

SEPTEMBER 2021



Market Data

 World Stock Market Indices
 data as of 8/31/2021

	Change (7/31/21)	%CHG
S&P 500	4,522.68	127.42 2.90%
NASDAQ	15,259.24	586.56 4.00%
DOW JONES	35,360.73	425.26 1.22%
FTSE (UK)	7,119.70	87.40 1.24%
DAX (Germany)	15,835.09	290.70 1.87%
Hang Seng (Hong Kong)	25,878.99	-82.04 -0.32%
Nikkei (Japan)	28,089.54	805.95 2.95%

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

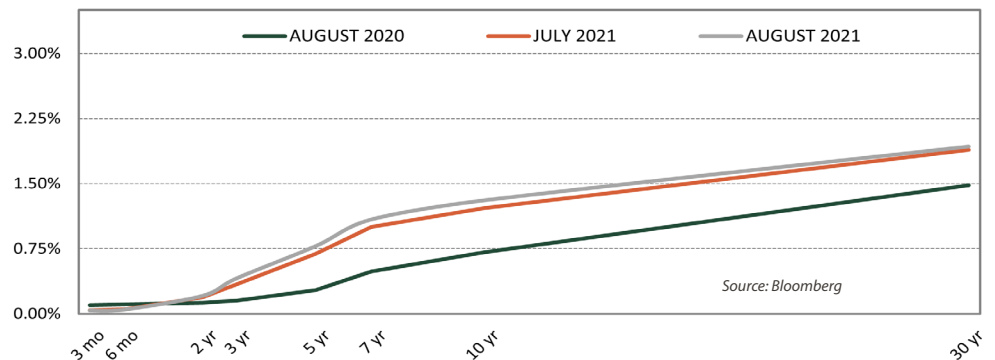
Market Summary

While we believe the economy continues to grow at an above-trend pace, some economists have tempered their expectations for US real gross domestic product (GDP) through year-end. The current Bloomberg consensus estimates for 2021 and 2022 US GDP growth are 6.1% and 4.3%, respectively. Recent economic data has been somewhat softer than expected, due at least in part to the Delta variant and ongoing dislocations in supply chains and the labor market. We anticipate economic data may remain choppy and financial market volatility may be elevated over the near-term. However, we believe continued fiscal spending, accommodative monetary policy, and effective vaccines will continue to support the economy. While some pandemic-related fiscal relief has started to phase out, an infrastructure spending plan is on the horizon. Meanwhile, we expect the central bias of the Federal Reserve to remain dovish and highly accommodative until there is more clarity on the outlook for employment and inflation.

Fed Chair Powell confirmed that rate hikes are not imminent, and he maintained a dovish tone during his speech at the Jackson Hole economic symposium in late-August. He noted that the unemployment rate remains elevated and labor force participation remains well below pre-pandemic levels. He also continues to believe that at least some of the factors driving higher inflation will be transitory and cautioned that raising the fed funds rate too soon could be detrimental to the labor market recovery. However, it seems that most Fed policymakers have decoupled their opinion about the fed funds rate from their opinion on tapering asset purchases. Chair Powell noted that the conditions needed to justify an increase in the fed funds rate would be much more rigorous than the conditions needed to start tapering asset purchases. As such, though the outlook is uncertain, expectations for the Fed to begin tapering asset purchases before year-end are elevated among market participants. We believe a plateau or decline in new US virus infection rates, continued efficacy of existing vaccines, along with a solid September employment report may catalyze the Fed to announce their intent to begin tapering asset purchases. However, we expect the fed funds rate to remain near the zero lower bound through 2022 and believe the Fed's continued patience with rate hikes will lead to a steepening bias in the Treasury curve in coming months.

The Treasury yield curve steepened slightly in August. The 2-year Treasury yield increased nearly three basis points to 0.21% and the 10-year Treasury yield increased nearly nine basis points to 1.31%. Nevertheless, the yield curve remains flatter than earlier this spring, driven by a decline in longer-term yields.

TREASURY YIELD CURVE POISED TO STEEPEN



The treasury yield curve is steeper on a year-over-year basis. At the end of August, the 2-year Treasury yield was about eight basis points higher, and the 10-Year Treasury yield was about 60 basis points higher, year-over-year. However, the yield curve is less steep than the historical average. The spread between the 2-year Treasury yield and 10-year Treasury yield was 110 basis points at August month-end compared to the average historical spread (since 2002) of about 135 basis points.

