BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

MAY 2021

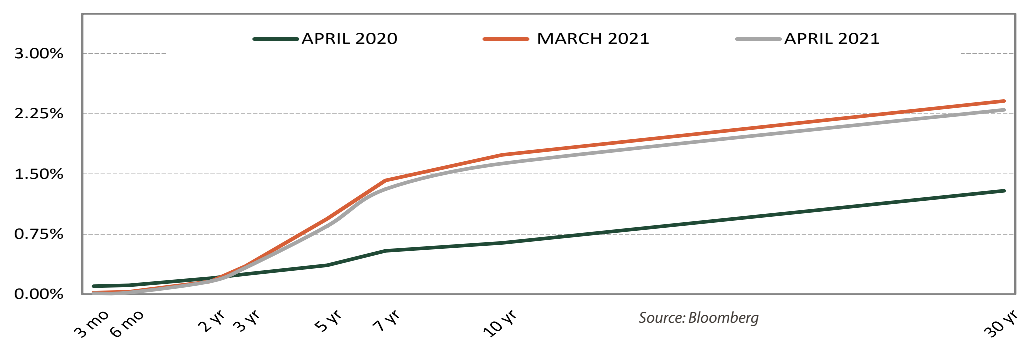
Market Summary

We believe accommodative monetary policy, robust fiscal spending, and continued progress on vaccine distribution will provide meaningful tailwinds for the economy in the coming quarters. The COVID-19 vaccine rollout continues and nearly 60% of the US adult population has had at least one dose. Restaurant and bar sales accelerated in March and travel-related spending has started to rebound as the economy reopens. Overall, economic data has been largely better than expected. Meanwhile, the Biden administration continues to push forward with large-scale fiscal spending proposals. President Biden recently proposed plans for more than $4 trillion in new fiscal spending, which would be in addition to the roughly $5.5 trillion in pandemic-related fiscal spending that has already been approved since early last year. In addition, the Fed has indicated that it plans to keep the fed funds rate near zero through 2023. Estimates for US gross domestic product (GDP) growth this year are strong. The current Bloomberg consensus estimate for 2021 US GDP growth is 6.3%.

The Federal Open Market Committee kept their target fed funds rate and asset purchase program unchanged in April, as expected. The fed funds target rate remains in the range of 0.0% to 0.25%, and the Fed continues to purchase $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. During his press conference, Fed Chair Powell reiterated that the economy is still a long way from reaching their employment and inflation goals and it is too soon to begin discussing tapering asset purchases. The Fed believes that some parts of the economy will not be able to fully recover until the pandemic is decisively over. Chair Powell also reiterated that near term inflationary pressures are likely to be temporary. Although inflation rates are expected to increase over the next few months, the Fed is not signaling any near-term changes to monetary policy and plans to remain accommodative.

The yield curve flattened in April but remains steeper on a year-to-date basis. As of April month-end, the yield on 2-year Treasuries was about four basis points higher while the yield on 10-year Treasuries was about 71 basis points higher, on a year-to-date basis. The yield on 10-year Treasuries declined nearly 11 basis points in April, month-over-month. Looking ahead, we believe the Treasury yield curve is poised to modestly steepen further as the year progresses, which would be consistent with an improving economic outlook, more widespread vaccine distribution, the anticipation of ongoing fiscal spending, and a moderate pick-up in inflation.

TREASURY YIELD CURVE MAY BE POISED FOR FURTHER STEEPENING



The treasury yield curve is much steeper relative to this time last year. The 3-month T-bill yield is about eight basis points lower, and the 2-year Treasury yield is about four basis points lower, while the 10-Year Treasury yield is about 99 basis points higher, year-over-year, as of April month-end. The Fed has signaled plans to keep the front end of the Treasury yield curve anchored near zero until at least 2023. We believe longer-term rates still have room to move higher this year.

