CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

FEBRUARY 2021

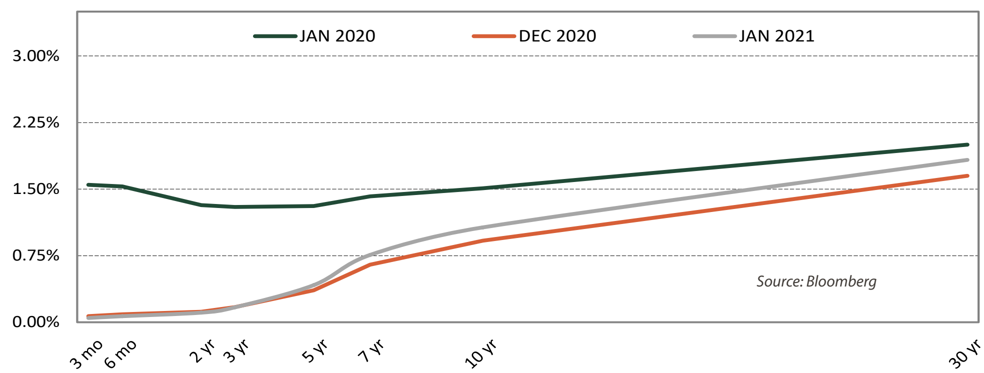
Market Summary

We believe financial market participants are mostly shrugging off current economic data, which have been somewhat soft (including last week's employment report), in anticipation of a stronger recovery later this year. The recent passage of a $900 billion COVID-19 fiscal relief bill should help cushion the economy over the next few months, and an additional $1.9 trillion relief package is currently under negotiation. Meanwhile, the White House is also crafting a proposal for a ~$2 trillion infrastructure spending plan. Although the economy and labor market continue to face significant headwinds from the pandemic, we believe robust fiscal spending, along with the Fed's highly accommodative monetary policy framework should continue to provide support for the financial markets. There has also been meaningful progress on vaccines, and we expect widespread distribution in the second and third quarter of 2021, which should help accelerate consumer spending and overall economic activity later this year.

The Federal Open Market Committee (FOMC) kept monetary policy unchanged at their January meeting as expected, with the fed funds target rate in a range of 0.0% to 0.25%. The Fed also continues to purchase $80 billion of Treasuries per month, and $40 billion of agency mortgage-backed securities per month. The Fed intends to remain highly accommodative until their goals of maximum employment and higher inflation are achieved. Fed Chair Powell said it would be premature to begin talking about tapering their asset purchases and said they will telegraph their plans well in advance of any changes in monetary policy. Notably, Chair Powell also said that the Fed believes inflation will pick up in the coming months, but the increase is likely to be transient. As such, we expect the Fed to look through any near-term increase in inflation, even if it begins to exceed 2.0% this spring, and is likely to keep policy on hold for at least the next 6-12 months.

The Treasury yield curve continued to steepen in January, likely due in part to favorable developments on the vaccine front and the anticipation of more fiscal stimulus. In January, the yield on 2-year Treasuries edged down about one basis point while the yield on 10-year Treasuries increased 15 basis points.

RATES REMAIN LOW BUT THE TREASURY YIELD CURVE IS STEEPER



Treasury yields are much lower on a year-over-year basis. The 3-month T-bill yield was down 149 basis points, the 2-year Treasury yield was down 120 basis points, and the 10-Year Treasury yield was down 44 basis points, year-over-year, at January month-end. The Fed has signaled plans to keep the front end of the Treasury yield curve anchored near zero for at least the next few years. Meanwhile, longer-term rates have been moving higher in recent months, causing the yield curve to steepen.

