

Market Summary

April 2020



Financial markets were extremely turbulent in March, driven by a high level of uncertainty and fear regarding the impact of the COVID-19 pandemic on the global economy. The S&P 500 index declined 20.0% in the first quarter and the average option adjusted spread on investment grade corporate bonds (based on the ICE BofA US Corporate Index) widened more than 200 basis points. At the end of the first quarter, the yield on 2-year Treasuries was down 132 basis points year-to-date, and the yield on 10-year Treasuries was down nearly 125 basis points, as a global flight to quality put downward pressure on yields.

There are still many unknowns about the coronavirus and the outlook for the economy remains uncertain, but we believe the US economy entered a recession in March. Containment efforts and supply chain disruptions will likely cause a sharp increase in unemployment and a swift and deep contraction in economic activity. In the March 28 week, 6.6 million people filed an initial claim for unemployment, following 3.3 million initial claims in the previous week. These figures indicate that the employment report for April will be very weak and that the unemployment rate is already approaching 10%. Financial markets will likely remain volatile over the near-term, but we believe large-scale global monetary and fiscal stimulus programs will help mitigate the longer-term economic impact of the pandemic. At this point, we believe a U-shaped economic recovery heading into 2021 is possible.

The speed and level of fiscal and monetary relief from the federal government and Federal Reserve in the last month has already surpassed the financial crisis. President Trump approved a \$2 trillion economic relief package on March 27, the largest fiscal stimulus package in US history. We believe it will take a few weeks to fully implement the program, but small businesses have started to apply for paycheck protection program loans and direct payments to households are expected to go out in a few days. Fiscal relief from the government has been complemented by a wide range of aggressive actions by the Federal Reserve to help stabilize and provide liquidity to the financial markets. During March, the Fed lowered the fed funds target rate by a cumulative total of 150 basis points to a range of 0.0%-0.25% and said it will purchase Treasury and agency mortgage-backed securities in any amount needed to support smooth market functioning. Policymakers reinstated the Commercial Paper Funding Facility and Money Market Mutual Fund Liquidity Facility in order to provide liquidity to the commercial paper, money markets, and the municipal bond markets. The Fed also established the Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility to support the corporate bond market. The Term Asset-Backed Securities Loan Facility was established to enable the issuance of asset-backed securities backed by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration. The Fed has provided short-term funding through large-scale repo operations and lowered the reserve requirement for depository institutions. Policymakers are also working on a Main Street Business Lending Program to support lending to small- and medium-sized businesses. Looking ahead, we would not rule out the possibility of another phase of fiscal and/or monetary stimulus, depending on the duration of the social distancing guidelines and ultimate impact on the economy.

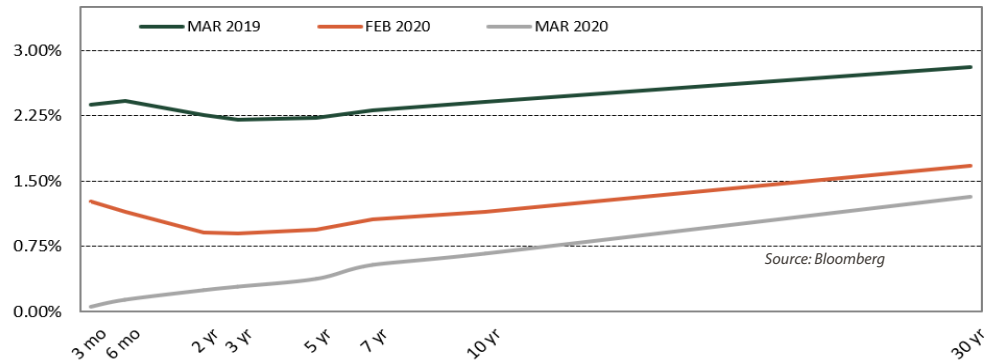
Market Data

World Stock Market Indices
 data as of 3/31/2020

	Diff (2/29/20)	% Change
S&P 500	2,584.59	-369.63 -12.51%
NASDAQ	7,700.10	-867.27 -10.12%
DOW JONES	21,917.16	-3,492.20 -13.74%
FTSE (UK)	5,671.96	-908.65 -13.81%
DAX (Germany)	9,935.84	-1,954.51 -16.44%
Hang Seng (Hong Kong)	23,603.48	-2,526.45 -9.67%
Nikkei (Japan)	18,917.01	-2,225.95 -10.53%

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

TREASURY YIELDS HAVE DECLINED



The slope of the Treasury yield curve steepened in March, though rates across the curve declined meaningfully. At March month-end, the yield on 10-year Treasuries was down 48 basis points to 0.67% while the yield on 2-year Treasuries was down 66 basis points to 0.25%. The yield on 3-month T-bills declined 121 basis points in March. The movement in yields has been driven by fears about the coronavirus and its potential impact on global economic growth and inflation expectations, as well as the cumulative 150 basis point cut to the fed funds target rate in March.

