BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

DECEMBER 2021

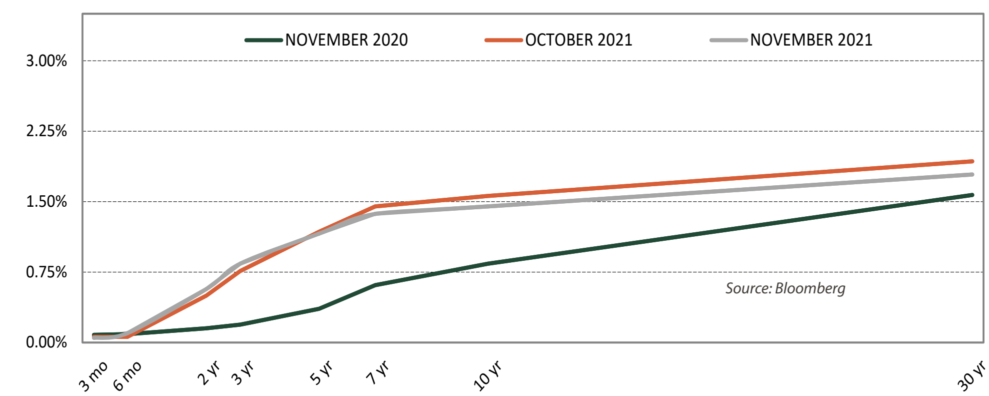
Market Summary

In our view, economic growth is likely to moderate but remain modestly above-trend in 2022, fueled in part by ongoing tailwinds from fiscal support, accommodative monetary policy, and continued progress on vaccinations. Our outlook assumes an improving global health backdrop, though risks to the downside remain. Covid infection rates in the US and on a global basis have recently increased, and the new omicron variant poses a significant risk to the outlook. Given the high level of uncertainty regarding omicron's impact on the global health situation, supply chains, and the broader economy, we expect financial market volatility will be elevated over the near-term. Inflation readings continue to run hot, but market-based inflation expectations remain relatively contained and we believe inflation may be at or near a peak. We expect supply chain bottlenecks will continue to put upward pressure on prices over the near-term but should improve next year.

The Federal Open Market Committee (FOMC) kept the fed funds target rate unchanged in November, in a range of 0%-0.25%, but started to reduce the magnitude of their asset purchases at a pace of $15 billion per month. The FOMC's next meeting is scheduled for December 14-15. With inflation now appearing to be more elevated and prolonged than originally projected, we anticipate the Fed may accelerate the pace of their tapering process this month in order to give them the option of hiking rates sooner, if needed. We do not believe that monetary policy is on a pre-set course and believe the Fed wishes to be positioned to respond to economic data as it evolves. We continue to believe that the Fed will take a gradual approach to normalizing monetary policy, given the ongoing uncertainties related to the pandemic, and we are not expecting a rate hike within the next six months. We expect the Fed to complete the taper process sometime in the first half of next year and announce the first rate hike in the second half of the year. For now, monetary policy remains highly accommodative. We anticipate that the Fed's gradual approach to rate hikes will put upward pressure on Treasury yields across the curve next year.

The Treasury yield curve flattened in November and has flattened further in early December. The 2-year Treasury yield increased nearly seven basis points to 0.57% in November, the 5-year Treasury yields declined two points to 1.16%, and the 10-year Treasury yield declined nearly eleven basis points to 1.44% in the month. Given the high level of uncertainty regarding the outlook for monetary policy as well as the unknown impact of the new omicron variant, we believe an ongoing flight to quality may keep downward pressure on the longer end of the Treasury curve, at least over the near-term.

THE TREASURY YIELD CURVE HAS RECENTLY FLATTENED



At the end of November, the 2-year Treasury yield was about 42 basis points higher and the 10-Year Treasury yield was about 61 basis points higher, year-over-year. The yield curve has recently flattened and is less steep than the historical average. The spread between the 2-year Treasury yield and 10-year Treasury yield was 88 basis points at November month-end compared to the average historical spread (since 2002) of about 135 basis points.