TREASURY YIELDS	Trend (▲/▼)	8/31/2021	7/31/2021	Change
3-Month	-	0.04	0.04	0.00
2-Year	▲	0.21	0.19	0.02
3-Year	▲	0.41	0.34	0.07
5-Year	▲	0.78	0.69	0.09
7-Year	▲	1.09	1.00	0.09
10-Year	▲	1.31	1.22	0.09
30-Year	▲	1.93	1.89	0.04

Source: Bloomberg

BOND MARKET REVIEW

Credit Spreads Were Fairly Stable on a Month-over-Month Basis

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.09	0.08	0.01
2-year A corporate note	0.16	0.15	0.01
5-year A corporate note	0.39	0.37	0.01
5-year Agency note	0.02	0.03	(0.02)

Source: Bloomberg

Data as of 8/31/2021

Economic Data Has Recently Softened

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(70.05) \$Bln JUL 21	(73.23) \$Bln JUN 21	(60.74) \$Bln JUL 20
Gross Domestic Product	6.60% JUN 21	6.30% MAR 21	(31.20%) JUN 20
Unemployment Rate	5.20% AUG 21	5.40% JUL 21	8.40% AUG 20
Prime Rate	3.25% AUG 21	3.25% JUL 21	3.25% AUG 20
Commodity Research Bureau Index	218.17 AUG 21	218.08 JUL 21	153.21 AUG 20
Oil (West Texas Int.)	\$68.50 AUG 21	\$73.95 JUL 21	\$42.61 AUG 20
Consumer Price Index (y/o/y)	5.40% JUL 21	5.40% JUN 21	1.00% JUL 20
Producer Price Index (y/o/y)	9.60% JUL 21	9.40% JUN 21	(2.00%) JUL 20
Euro/Dollar	1.18 AUG 21	1.19 JUL 21	1.19 AUG 20

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.

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 5.4% year-over-year in July, unchanged on a year-over-year basis from June. Core CPI (CPI less food and energy) was up 4.3% year-over-year in July (in line with expectations), versus up 4.5% in June. The Personal Consumption Expenditures (PCE) index was up 4.2% year-over-year in July, versus up 4.0% in June. Core PCE was up 3.6% year-over-year in July, versus up 3.5% year-over-year in June. 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 15.8% in July versus up 18.7% in June. Year-over-year gains were fueled in part by the drop-off in spending and activity during the pandemic last year. However, on a month-over-month basis, retail sales fell 1.1% in July (a bigger decline than the consensus forecast), following a 0.7% increase in June. Retail sales have been somewhat uneven during the pandemic due to the timing of fiscal stimulus and economic reopening. We believe the monthly decline in July sales reflects in part consumers' shift in spending toward services. Amazon Prime Day was also in June this year and may have pulled some sales forward.

Labor Market

Job growth was weaker than expected in August. U.S. nonfarm payrolls increased by 235,000, versus the consensus forecast of 733,000. However, the prior months were revised upward and on a trailing 3-month and 6-month basis, payrolls increased by an average of 750,000 and 653,000 per month, respectively. The labor participation rate was unchanged in the month at 61.7% and remains lower than the pre-pandemic level of 63.4%. The employment-population ratio increased to 58.5% from 58.4% in July, but also remains below the pre-pandemic level of 61.1%. The U-3 unemployment rate declined to 5.2% in August from 5.4% in July (versus 3.5% in February 2020). 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 8.8% in August from 9.2% in July (versus 7.0% in February 2020). Annualized average hourly earnings were up by 4.3% in August versus 4.0% in July, reflecting the ongoing imbalance in the supply and demand for labor.

Housing Starts

Total housing starts fell 7.0% in July to an annual pace of 1,534,000, missing expectations. Single-family starts declined 4.5% in July while multi-family starts fell 13.1%. On a year-over-year basis, housing starts were up just 2.5% in July. There appears to be a modest slowdown underway in the housing sector, albeit on the heels of very robust demand environment earlier this year and meaningful year-over-year home price appreciation.

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.

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