflation could be somewhat volatile this year, they do not believe any increase is likely to be large or persistent. We expect the Fed to look through any near-term increase in inflation, even if it begins to exceed 2.0% this spring as we cycle the deflationary impact of the pandemic last year.

The Treasury yield curve has steepened. As of February month-end, the yield on 2-year Treasuries was little changed on a year-to-date basis, while the yield on 10-year Treasuries was 49 basis points higher. In February, the yield on 5-year Treasuries increased 31 basis points to 0.73%, while the yield on 10-year Treasuries increased nearly 34 basis points to 1.41%. We believe the Treasury yield curve is poised to steepen modestly further in 2021 which would be consistent with an improving economic outlook, more widespread vaccine distribution, the anticipation of ongoing fiscal stimulus, and a pick-up in inflation.

THE TREASURY YIELD CURVE HAS STEEPENED



The treasury yield curve is much steeper relative to this time last year. The 3-month T-bill yield is 123 basis points lower, and the 2-year Treasury yield is nearly 79 basis points lower, while the 10-Year Treasury yield is about 26 basis points higher, year-over-year, as of February 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. For the past few months, longer-term yields have been rising and the yield curve has steepened. 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 (▲/▼)	2/26/2021	1/29/2021	Change
3-Month	▼	0.04	0.05	-0.01
2-Year	▲	0.13	0.11	0.02
3-Year	▲	0.28	0.17	0.11
5-Year	▲	0.73	0.42	0.31
7-Year	▲	1.12	0.76	0.37
10-Year	▲	1.41	1.07	0.34
30-Year	▲	2.15	1.83	0.32

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 Tightened in February

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.08	0.11	(0.03)
2-year A corporate note	0.23	0.22	0.01
5-year A corporate note	0.35	0.44	(0.09)
5-year Agency note	(0.01)	0.06	(0.07)

Source: Bloomberg

Data as of 2/26/2021

The Economy is Likely Poised for Accelerating Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(68.21) \$Bln JAN 21	(66.97) \$Bln DEC 20	(44.38) \$Bln JAN 20
Gross Domestic Product	4.10% DEC 20	33.40% SEP 20	2.40% DEC 19
Unemployment Rate	6.20% FEB 21	6.30% JAN 21	3.50% FEB 20
Prime Rate	3.25% FEB 21	3.25% JAN 21	4.75% FEB 20
Commodity Research Bureau Index	190.43 FEB 21	174.20 JAN 21	159.45 FEB 20
Oil (West Texas Int.)	\$61.50 FEB 21	\$52.20 JAN 21	\$44.76 FEB 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)	0.40% JAN 21	(0.50%) DEC 20	2.50% JAN 20
Dollar/Euro	1.21 FEB 21	1.21 JAN 21	1.10 FEB 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 1.5% year-over-year in January, versus up 1.3% year-over-year in December. Core PCE, which is the Fed's primary inflation gauge, was up 1.5% year-over-year in January, versus up 1.4% year-over-year in December. Inflation rates are likely to increase as we begin to cycle the start of the pandemic, but for now inflation remains below the Fed's longer-run 2.0% target.

Retail Sales

Retail sales picked up in January, helped by another round of federal stimulus checks, following a somewhat sluggish holiday shopping season. On a year-over-year basis, retail sales were up 7.4% in January versus up 2.5% in December. On a month-over-month basis, retail sales increased 5.3% in January, following a 1.0% decline in December and a 1.3% decline in November. The increase in January was broad-based. Excluding vehicles and gas, retail sales increased 6.1% month-over-month in January.

Labor Market

U.S. nonfarm payrolls were stronger than expected in February, up 379,000, versus the Bloomberg consensus forecast of 200,000. January payrolls were also revised up by 117,000. Payrolls in the leisure and hospitality sector improved in February and were up 355,000, following a combined decline of 523,000 in December and January. The unemployment rate declined to 6.2% in February from 6.3% in January. The participation rate was unchanged in February at 61.4% and remained well below pre-pandemic levels. On a year-over-year basis, the size of the US civilian labor force has declined by more than 4.2 million people. Meanwhile, nearly ten million people remain unemployed. Workers who classified themselves as employed but absent from work in February continued to understate the unemployment rate by about 0.5%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, was unchanged at 11.1% in February.

Housing Starts

Total housing starts declined 6.0% in January to an annual pace of 1,580,000. Single family starts fell 12.2% to an annualized rate of 1,162,000, while multi-family starts actually rose 17.1% to an annualized rate of 418,000. On a year-over-year basis, total housing starts were down 2.3% in January. However, permits jumped 10.4% on a month-over-month basis in January, to an annualized rate of 1,881,000 (the strongest rate since 2006), suggesting that the outlook for construction activity is positive.

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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