CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

NOVEMBER 2020

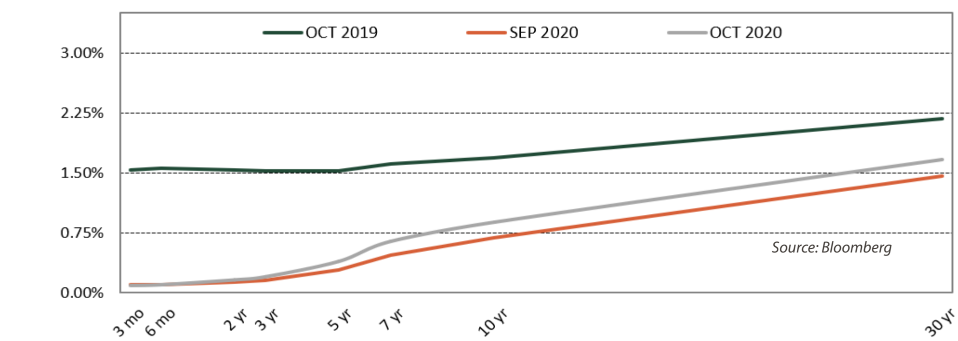
Market Summary

While near-term headwinds from the pandemic and lack of additional fiscal relief continue to present downside risks to the recovery, we are increasingly optimistic about the economic outlook for next year. We continue to believe the trajectory of economic growth hinges on the course of the pandemic, the timing and amount of additional fiscal relief, and the timeline for a vaccine. Yesterday, Pfizer announced that its COVID-19 vaccine may be 90% effective, based on an early read of its late-stage clinical trial. While this is still preliminary data, Pfizer appears to be on track to apply for emergency-use approval of its vaccine later this month. While widespread distribution of a vaccine may still be several months away, the level of efficacy from Pfizer's trial is encouraging and bodes well for other vaccines in development that are using similar technology. In our view, effective therapeutics and a vaccine will be essential to keep the economic recovery on track next year. In the meantime, we believe there will be support from President-elect Biden for additional fiscal relief, but the Senate will determine the size of any additional relief package. While the outcome remains uncertain, the prospect for a GOP-controlled Senate suggests that a smaller, more narrowly targeted relief package may be more likely. However, a runoff Senate election in Georgia may delay any relief package until the new year. Meanwhile, virus cases and hospitalization rates are surging in many parts of the US which is likely to dominate the headlines now that the Presidential election has passed. Though another national lockdown seems unlikely, in our view, regional or self-imposed restrictions may lead to a slowdown in economic activity over the coming months. We also believe the labor market is likely to remain challenged until there is widespread access to a vaccine. Overall, we anticipate the economy may experience some ups and downs over the next few months but with continued progress toward an effective vaccine we see a strong catalyst for growth on the horizon. Risk assets surged on the Pfizer vaccine news yesterday, and we believe financial market volatility may remain elevated through year-end.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged last week as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed's policy statement was largely unchanged from the last meeting and Fed Chair Powell maintained a dovish tone during his press conference. The Fed intends to remain highly accommodative until their goals of maximum employment and higher inflation are achieved.

The Treasury yield curve steepened in October, driven by an increase in longer-term rates as the front end of the curve remains anchored near 0.0%. On a month-over-month basis, the yield on 10-year Treasuries was up 20 basis points to 0.87% at October month end. The Treasury yield curve has continued to steepen modestly in November.

THE TREASURY YIELD CURVE HAS STEEPENED



At October month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 144 basis points, the 2-year Treasury yield was down 137 basis points, and the 10-Year Treasury yield was down 82 basis points, year-over-year. 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. The Fed has signaled plans to keep the front end of the Treasury yield curve anchored near zero for at least the next few years. In the past few months, the Treasury yield curve has steepened, which we believe has been driven by a flood of new issuance as well as rising inflation expectations.

