CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

OCTOBER 2020

Market Data

World Stock Market Indices
data as of 9/30/2020

	Change (8/31/20)	%CHG
S&P 500		
3,363.00	-137.31	-3.92%
NASDAQ		
11,167.51	-607.95	-5.16%
DOW JONES		
27,781.70	-648.35	-2.28%
FTSE (UK)		
5,866.10	-97.47	-1.63%
DAX (Germany)		
12,760.73	-184.65	-1.43%
Hang Seng (Hong Kong)		
23,459.05	-1,718.00	-6.82%
Nikkei (Japan)		
23,185.12	45.36	0.20%

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

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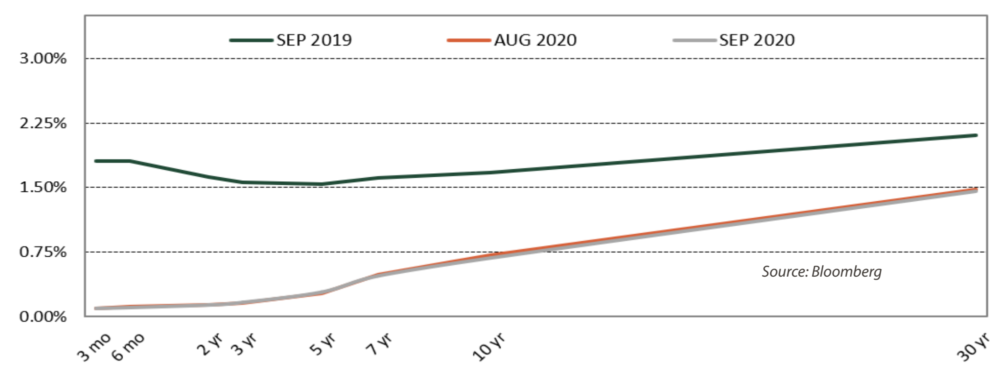
Market Summary

US equities experienced a moderate selloff in September (with the S&P 500 index down 3.9% month-over-month) and investment grade corporate credit spreads widened modestly (based on the ICE BofA US Corporate Index). In our view, the recent repricing of risk assets has been rational and consistent with the evolving economic and political backdrop. The economy has improved significantly from the depths of the pandemic crisis earlier this year, but the recovery is losing steam. We continue to believe the outlook for the economy hinges largely on the course of the pandemic, the timing and amount of additional fiscal relief, and the timeline for a vaccine. While we remain optimistic about the progress toward a vaccine, we are seeing a resurgence of the virus in some locations and negotiations in Congress over a Phase 4 fiscal relief package remain at a stalemate. While we have a high degree of confidence that another round of fiscal stimulus will ultimately be passed, the timeline has been pushed out and the chances of getting something done before the November election have dimmed. This may not bode well for the fourth quarter and we anticipate near-term economic data may soften. We believe financial markets are potentially poised for increased volatility through year-end.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged in September with the fed funds target rate in a range of 0.0% to 0.25%. Monetary policy remains highly accommodative and policymakers remain dovish. The Fed's balance sheet has grown to over $7.0 trillion from about $4.2 trillion prior to the pandemic, and the Fed has indicated it will continue to use its balance sheet to support smooth financial market functioning, as needed. In the September policy statement, the FOMC noted that inflation continues to run below its 2.0% target, as weaker demand and lower oil prices are holding down consumer prices. Longer-term, the FOMC will allow inflation to run above 2.0% for some period of time before it looks to tighten policy, which implies the fed funds target rate will remain anchored near zero for years. The Fed's summary of economic projections signals that the target fed funds rate will remain unchanged through at least 2023.

The Treasury yield curve was little changed in September on a month-over-month basis, following moderate curve steepening in August. In the first week of October, the yield curve has steepened further, driven by an increase in longer-dated Treasury yields.

TREASURY YIELDS ARE LOW BUT THE CURVE HAS RECENTLY STEEPENED



At September month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 172 basis points, the 2-year Treasury yield was down 150 basis points, and the 10-Year Treasury yield was down 98 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 (▲/▼)	9/30/2020	8/31/2020	Change
3-Month	-	0.09	0.09	0.00
2-Year	-	0.13	0.13	0.00
3-Year	▲	0.16	0.15	0.01
5-Year	▲	0.28	0.27	0.01
7-Year	▼	0.47	0.49	-0.02
10-Year	▼	0.68	0.71	-0.03
30-Year	▼	1.46	1.48	-0.02

Source: Bloomberg

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 Widened Modestly in September

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.01	0.02	(0.01)
2-year A rated corporate note	0.30	0.25	0.05
5-year A rated corporate note	0.58	0.54	0.04
5-year Agency note	0.13	0.16	(0.03)

Source: Bloomberg

Data as of 9/30/2020

Economic Recovery Continues But Is Losing Steam

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(67.10) $Bln AUG 20	(63.40) $Bln JUL 20	(50.80) $Bln AUG 19
Gross Domestic Product	(31.40%) JUN 20	(5.00%) MAR 20	1.50% JUN 19
Unemployment Rate	7.90% SEP 20	8.40% AUG 20	3.50% SEP 19
Prime Rate	3.25% SEP 20	3.25% AUG 20	5.00% SEP 19
Commodity Research Bureau Index	148.51 SEP 20	153.21 AUG 20	173.94 SEP 19
Oil (West Texas Int.)	$40.22 SEP 20	$42.61 AUG 20	$54.07 SEP 19
Consumer Price Index (y/o/y)	1.30% AUG 20	1.00% JUL 20	1.70% AUG 19
Producer Price Index (y/o/y)	(1.50%) AUG 20	(1.80%) JUL 20	0.30% AUG 19
Dollar/Euro	1.17 SEP 20	1.19 AUG 20	1.09 SEP 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.3% year-over-year in August, versus up 1.0% in July. Core CPI (CPI less food and energy) was up 1.7% year-over-year in August, versus up 1.6% in July. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in August, versus up 1.1% year-over-year in July. Core PCE, which is the Fed's primary inflation gauge, was up 1.6% year-over-year in August, versus up 1.4% year-over-year in July. Pricing pressures are increasing but remain below the Fed's inflation target.

Retail Sales

Retail sales were softer than expected in August and sales for July were revised down. On a year-over-year basis, retail sales were up 2.6% in August, versus up 2.4% in July. On a month-over-month basis, retail sales were up just 0.6% in August, following a 0.9% increase in July. Control group retail sales fell 0.2% in August, well below expectations for a 0.5% increase.

Labor Market

U.S. nonfarm payrolls were lower than expected, up 661,000 in September versus expectations of 859,000. The unemployment rate declined to 7.9% in September from 8.4% in August. The decline in the unemployment rate was better than expected, however, it was partially driven by a decline in the labor participation rate to 61.4% in September from 61.7% in August. The labor participation rate improved modestly after plunging to 60.2% in April, but remains near the lowest levels since the 1970's. Nearly 4.5 million people have dropped out of the labor force since January, and 12.6 million people in the labor force were unemployed in September, according to the U.S. Bureau of Labor Statistics household survey. Workers who classified themselves as employed but absent from work in the September survey understated the unemployment rate by about 0.4%. 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 12.8% in September from 14.2% in August

Housing Starts

Total housing starts fell 5.1% in August to an annual pace of 1,416,000. Single family starts rose 4.1% to an annualized rate of 1,021,000, while multi-family starts declined 22.7% to an annualized rate of 395,000. On a year-over-year basis, total housing starts were up 2.8% in August.

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.