TREASURY YIELDS	Trend (▲/▼)	1/29/2021	12/31/2020	Change
3-Month	▼	0.05	0.07	-0.02
2-Year	▼	0.11	0.12	-0.01
3-Year	▲	0.17	0.17	0.01
5-Year	▲	0.42	0.36	0.06
7-Year	▲	0.76	0.65	0.11
10-Year	▲	1.07	0.92	0.15
30-Year	▲	1.83	1.65	0.19

Source: Bloomberg

Market Data

World Stock Market Indices
data as of 1/29/2021

Index	Value	Change (12/31/20)	%CHG
S&P 500	3,714.24	-41.83	-1.11%
NASDAQ	13,070.69	182.41	1.42%
DOW JONES	29,982.62	-623.86	-2.04%
FTSE (UK)	6,407.46	-53.06	-0.82%
DAX (Germany)	13,432.87	-285.91	-2.08%
Hang Seng (Hong Kong)	28,283.71	1,052.58	3.87%
Nikkei (Japan)	27,663.39	219.22	0.80%

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 Were Essentially Unchanged in January

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.11	0.08	0.03
2-year A corporate note	0.22	0.20	0.02
5-year A corporate note	0.44	0.41	0.03
5-year Agency note	0.06	0.06	(0.00)

Source: Bloomberg

Data as of 1/29/2021

Economy Continues to Face Near-Term Headwinds from the Pandemic

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(66.61) $Bln DEC 20	(69.01) $Bln NOV 20	(45.68) $Bln DEC 19
Gross Domestic Product	4.00% DEC 20	33.40% SEP 20	2.40% DEC 19
Unemployment Rate	6.30% JAN 21	6.70% DEC 20	3.50% JAN 20
Prime Rate	3.25% JAN 21	3.25% DEC 20	4.75% JAN 20
Commodity Research Bureau Index	174.20 JAN 21	167.80 DEC 20	170.31 JAN 20
Oil (West Texas Int.)	$52.20 JAN 21	$48.52 DEC 20	$51.56 JAN 20
Consumer Price Index (y/o/y)	1.40% DEC 20	1.20% NOV 20	2.30% DEC 19
Producer Price Index (y/o/y)	(0.50%) DEC 20	(1.30%) NOV 20	1.70% DEC 19
Dollar/Euro	1.21 JAN 21	1.22 DEC 20	1.11 JAN 20

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.4% year-over-year in December, versus up 1.2% year-over-year in November. Core CPI (CPI less food and energy) was up 1.6% year-over-year in December, unchanged from November. The Personal Consumption Expenditures (PCE) index was up 1.3% year-over-year in December, versus up 1.1% year-over-year in November. Core PCE, which is the Fed's primary inflation gauge, was up 1.5% year-over-year in December, versus up 1.4% year-over-year in November. Inflation remains below the Fed's longer-run 2.0% target.

Retail Sales

Retail sales momentum slowed during the holiday shopping season. On a year-over-year basis, retail sales were up 2.9% in December versus 3.7% in November. On a month-over-month basis, retail sales declined 0.7% in December, following a 1.4% decline in November. The month-over-month declines were broad-based in December on a seasonally adjusted basis, with outsized declines for non-store (e-commerce) sales, electronic & appliance stores, food service & drinking places, and department stores. Sales at clothing and accessories stores were positive in December, but this followed a sharp decline in November. Sales of motor vehicles and parts and gasoline also showed relative strength in December. Excluding vehicles and gas, retail sales fell 2.1% in December, following a 1.3% decline in November.

Labor Market

U.S. nonfarm payrolls were up just 49,000 in January, versus the consensus forecast of 105,000. December payrolls were revised down by 87,000 to 227,000. On a seasonally adjusted basis, the increase in January payrolls was led by an 80,900 net gain in temporary help services and a 43,000 net gain in government jobs. Meanwhile, payrolls in the leisure and hospitality sector declined 61,000 in January, following a large 536,000 net decline in December. The unemployment rate unexpectedly declined to 6.3% in January from 6.7% in December, but this was due in part to a decline in the participation rate to 61.4% in January from 61.5% in December. Although the unemployment rate has improved from the peak of 14.8% last April, more than 10.1 million people remain unemployed. Workers who classified themselves as employed but absent from work in January continued to understate the unemployment rate by about 0.6%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, remained high but declined to 11.1% in January from 11.7% in December.

Housing Starts

Total housing starts increased 5.8% in December to an annual pace of 1,669,000 (the strongest rate since 2006). Single family starts jumped 12.0% to an annualized rate of 1,338,000, while multi-family starts declined 13.6% to an annualized rate of 331,000. On a year-over-year basis, total housing starts were up 5.2% in December, driven by growth in single-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.