CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

A Monthly Review of Fixed Income Markets

March 2020

Market Data

World Stock Market Indices
data as of 2/29/2020

		Diff (1/31/20)	% Change
S&P 500	**2,954.22**	-271.30	-8.41%
NASDAQ	**8,567.37**	-583.57	-6.38%
DOW JONES	**25,409.36**	-2,846.67	-10.07%
FTSE (UK)	**6,580.61**	-705.40	-9.68%
DAX (Germany)	**11,890.35**	-1,091.62	-8.41%
Hang Seng (Hong Kong)	**26,129.93**	-182.70	-0.69%
Nikkei (Japan)	**21,142.96**	-2,062.22	-8.89%

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

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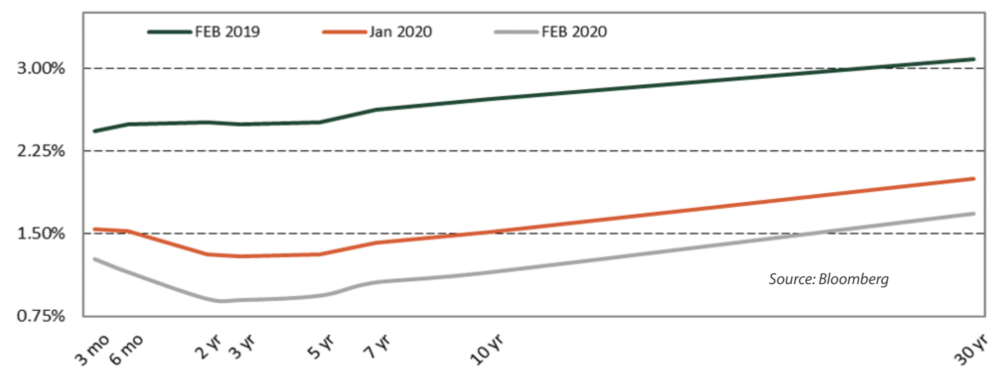
Market Summary

Financial markets experienced significant turbulence during the month of February, driven by a high level of uncertainty about the impact of coronavirus on global economic growth. We believe this was further exacerbated by rising US political uncertainty ahead of this year's presidential election. The US Treasury market was particularly volatile during the month, amid a global flight to quality. Meanwhile, the S&P 500 index declined more than 8% in the month. There are still many unknowns about the coronavirus including how widespread it will become, how long it will take to contain the virus, and the actual impact on economic activity. We expect that the coronavirus will cause a slowdown in global economic growth but believe a longer-term recovery is likely. Efforts to contain the virus will cause supply chain disruptions for many companies and put corporate cash flows and earnings at risk. However, we anticipate an ongoing collective global monetary and fiscal response if global supply chain disruption and/or the economic slowdown is prolonged.

On March 3, the Federal Reserve made a surprise intra-meeting fed funds rate cut of 50 basis points, to a new range of 1.00-1.25%, its biggest single cut in more than a decade. The decision was unanimous. The next Federal Open Market Committee (FOMC) meeting will be held March 17-18. US economic fundamentals remain intact (tight labor market, high level of consumer confidence, strong housing market, etc.) but in light of the recent tightening in financial market conditions, we believe the probability of another rate cut later this month is high. The implied probability of additional monetary easing, based on fed funds futures prices, remains high.

Treasury yields declined meaningfully in February and the curve remained inverted. At month-end, the yield on 10-year Treasuries was nearly 12 basis points below the yield on 3-month T-bills. The yield on 2-year Treasuries was 35 basis points below the yield on 3-month T-bills at month-end. During the month, the yield on 2-year Treasuries declined 40 basis points to 0.91%, while the yield on 10-year Treasuries declined nearly 36 basis points to a record low of 1.15%. The movement in yields was largely driven by fears about the coronavirus and its potential impact on global economic growth and inflation expectations.

