BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

OCTOBER 2021

Market Data

World Stock Market Indices
data as of 9/30/2021

	Change (8/31/21)	%CHG
S&P 500		
4,307.54	-215.14	-4.76%
NASDAQ		
14,448.58	-810.66	-5.31%
DOW JONES		
33,843.92	-1,516.81	-4.29%
FTSE (UK)		
7,086.42	-33.28	-0.47%
DAX (Germany)		
15,260.69	-574.40	-3.63%
Hang Seng (Hong Kong)		
24,575.64	-1,303.35	-5.04%
Nikkei (Japan)		
29,452.66	1,363.12	4.85%

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

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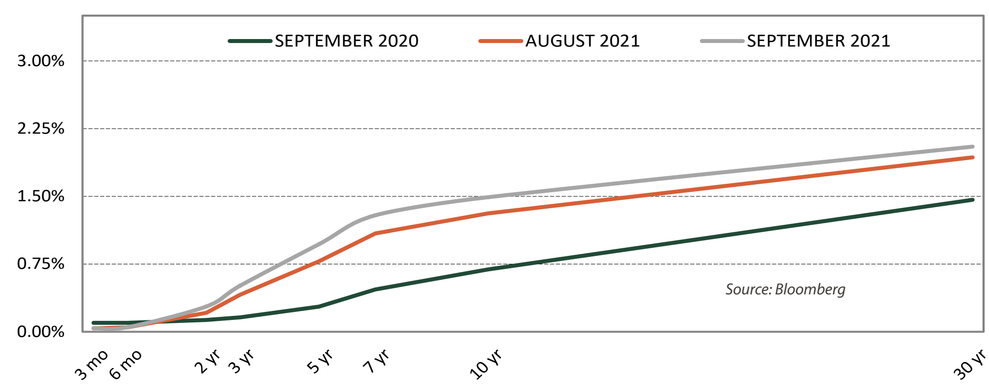
Market Summary

The ongoing health crisis and related supply chain bottlenecks continue to have a meaningful impact on economic data, but we believe the underlying momentum of the economy remains strong. Economic growth is expected to continue at an above-trend pace, fueled in part by ongoing tailwinds from fiscal support, accommodative monetary policy, and continued progress on vaccinations. Covid infection rates in the US and on a global basis are now declining, but supply chains remain dislocated and inflation readings continue to run hot. We expect supply chain bottlenecks will continue to put upward pressure on prices over the near- to intermediate-term but should improve next year.

Monetary policy remains highly accommodative, but the Fed is inching toward a path of policy normalization. The Federal Open Market Committee (FOMC) kept monetary policy unchanged at its September meeting but indicated that they are preparing to reduce the magnitude of their asset purchases. The fed funds target rate remains in the range of 0.0% to 0.25%. For now, the Fed continues to purchase $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. However, the Fed is widely expected to make the official announcement about tapering asset purchases at the next FOMC meeting in early November. Nevertheless, the Fed remains patient with their outlook for rate hikes, and Fed Chair Powell has indicated that policymakers would not consider a rate hike until sometime after the tapering process is complete in mid-2022. The median estimate among Fed policymakers calls for one 25 basis point rate hike in 2022. We believe the Fed's slow and steady withdrawal of monetary policy accommodation will remain supportive of an improving labor market and growing economy.

The Treasury yield curve continued to steepen in September. The 10-year Treasury yield rose nearly 18 basis points in September to 1.49%, while the 2-year Treasury yield rose about seven basis points to 0.28%. We believe some of the factors that put downward pressure on longer-term rates over the summer including concerns about the Delta COVID-19 variant, market technicals, and uneven global vaccination rates, have started to ease.

TREASURY YIELD CURVE IS STEEPER



The treasury yield curve is steeper on a year-over-year basis. At the end of September, the 2-year Treasury yield was about 15 basis points higher, and the 10-Year Treasury yield was about 80 basis points higher, year-over-year. We believe the curve remains poised for further steepening, amid a growing economy and improving labor market, while the Fed is expected to slowly normalize monetary policy.

TREASURY YIELDS	Trend (▲/▼)	9/30/2021	8/31/2021	Change
3-Month	-	0.04	0.04	0.00
2-Year	▲	0.28	0.21	0.07
3-Year	▲	0.51	0.41	0.10
5-Year	▲	0.97	0.78	0.19
7-Year	▲	1.29	1.09	0.20
10-Year	▲	1.49	1.31	0.18
30-Year	▲	2.05	1.93	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 September

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.10	0.09	0.01
2-year A corporate note	0.16	0.16	(0.00)
5-year A corporate note	0.36	0.39	(0.03)
5-year Agency note	0.02	0.02	0.00

Source: Bloomberg Data as of 9/30/2021

Supply and Demand Imbalances Continue to Impact Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(73.25) $Bln AUG 21	(70.30) $Bln JUL 21	(63.73) $Bln AUG 20
Gross Domestic Product	6.70% JUN 21	6.30% MAR 21	(31.20%) JUN 20
Unemployment Rate	4.80% SEP 21	5.20% AUG 21	7.80% SEP 20
Prime Rate	3.25% SEP 21	3.25% AUG 21	3.25% SEP 20
Commodity Research Bureau Index	228.92 SEP 21	218.17 AUG 21	148.51 SEP 20
Oil (West Texas Int.)	$75.03 SEP 21	$68.50 AUG 21	$40.22 SEP 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)	10.50% AUG 21	9.60% JUL 21	(1.60%) AUG 20
Euro/Dollar	1.16 SEP 21	1.18 AUG 21	1.17 SEP 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 4.3% year-over-year in August, versus up 4.2% in July. Core PCE was up 3.6% year-over-year in August, unchanged from July. Current inflation readings are running well above the Fed's longer-run target of around 2.0%. While the Fed believes many of the factors fueling higher inflation will be temporary, the 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 15.1% in August. On a month-over-month basis, retail sales were stronger than expected in August, up 0.7% versus expectations of a 0.7% decline. The month-over-month gain was driven largely by increases in online shopping, furniture and home furnishings, and general merchandise stores. These gains were partially offset by declines in vehicles, electronics and appliances, sporting goods, hobby, musical instrument, and bookstores, on a seasonally adjusted basis. Excluding vehicles and gas, retail sales were up 2.0% month-over-month, following a 1.4% decline in July.

Labor Market

U.S. nonfarm payrolls increased by 194,000 in September, versus the consensus forecast of 500,000. However, July and August payrolls were revised up a total of 169,000. On a trailing 3-month and 6-month basis, payrolls increased at a solid pace, up an average of 550,000 and 582,000 per month, respectively. The U-3 unemployment rate declined to 4.8% in September from 5.2% in August, a bigger decline than expected. The labor participation rate declined slightly to 61.6% in September, but the employment-population ratio increased modestly to 58.7%. 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 8.5% in September from 8.8% in August. Annualized average hourly earnings were up by 4.6% in September versus 4.0% in August, reflecting strong wage growth driven in part by the ongoing imbalance in the supply and demand for labor.

Housing Starts

Total housing starts increased 3.9% in August to an annual pace of 1,615,000, led by multi-family starts. Single-family starts declined 2.8% in August while multi-family starts rose 20.6%. On a year-over-year basis, housing starts were up 17.4% 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.