

May 2020



## Market Data

World Stock Market Indices  
 data as of 4/30/2020

		Diff (3/31/20)	% Change
S&P 500	2,912.43	327.84	12.68%
NASDAQ	8,889.55	1,189.45	15.45%
DOW JONES	24,345.72	2,428.56	11.08%
FTSE (UK)	5,901.21	229.25	4.04%
DAX (Germany)	10,861.64	925.80	9.32%
Hang Seng (Hong Kong)	24,643.59	1,040.11	4.41%
Nikkei (Japan)	20,193.69	1,276.68	6.75%

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

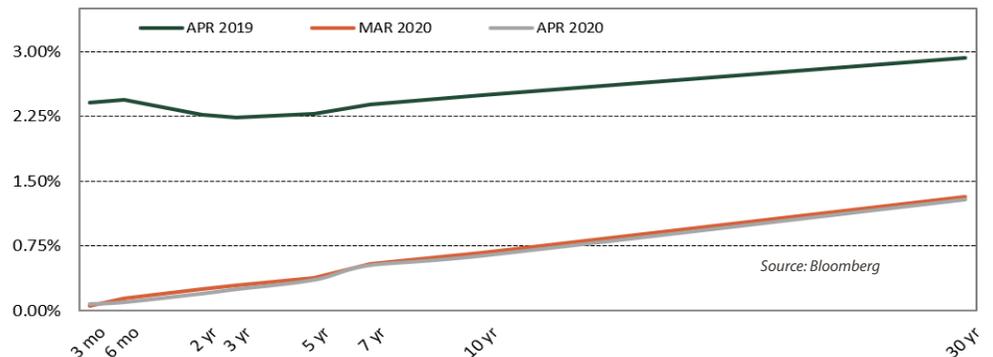
## Market Summary

Financial market turbulence eased in April and the S&P 500 index increased 12.7% in the month, even as economic data weakened. Supported by a historic fiscal and monetary response, we believe equity market participants are generally looking through the weak economic data and expect conditions to improve in the second half of the year. First quarter GDP declined 4.8% and the decline in second quarter GDP is expected to be more severe, but market participants are expecting a return to growth in the third quarter. More than 33 million people have filed for unemployment since mid-March, which equates to roughly 20% of the labor force, though many of those jobs are expected to return when the economy begins to reopen. Overall, second quarter economic data is expected to be dismal. We believe additional fiscal stimulus, beyond the \$2.7 trillion that has already been announced, may be necessary to foster a strong recovery.

The Federal Open Market Committee (FOMC) kept monetary policy on hold at its April 28-29 meeting, as expected, with the fed funds target rate in the range of 0%-0.25%. The FOMC expects to keep that range unchanged until they are confident the economy has weathered the pandemic and is back on track to achieving their dual mandate of maximum employment and price stability. The FOMC pledged to use "its full range of tools to support the U.S. economy in this challenging time." The Fed continues to purchase Treasury and agency mortgage-backed securities as needed to support smooth market functioning. They have announced a range of lending programs in the last few months to help build confidence in the financial markets and support the flow of credit to households, businesses, and municipalities. The Fed indicated the pandemic will weigh heavily on the economy in the near-term and poses considerable risks to the outlook over the next year or so.

Treasury yields declined slightly in April. The yield on 2-year Treasuries declined five basis points to 0.20% (the lowest level since 2011) and the yield on 10-year Treasuries declined three basis points to 0.64%. The yield on 2-year Treasuries has declined further in May, dipping to as low as 0.105% last Friday; an all-time record low. Global economic weakness and the recent collapse in oil prices has put downward pressures on inflation expectations. An ongoing global demand for safe-haven dollar-denominated assets has also kept a lid on Treasury rates. The Treasury yield curve suggests that the Fed is likely to keep its main policy rate near the zero bound for an extended period.

## TREASURY YIELDS DECLINED



At April month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 233 basis points, the 2-year Treasury yield was down 207 basis points, and the 10-Year Treasury yield was down 186 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. During April 2020, Treasury yields were little changed.