TREASURY YIELDS HAVE DECLINED



At February month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 117 basis points, the 2-Year Treasury yield was down 160 basis points, and the 10-Year Treasury yield was down 157 basis points, year-over-year. We believe the decline in long-term Treasury yields largely reflects a decline in global economic growth and inflation expectations, while the decline in shorter-term rates reflects the Fed's three 25 basis point rate cuts in 2019 and expectations for additional accommodation.

TREASURY YIELDS	Trend (▲/▼)	2/29/2020	1/31/2020	Change
3-Month	▼	1.27	1.54	-0.27
2-Year	▼	0.91	1.31	-0.40
3-Year	▼	0.90	1.29	-0.39
5-Year	▼	0.94	1.31	-0.37
7-Year	▼	1.06	1.42	-0.36
10-Year	▼	1.15	1.51	-0.36
30-Year	▼	1.68	2.0	-0.32

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 Widened in February

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.16	0.07	0.09
2-year A corporate note	0.43	0.32	0.11
5-year A corporate note	0.64	0.53	0.11
5-year Agency note	0.09	0.09	0.00

Source: Bloomberg Data as of 2/29/2020

Economic Data Remains Intact

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(45.30) $Bln JAN 20	(48.60) $Bln DEC 19	(53.80) $Bln JAN 19
Gross Domestic Product	2.10% DEC 19	2.10% SEP 19	1.10% DEC 18
Unemployment Rate	3.50% FEB 20	3.60% JAN 20	3.80% FEB 19
Prime Rate	4.75% FEB 20	4.75% JAN 20	5.50% FEB 19
Commodity Research Bureau Index	159.45 FEB 20	170.30 JAN 20	182.75 FEB 19
Oil (West Texas Int.)	$44.76 FEB 20	$51.56 JAN 20	$57.22 FEB 19
Consumer Price Index (y/o/y)	2.50% JAN 20	2.30% DEC 19	1.60% JAN 19
Producer Price Index (y/o/y)	2.50% JAN 20	1.90% DEC 19	0.40% JAN 19
Dollar/Euro	1.10 FEB 20	1.11 JAN 20	1.13 FEB 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.5% year-over-year in January, up from 2.3% in December. Core CPI (CPI less food and energy) was up 2.3% year-over-year in January, unchanged from December. The Personal Consumption Expenditures (PCE) index was up 1.7% year-over-year in January versus up 1.5% year-over-year in December. Core PCE, which is the Fed's primary inflation gauge, was up 1.6% year-over-year in January versus 1.5% year-over-year in December. Core PCE remains below the Fed's 2.0% inflation target.

Retail Sales

On a year-over-year basis, retail sales were up 4.4% in January versus 5.5% in December. On a month-over-month basis, retail sales excluding autos and gas rose 0.4% in January, slightly ahead of expectations. Much of the strength was driven by building materials and food services, while sales on clothing, health & personal care, and electronics & appliances were down in the month.

Labor Market

U.S. nonfarm payrolls rose by 273,000 in February, well above expectations of 175,000. Payrolls in December and January were revised up by 85,000. On a trailing 3-month and 6-month basis, payrolls increased an average of 243,000 and 231,000 per month, respectively. The unemployment rate was unchanged at 3.5% in February and the participation rate held steady at 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, ticked up to 7.0% in February from 6.9% in January. Wages rose 0.3% in February, in line with expectations, following a 0.2% in January. On a year-over-year basis, wages were up 3.0% in February, versus up 3.1% in January. The average workweek increased to 34.4 hours from 34.3 hours.

Housing Starts

Housing starts remained strong in January at an annual rate of 1,567,000, exceeding the high end of the consensus forecast. On a month-over-month basis, single family starts declined 5.9% to an annualized rate of 1,010,000, while multi-family starts were roughly flat at an annualized rate of 557,000. Permits rose 9.2% in January to a 1,551,000 rate. Trends suggest low mortgage rates and a strong labor market continue to drive housing activity.

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.