TREASURY YIELDS	Trend (▲/▼)	10/30/2020	9/30/2020	Change
3-Month	▼	0.09	0.10	-0.01
2-Year	▲	0.16	0.13	0.03
3-Year	▲	0.20	0.16	0.04
5-Year	▲	0.39	0.28	0.11
7-Year	▲	0.64	0.47	0.17
10-Year	▲	0.88	0.69	0.19
30-Year	▲	1.66	1.46	0.20

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 10/30/2020

	Change (9/30/20)	%CHG
S&P 500		
3,269.96	-93.04	-2.77%
NASDAQ		
10,911.59	-255.92	-2.29%
DOW JONES		
26,501.60	-1,280.10	-4.61%
FTSE (UK)		
5,577.27	-288.83	-4.92%
DAX (Germany)		
11,556.48	-1,204.25	-9.44%
Hang Seng (Hong Kong)		
24,107.42	648.37	2.76%
Nikkei (Japan)		
22,977.13	-207.99	-0.90%

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 that manage risk for 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 October

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.10	0.11	(0.01)
2-year A rated corporate note	0.26	0.29	(0.03)
5-year A rated corporate note	0.53	0.58	(0.05)
5-year Agency note	0.11	0.13	(0.02)

Source: Bloomberg

Data as of 10/30/2020

The Road to a Full Economic Recovery May be Uneven

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(63.86) $Bln SEP 20	(67.04) $Bln AUG 20	(47.84) $Bln SEP 19
Gross Domestic Product	33.10% SEP 20	(31.04%) JUN 20	2.60% SEP 19
Unemployment Rate	6.90% OCT 20	7.90% SEP 20	3.60% OCT 19
Prime Rate	3.25% OCT 20	3.25% SEP 20	4.75% OCT 19
Commodity Research Bureau Index	144.73 OCT 20	148.51 SEP 20	176.89 OCT 19
Oil (West Texas Int.)	$35.79 OCT 20	$40.22 SEP 20	$54.18 OCT 19
Consumer Price Index (y/o/y)	1.40% SEP 20	1.30% AUG 20	1.70% SEP 19
Producer Price Index (y/o/y)	(1.20%) SEP 20	(1.50%) AUG 20	(0.10%) SEP 19
Dollar/Euro	1.16 OCT 20	1.17 SEP 20	1.12 OCT 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.4% year-over-year in September, versus up 1.3% in August. Core CPI (CPI less food and energy) was up 1.7% year-over-year in September, unchanged from August. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in September, versus up 1.3% year-over-year in August. Core PCE, which is the Fed's primary inflation gauge, was up 1.5% year-over-year in September, versus up 1.4% year-over-year in August. Pricing pressures are increasing but remain below the Fed's inflation target.

Retail Sales

Consumer spending trends were unexpectedly strong in September. Retail sales increased 1.9% in September and were up 5.4% on a year-over-year basis. Excluding vehicles and gas, retail sales were up 1.5% in the month, well ahead of expectations for a 0.4% increase. On an adjusted basis, sales picked up in every major category in September on a month-over-month basis, with the exception of electronics & appliances.

Labor Market

U.S. nonfarm payrolls were stronger than expected, up 638,000 in October versus expectations of 580,000. Payrolls for August and September were also revised up by a total of 15,000. On a cumulative basis, the labor market has added nearly 12.1 million jobs in the past 6 months, more than half the 22.2 million lost in March and April. The unemployment rate declined to 6.9% in October (versus expectations of 7.6%) from 7.9% in September. Workers who classified themselves as employed but absent from work in the November survey understated 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, remained high but eased to 12.1% in October from 12.8% in September. The labor participation rate increased to 61.7% in October from 61.4% in September but remains well below the pre-pandemic level.

Housing Starts

Total housing starts increased 1.9% in September to an annual pace of 1,415,000. Single family starts rose 8.5% to an annualized rate of 1,108,000, while multi-family starts declined 16.3% to an annualized rate of 307,000. On a year-over-year basis, total housing starts were up 11.1% in September. Very low mortgage rates, solid stock market performance, and a meaningful shift toward working from home are providing strong tailwinds for the housing sector.

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.