

SEPTEMBER 2020



## Market Data

World Stock Market Indices  
 data as of 8/31/2020

|                       | Diff<br>(7/31/20) | %<br>Change |
|-----------------------|-------------------|-------------|
| S&P 500               |                   |             |
| 3,500.31              | 229.19            | 7.01%       |
| NASDAQ                |                   |             |
| 11,775.46             | 1,030.19          | 9.59%       |
| DOW JONES             |                   |             |
| 28,430.05             | 2,001.73          | 7.57%       |
| FTSE (UK)             |                   |             |
| 5,963.57              | 65.81             | 1.12%       |
| DAX (Germany)         |                   |             |
| 12,945.38             | 632.02            | 5.13%       |
| Hang Seng (Hong Kong) |                   |             |
| 25,177.05             | 581.70            | 2.37%       |
| Nikkei (Japan)        |                   |             |
| 23,139.76             | 1,429.76          | 6.59%       |

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

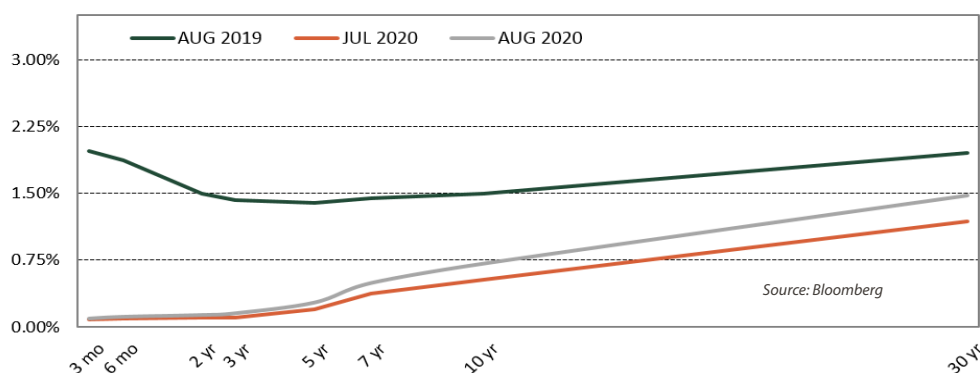
## Market Summary

The US economy continues to experience a somewhat uneven and slowing pace of recovery, consistent with more of a U-shaped (rather than V-shaped) recovery, in our view. However, the outlook for the economy remains uncertain. We believe the outlook is largely dependent on the course of the pandemic, the amount of additional fiscal relief from the government, and the timeline for a vaccine. The Fed's highly accommodative monetary policy framework, along with a swift and robust fiscal policy response from the government earlier this year, has provided support for the financial markets amid a very challenging economic backdrop. We believe financial markets may be poised for increased volatility through year-end due to the upcoming election, a potential resurgence in virus cases this fall, and an unclear outlook for additional fiscal relief. If the expected timeline for a COVID-19 vaccine was pushed into second half of next year or beyond, we believe that would fuel a significant amount of financial market volatility as well.

In August, Fed Chair Powell delivered a speech at the annual Economic Policy Symposium and unveiled a modest shift to the Fed's monetary policy framework. While the Fed is not abandoning its 2.0% inflation target, the Fed will now seek to achieve inflation that averages 2.0% over time. Should the labor market tighten, the Fed will put less emphasis on preemptive monetary policy tightening to prevent an overshoot of inflation. Instead, the Fed will wait for evidence that inflation is heating up and allow inflation to run above 2.0% for some (unspecified) period of time before it looks to tighten policy. The Fed's updated framework essentially signals that the fed funds target rate is likely to stay low for an extended period of time.

The Treasury yield curve steepened in August, with short-term rates anchored near 0.0% and the yield on 10-year Treasuries up nearly 18 basis points to 0.71%. We believe a wave of new Treasury issuance in August put increased upward pressure on longer-term rates. Inflation expectations were also creeping higher. On a year-to-date basis, the yield on 2-year Treasuries was down 144 basis points and the yield on 10-year Treasuries was down about 121 basis points, at the end of August.

## TREASURY YIELDS REMAIN LOW ON A HISTORICAL BASIS



At August month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 188 basis points, the 2-year Treasury yield was down 137 basis points, and the 10-Year Treasury yield was down 79 basis points, year-over-year. In March 2020, the Fed cut the target fed funds rate by a total of 150 basis points and concerns about a global recession and a flight to safe-haven assets drove down yields across the curve.

| TREASURY YIELDS | Trend (▲/▼) | 8/31/2020 | 7/31/2020 | Change |
|-----------------|-------------|-----------|-----------|--------|
| 3-Month         | ▲           | 0.09      | 0.08      | 0.01   |
| 2-Year          | ▲           | 0.13      | 0.11      | 0.02   |
| 3-Year          | ▲           | 0.15      | 0.11      | 0.04   |
| 5-Year          | ▲           | 0.27      | 0.20      | 0.07   |
| 7-Year          | ▲           | 0.49      | 0.38      | 0.11   |
| 10-Year         | ▲           | 0.71      | 0.53      | 0.18   |
| 30-Year         | ▲           | 1.48      | 1.19      | 0.29   |

