CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

NOVEMBER 2021

Market Data

World Stock Market Indices
data as of 10/29/2021

		Change (9/30/21)	%CHG
S&P 500	**4,605.38**	297.84	6.91%
NASDAQ	**15,498.39**	1,049.81	7.27%
DOW JONES	**35,819.56**	1,975.64	5.84%
FTSE (UK)	**7,237.57**	151.15	2.13%
DAX (Germany)	**15,688.77**	428.08	2.81%
Hang Seng (Hong Kong)	**25,377.24**	801.60	3.26%
Nikkei (Japan)	**28,892.69**	-559.97	-1.90%

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

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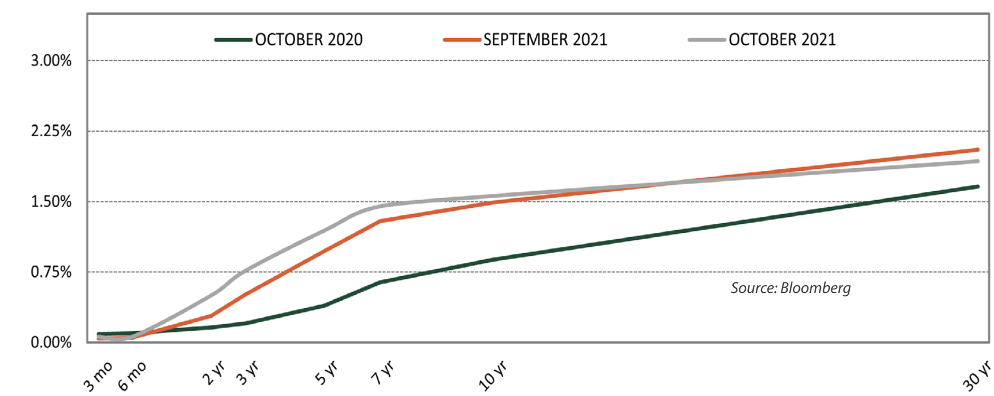
Market Summary

Real US gross domestic product (GDP) growth decelerated in the third quarter amid widespread supply chain disruptions and a surge in the Covid Delta variant, but we believe economic activity has reaccelerated modestly in the current quarter. The consensus forecast calls for 4.9% GDP growth in the fourth quarter following growth of just 2.0% in the third quarter (according to the advance estimate). Covid infection rates in the US have recently eased and the labor market has continued to improve. Inflation continues to run hot, as supply has not been able to keep pace with demand across many parts of the economy. We expect pricing pressures to remain elevated over the near-term, but believe tailwinds from fiscal spending, accommodative monetary policy, and continued progress on vaccinations will continue to support an above-trend pace of economic growth.

Driven in part by growing concerns about inflation, the Federal Open Market Committee (FOMC) is inching toward a path of monetary policy normalization. The FOMC kept the fed funds target rate unchanged in November in a range of 0.0%-0.25% but announced plans to start reducing the magnitude of their asset purchases. The Fed has been purchasing $120 billion in bonds each month ($80 billion of Treasuries and $40 billion of agency mortgage-backed securities) but will reduce their total purchases by $15 billion in November and December ($10 billion of Treasuries and $5 billion of agency mortgage-backed securities per month). The Fed is widely expected to pare back its asset purchases at this pace until the taper process is complete in mid-2022. Fed Chair Powell has indicated that policymakers would not consider a rate hike until sometime after the tapering process is complete. According to fed funds futures prices, the implied probability of at least one rate hike by July 2022 is high, but the timeline for potential future rate hikes remains uncertain. For now, monetary policy remains highly accommodative, which should remain supportive of an improving labor market and growing economy.

Treasury yields in the belly of the curve rose meaningfully in October. The 2-year and 5-year Treasury yields rose roughly 22 basis points in October to 0.50% and 1.18%, respectively, while the 10-year Treasury yield rose nearly seven basis points to 1.55%. Market participants have started to price in expectations for future rate hikes, amid growing concerns about inflation. We expect that the Fed will remain cautious and take a gradual approach to normalizing monetary policy.