TREASURY YIELDS	Trend (▲/▼)	3/31/2020	2/29/2020	Change
3-Month	▼	0.06	1.27	-1.21
2-Year	▼	0.25	0.91	-0.66
3-Year	▼	0.29	0.90	-0.61
5-Year	▼	0.38	0.94	-0.56
7-Year	▼	0.54	1.06	-0.52
10-Year	▼	0.67	1.15	-0.48
30-Year	▼	1.32	1.68	-0.36

Source: Bloomberg

BOND MARKET REVIEW

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 March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	2.02	0.16	1.86
2-year A corporate note	1.70	0.43	1.27
5-year A corporate note	1.81	0.64	1.17
5-year Agency note	0.28	0.09	0.19

Source: Bloomberg

Data as of 3/31/2020

Economic Data Is Deteriorating Rapidly Due to the COVID-19 Pandemic

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(39.90) \$Bln FEB 20	(45.50) \$Bln JAN 20	(51.30) \$Bln FEB 19
Gross Domestic Product	2.10% DEC 19	2.10% SEP 19	1.10% DEC 18
Unemployment Rate	4.40% MAR 20	3.50% FEB 20	3.80% MAR 19
Prime Rate	3.25% MAR 20	4.75% FEB 20	5.50% MAR 19
Commodity Research Bureau Index	121.79 MAR 20	159.45 FEB 20	183.75 MAR 19
Oil (West Texas Int.)	\$20.48 MAR 20	\$44.76 FEB 20	\$60.14 MAR 19
Consumer Price Index (y/o/y)	2.30% FEB 20	2.50% JAN 20	1.50% FEB 19
Producer Price Index (y/o/y)	1.20% FEB 20	2.50% JAN 20	0.50% FEB 19
Dollar/Euro	1.10 MAR 20	1.10 FEB 20	1.12 MAR 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.3% year-over-year in February, down from 2.5% in January. Core CPI (CPI less food and energy) was up 2.4% year-over-year in February, up from 2.3% in January. The Personal Consumption Expenditures (PCE) index was up 1.8% year-over-year in February, unchanged from 1.8% year-over-year in January. Core PCE, which is the Fed's primary inflation gauge, was up 1.8% year-over-year in February versus 1.7% year-over-year in January. Core PCE was trending below the Fed's 2.0% inflation target before the COVID-19 pandemic.

Retail Sales

On a year-over-year basis, retail sales were up 4.3% in February versus 5.0% in January. On a month-over-month basis, retail sales excluding autos and gas fell 0.2% in February, well below expectations for a 0.4% increase. Control group sales were flat in February, below expectations of a 0.4% gain. Several retail categories showed weakness in February including auto sales and gasoline, building materials, clothing stores, electronics & appliances. The impact of the coronavirus was only beginning to emerge in February but the outlook for retail sales in the coming months is under significant pressure.

Labor Market

U.S. nonfarm payrolls declined by 701,000 in March. Employment in leisure and hospitality was particularly weak with payrolls down 459,000. The U-3 unemployment rate increased to 4.4% in March from 3.5% in February, and the participation rate declined to 62.7% from 63.4%. A broader measure of unemployment called the U-6, which includes those who are marginally attached to the labor force and employed part time for economic reasons, increased to 8.7% from 7.0%. Wages rose 0.4% in March and were up 3.1% on year-over-year basis. The average workweek declined to 34.2 hours from 34.4 hours. Notably, the establishment survey of payrolls and the household survey of unemployment were collected in the first half of March, which predates many of the business and school closures related to the pandemic.

Housing Starts

Housing starts remained strong in February at an annual rate of 1,599,000, exceeding the consensus forecast. On a month-over-month basis, single family starts rose 6.7% to an annualized rate of 1,072,000, while multi-family starts declined 14.9% to an annualized rate of 527,000. Low mortgage rates and a strong labor market were fueling housing activity heading into the COVID-19 crisis.

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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