Source: Bloomberg

# BOND MARKET REVIEW

Since 1988, Chandler Asset Management has specialized in providing fixed income investment solutions that manage risk for 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 Continued to Tighten in August

| CREDIT SPREADS                     | Spread to Treasuries (%) | One Month Ago (%) | Change |
|------------------------------------|--------------------------|-------------------|--------|
| 3-month top rated commercial paper | 0.02                     | 0.01              | 0.01   |
| 2-year A rated corporate note      | 0.25                     | 0.27              | (0.02) |
| 5-year A rated corporate note      | 0.54                     | 0.55              | (0.01) |
| 5-year Agency note                 | 0.16                     | 0.19              | (0.03) |

Source: Bloomberg

Data as of 8/31/2020

## Improvement in Economic Activity is Consistent with a U-Shaped Recovery

| ECONOMIC INDICATOR              | Current Release      | Prior Release        | One Year Ago         |
|---------------------------------|----------------------|----------------------|----------------------|
| Trade Balance                   | (63.60) \$Bln JUL 20 | (53.50) \$Bln JUN 20 | (51.00) \$Bln JUL 19 |
| Gross Domestic Product          | (31.70%) JUN 20      | (5.00%) MAR 20       | 1.50% JUN 19         |
| Unemployment Rate               | 8.40% AUG 20         | 10.20% JUL 20        | 3.70% AUG 19         |
| Prime Rate                      | 3.25% AUG 20         | 3.25% JUL 20         | 5.25% AUG 19         |
| Commodity Research Bureau Index | 153.21 AUG 20        | 143.69 JUL 20        | 170.36 AUG 19        |
| Oil (West Texas Int.)           | \$42.61 AUG 20       | \$40.27 JUL 20       | \$55.1 AUG 19        |
| Consumer Price Index (y/o/y)    | 1.30% AUG 20         | 1.00% JUL 20         | 1.80% JUL 19         |
| Producer Price Index (y/o/y)    | (1.80%) JUL 20       | (2.20%) JUN 20       | 0.70% JUL 19         |
| Dollar/Euro                     | 1.19 AUG 20          | 1.18 JUL 20          | 1.10 AUG 19          |

Source: Bloomberg

## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 1.3% year-over-year in August, versus up 1.0% in July. Core CPI (CPI less food and energy) was up 1.7% year-over-year in August, versus up 1.6% in July. The Personal Consumption Expenditures (PCE) index was up 1.0% year-over-year in July, versus up just 0.9% year-over-year in June. Core PCE, which is the Fed's primary inflation gauge, was up 1.3% year-over-year in July, versus up 1.1% year-over-year in June. Pricing pressures are increasing but both CPI and PCE remain lower than pre-pandemic levels, indicating that the effect of the pandemic has been deflationary.

### Retail Sales

Retail sales were softer than expected in July. Nevertheless, on a year-over-year basis, retail sales were up 2.7% in July, an improvement from 2.1% in June. On a month-over-month basis, retail sales were up just 1.2% in July, following an 8.4% increase in June. Excluding autos and gas, retail sales were up 1.5% in July, which was better than expected. Spending at electronics and appliance stores jumped nearly 23% in July. Spending on clothing, restaurants, health & personal care, and online retail also increased in July.

### Labor Market

U.S. nonfarm payrolls were in line with expectations, increasing by 1,371,000 in August versus expectations of 1,350,000. This follows increases of 4,781,000 and 1,734,000 in June and July, respectively. In August, a larger than expected increase in government payrolls (driven in part by temporary 2020 Census workers) offset a lower than expected increase in private payrolls. The unemployment rate declined to 8.4% in August (versus expectations of 9.8%) from 10.2% in July. The participation rate improved to 61.7% in August, from 61.4% in July, but remains well below the pre-pandemic rate of 63.4% in January and February. Furthermore, workers who classified themselves as employed but absent from work in the August survey understated the unemployment rate by about 0.7%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, remained very high but eased to 14.2% in August from 16.5% in July.

### Housing Starts

Total housing starts surged nearly 23% in July to an annual pace of 1,496,000. Single family starts rose 8.2% to an annualized rate of 940,000, while multi-family starts soared 58.4% to an annualized rate of 556,000. On a year-over-year basis, housing starts were up 23.4% in July, with single family starts up 7.4% year-over-year, and multi-family starts up 65.0%. Meanwhile, permits were up 18.8% in July on a month-over-month basis, to an annualized rate of 1,495,000.

### 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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