TREASURY YIELD CURVE IS STEEPER



The treasury yield curve is steeper on a year-over-year basis. At the end of October, the 2-year Treasury yield was about 35 basis points higher, and the 10-Year Treasury yield was about 68 basis points higher, year-over-year.

TREASURY YIELDS	Trend (▲/▼)	10/29/2021	9/30/2021	Change
3-Month	▲	0.06	0.04	0.02
2-Year	▲	0.50	0.28	0.22
3-Year	▲	0.76	0.51	0.25
5-Year	▲	1.19	0.97	0.22
7-Year	▲	1.45	1.29	0.17
10-Year	▲	1.56	1.49	0.07
30-Year	▼	1.93	2.05	(0.11)

Source: Bloomberg

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 Were Little Changed in October

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.07	0.10	(0.03)
2-year A corporate note	0.15	0.16	(0.01)
5-year A corporate note	0.33	0.36	(0.03)
5-year Agency note	0.00	0.02	(0.02)

Source: Bloomberg Data as of 10/29/2021

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	2.00% SEP 21	6.70% JUN 21	33.80% SEP 20
Unemployment Rate	4.60% OCT 21	4.80% SEP 21	6.90% OCT 20
Prime Rate	3.25% OCT 21	3.25% SEP 21	3.25% OCT 20
Commodity Research Bureau Index	237.70 OCT 21	228.92 SEP 21	144.73 OCT 20
Oil (West Texas Int.)	$83.57 OCT 21	$75.03 SEP 21	$35.79 OCT 20
Consumer Price Index (y/o/y)	5.40% SEP 21	5.30% AUG 21	1.40% SEP 20
Producer Price Index (y/o/y)	12.50% OCT 21	11.80% SEP 21	(1.20%) OCT 20
Euro/Dollar	1.16 OCT 21	1.16 SEP 21	1.16 OCT 20

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 5.4% year-over-year in September, versus up 5.3% year-over-year in August. Core CPI (CPI less food and energy) was up 4.0% year-over-year in September (in line with expectations), unchanged from August. The Personal Consumption Expenditures (PCE) index was up 4.4% year-over-year in September, up from 4.2% in August. Core PCE was up 3.6% year-over-year in September, roughly unchanged for the fourth consecutive month. Current inflation readings suggest that inflationary pressures may be stabilizing but 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 13.9% in September versus up 15.4% in August. On a month-over-month basis, retail sales were stronger than expected in September, up 0.7% versus expectations of a 0.2% decline. Overall, retail sales trends remain healthy which bodes well for the holiday shopping season.

Labor Market

Job growth was stronger than expected in October, as U.S. nonfarm payrolls increased by 531,000 versus the consensus forecast of 450,000. In addition, August and September payrolls were revised up a total of 235,000. On a trailing 3-month and 6-month basis, payrolls increased at a solid pace, up an average of 442,000 and 665,500 per month, respectively. The U-3 unemployment rate declined to 4.6% in October from 4.8% in September, a bigger decline than expected. The labor participation rate was unchanged at 61.6% but the employment-population ratio increased one tenth of a percent to 58.8%. 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 8.3% in October from 8.5% in September. Annualized average hourly earnings were up by 4.9% year-over-year in October versus 4.6% in September, reflecting strong wage growth driven in part by the ongoing imbalance in the supply and demand for labor. Although labor force participation has been slow to recover and more than 7.4 million people remain unemployed, the labor market has made significant progress over the past year and continues to improve.

Housing Starts

Total housing starts declined 1.6% in September to an annual pace of 1,555,000. Permits also declined 7.7% in the month. Supply chain bottlenecks and high materials and input costs have likely held back the pace of new starts. Single-family starts were flat in September while multi-family starts fell 5.0%, month-over-month. On a year-over-year basis, housing starts were up 7.4% in September.

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.