TREASURY YIELDS	Trend (▲/▼)	11/30/2021	10/29/2021	Change
3-Month	▼	0.05	0.06	(0.01)
2-Year	▲	0.57	0.50	0.07
3-Year	▲	0.84	0.76	0.08
5-Year	▼	1.16	1.18	(0.02)
7-Year	▼	1.37	1.45	(0.08)
10-Year	▼	1.45	1.56	(0.11)
30-Year	▼	1.79	1.93	(0.14)

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 11/30/2021

		Change (10/29/21)	%CHG
S&P 500	**4,567.00**	-38.38	-0.83%
NASDAQ	**15,537.69**	39.30	0.25%
DOW JONES	**34,483.72**	-1,335.84	-3.73%
FTSE (UK)	**7,059.45**	-178.12	-2.46%
DAX (Germany)	**15,100.13**	-588.64	-3.75%
Hang Seng (Hong Kong)	**23,475.26**	-1,901.98	-7.49%
Nikkei (Japan)	**27,821.76**	-1,070.93	-3.71%

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 Widened in November

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.08	0.07	0.01
2-year A corporate note	0.23	0.15	0.08
5-year A corporate note	0.45	0.33	0.12
5-year Agency note	0.06	0.00	0.06

Source: Bloomberg Data as of 11/30/2021

Supply and Demand Imbalances Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(80.93) $Bln SEP 21	(72.81) $Bln AUG 21	(62.63) $Bln SEP 20
Gross Domestic Product	2.10% SEP 21	6.70% JUN 21	33.80% SEP 20
Unemployment Rate	4.20% NOV 21	4.60% OCT 21	6.70% NOV 20
Prime Rate	3.25% NOV 21	3.25% OCT 21	3.25% NOV 20
Commodity Research Bureau Index	219.19 NOV 21	237.70 OCT 21	160.06 NOV 20
Oil (West Texas Int.)	$66.18 NOV 21	$83.57 OCT 21	$45.34 NOV 20
Consumer Price Index (y/o/y)	6.20% OCT 21	5.40% SEP 21	1.20% OCT 20
Producer Price Index (y/o/y)	12.50% OCT 21	11.80% SEP 21	(1.20%) OCT 20
Euro/Dollar	1.13 NOV 21	1.16 OCT 21	1.19 NOV 20

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 6.2% year-over-year in October, versus up 5.4% year-over-year in September. Core CPI (CPI less food and energy) was up 4.6% year-over-year in October (higher than expected), versus up 4.0% in September. The Personal Consumption Expenditures (PCE) index was up 5.0% year-over-year in October, up from 4.4% in September. Core PCE was up 4.1% year-over-year in October, versus up 3.7% in September. Current inflation readings continue to run well above the Fed's longer-run target of around 2.0%. Upward pressure on inflation from supply chain bottlenecks and pandemic-related disruptions is likely to remain elevated over the near-term.

Retail Sales

On a year-over-year basis, retail sales were up 16.3% in October versus up 14.3% in September. On a month-over-month basis, retail sales were stronger than expected in October, up 1.7% versus expectations of 1.4%, following a 0.8% increase in September. Overall, the pick-up in retail sales bodes well for the fourth quarter. Strength was broad-based in October, suggesting that higher prices haven't meaningfully deterred shoppers. Notably, sales in every retail category have well surpassed their pre-pandemic level and overall retail sales are up 21% from February 2020.

Labor Market

Job growth was weaker than expected in November, but the unemployment rate still declined four tenths of a percent to 4.2%. We believe a variety of factors are keeping some workers out of the labor force, which has likely held back job growth despite strong demand from employers. U.S. nonfarm payrolls increased by 210,000 in November, versus the consensus forecast of 550,000. On a trailing 3-month and 6-month basis, payrolls increased an average of 378,000 and 612,000 per month, as job growth has decelerated from the summer months. The labor participation rate improved to 61.8% in November from 61.6% in October but remains lower than the pre-pandemic level of 63.4%. The employment-population ratio increased to 59.2% from 58.8%, but also remains below the pre-pandemic level of 61.1%. 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 7.8% in November from 8.3% in October (versus 7.0% in February 2020). Annualized average hourly earnings were up by 4.8% in November (unchanged from October), reflecting strong wage growth driven in part by the ongoing imbalance in the supply and demand for labor.

Housing Starts

Total housing starts declined 0.7% in October to an annual pace of 1,520,000. Single-family starts fell 3.9% while multi-family starts increased 7.1%, month-over-month. We believe supply chain bottlenecks and high materials and input costs have likely held back the pace of new starts, even as demand for housing seems to remain robust. On a year-over-year basis total housing starts were essentially flat in October, as a decline in single-family starts has been offset with an increase in multi-family starts.

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.