TREASURY YIELDS	Trend (▲/▼)	4/30/2020	3/31/2020	Change
3-Month	▲	0.08	0.06	0.02
2-Year	▼	0.20	0.25	-0.05
3-Year	▼	0.25	0.29	-0.04
5-Year	▼	0.36	0.38	-0.02
7-Year	▼	0.53	0.54	-0.01
10-Year	▼	0.64	0.67	-0.03
30-Year	▼	1.29	1.32	-0.03

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 April

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.40	2.02	(1.62)
2-year A corporate note	0.76	1.70	(0.94)
5-year A corporate note	1.03	1.81	(0.78)
5-year Agency note	0.23	0.28	(0.05)

Source: Bloomberg

Data as of 4/30/2020

## Economic Data Is Deteriorating Rapidly Due to the COVID-19 Pandemic

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(44.40) \$Bln MAR 20	(39.80) \$Bln FEB 20	(52.70) \$Bln MAR 19
Gross Domestic Product	(4.80%) MAR 20	2.10% DEC 19	3.10% MAR 19
Unemployment Rate	14.70% APR 20	4.40% MAR 20	3.60% APR 19
Prime Rate	3.25% APR 20	3.25% MAR 20	5.50% APR 19
Commodity Research Bureau Index	117.20 APR 20	121.79 MAR 20	184.25 APR 19
Oil (West Texas Int.)	\$18.84 APR 20	\$20.48 MAR 20	\$63.91 APR 19
Consumer Price Index (y/o/y)	1.50% MAR 20	2.30% FEB 20	1.90% MAR 19
Producer Price Index (y/o/y)	(0.90%) MAR 20	1.20% FEB 20	1.40% MAR 19
Dollar/Euro	1.10 APR 20	1.10 MAR 20	1.12 APR 19

Source: Bloomberg

## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 0.3% year-over-year in April, down significantly from 1.5% in March. Core CPI (CPI less food and energy) was up just 1.4% year-over-year in April, down from 2.1% in March. The Personal Consumption Expenditures (PCE) index was up 1.3% year-over-year in March, down from 1.8% year-over-year in February. Core PCE, which is the Fed's primary inflation gauge, was up 1.7% year-over-year in March versus 1.8% year-over-year in February. Core PCE was trending below the Fed's 2.0% inflation target before the COVID-19 pandemic. Consumer pricing data indicate that the initial net effect of the pandemic has been disinflationary.

### Retail Sales

On a year-over-year basis, retail sales fell 6.2% in March versus an increase of 4.3% in February. On a month-over-month basis, retail sales plunged 8.7% in March, the worst monthly decline on record. Vehicle, gasoline, restaurant, and clothing sales were particularly weak in the month. On a control group basis, retail sales rose 1.9% in March (which was better than expected), helped by a surge in consumer stockpiling.

### Labor Market

U.S. nonfarm payrolls declined by 20,500,000 in April, following an 870,000 decline in March. The unemployment rate increased to 14.7% in April from 4.4% in March, and the labor participation rate declined to 60.2% from 62.7%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, jumped to 22.8% from 8.7%. The pace and severity of job destruction resulting from the pandemic is unprecedented. Average hourly earnings rose 4.7% in April and were up 7.9% on year-over-year basis (vs. up 3.3% year-over-year in March), which reflects the destruction of lower paid jobs.

### Housing Starts

Housing starts declined 22.3% in March to an annual pace of 1.216 million, although the pace was 1.4% higher on a year-over-year basis. On a month-over-month basis, single family starts fell 17.5% to an annualized rate of 856,000, while multi-family starts declined 31.7% to an annualized rate of 360,000. Although the month-over-month declines in activity were significant in March, housing starts are generally on pace with the rate from one year ago.

### 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. 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. Source: ICE Data Indices, LLC ("ICE"), used with permission. ICE permits the use of ICE Indices and related data on an "as is" basis; ICE, its affiliates and their respective third party suppliers disclaim any and all warranties and representation, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE data, its affiliates or their respective third-party providers guarantee the quality, adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and licensee's use is at licensee's own risk. ICE data, its affiliates and their respective third party do not sponsor, endorse, or recommend Chandler, or any of its products or services.