TREASURY YIELDS	Trend (▲/▼)	4/30/2021	3/31/2021	Change
3-Month	▼	0.01	0.02	-0.01
2-Year	-	0.16	0.16	0.00
3-Year	▼	0.33	0.35	-0.02
5-Year	▼	0.85	0.94	-0.09
7-Year	▼	1.31	1.42	-0.11
10-Year	▼	1.63	1.74	-0.11
30-Year	▼	2.30	2.41	-0.11

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 4/30/2021

		Change (3/31/21)	%CHG
S&P 500	**4,181.17**	208.28	5.24%
NASDAQ	**13,962.68**	715.81	5.40%
DOW JONES	**33,874.85**	893.30	2.71%
FTSE (UK)	**6,969.81**	256.18	3.82%
DAX (Germany)	**15,135.91**	127.57	0.85%
Hang Seng (Hong Kong)	**28,724.88**	346.53	1.22%
Nikkei (Japan)	**28,812.63**	-366.17	-1.25%

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 Slightly in April

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.06	0.19	(0.13)
2-year A corporate note	0.19	0.25	(0.06)
5-year A corporate note	0.39	0.39	(0.00)
5-year Agency note	0.02	(0.02)	0.04

Source: Bloomberg Data as of 4/30/2021

The Economy is Poised for Accelerating Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(74.45) $Bln MAR 21	(70.52) $Bln FEB 21	(47.24) $Bln MAR 20
Gross Domestic Product	6.40% MAR 21	4.30% DEC 20	(5.00%) MAR 20
Unemployment Rate	6.10% APR 21	6.00% MAR 21	14.80%APR 20
Prime Rate	3.25% APR 21	3.25% MAR 21	3.25% APR 20
Commodity Research Bureau Index	199.76 APR 21	184.96 MAR 21	117.20 APR 20
Oil (West Texas Int.)	$63.58 APR 21	$59.16 MAR 21	$18.84 APR 20
Consumer Price Index (y/o/y)	2.60% MAR 21	1.70% FEB 21	1.50% MAR 20
Producer Price Index (y/o/y)	5.90% MAR 21	2.40 FEB 21	(1.50%) MAR 20
Dollar/Euro	1.20 APR 21	1.17 MAR 21	1.10 APR 20

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.6% year-over-year in March, versus up 1.7% year-over-year in February. The increase in March was driven by higher energy prices and the base effects of deflationary pressures in the initial stage of the pandemic last year. Core CPI (CPI less food and energy) was up just 1.6% year-over-year in March, versus up 1.3% in February. The Personal Consumption Expenditures (PCE) index was up 2.3% year-over-year in March, versus up 1.5% year-over-year in February. Core PCE, which is the Fed's primary inflation gauge, was up 1.8% year-over-year in March, versus up 1.4% year-over-year in February. Although inflation rates ticked higher in March, core inflation remains below the Fed's longer-run 2.0% target.

Retail Sales

On a year-over-year basis, retail sales were up 27.7% in March versus up 6.7% in February. On a month-over-month basis, retail sales were even stronger than expected in March, surging 9.8%, following a 2.7% decline in February. The March increase was likely fueled by federal stimulus checks which were delivered early in the month. Pent-up demand, following severe winter weather in February, likely also helped drive March sales. The increase was broad-based across all major categories in March, with particular strength in sporting goods, hobby, instrument & book stores, clothing & accessories, and motor vehicle & parts.

Labor Market

The economy added far fewer jobs than expected in April. U.S. nonfarm payrolls increased by 266,000, versus the Bloomberg consensus forecast of 1,000,000. March payrolls were also revised down by 146,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 524,000 and 294,000 per month, respectively. Payrolls in the leisure and hospitality sector have been driving the job gains in recent months and were up 331,000 in April. Meanwhile, multiple sectors lost jobs in April, including transportation and warehousing, motor vehicle and parts manufacturing, and retail trade. The unemployment rate ticked higher to 6.1% in April from 6.0% in March, as the participation rate increased to 61.7% from 61.5%. Workers who classified themselves as employed but absent from work in April continued to understate the unemployment rate by about 0.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, declined to 10.4% in April from 10.7% in March.

Housing Starts

Total housing starts were stronger than expected in March, up 19.4% to an annual pace of 1,739,000. Single-family starts rose 15.3% in March and multi-family starts were up 30.8%. On a year-over-year basis, housing starts were up 37.0% in March.

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.