

# BOND MARKET REVIEW

A MONTHLY REVIEW OF  
FIXED INCOME MARKETS



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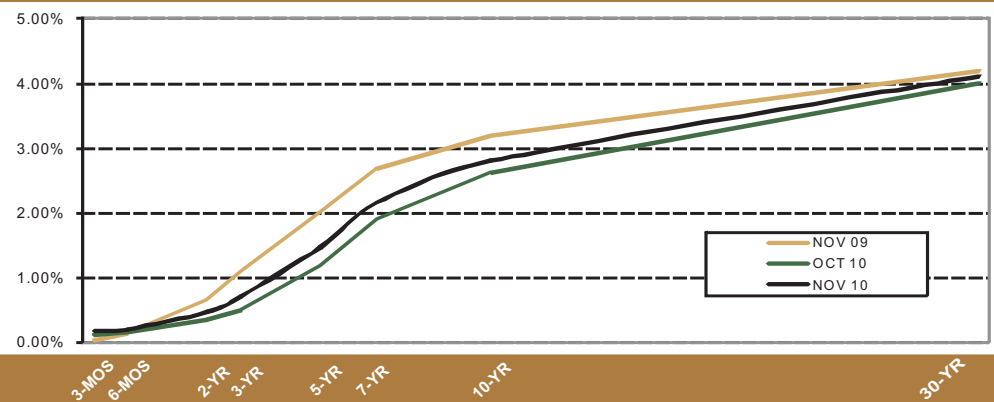
Since 1988, Chandler Asset Management has specialized in the management fixed income portfolios. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our clients' portfolios.

## MARKET SUMMARY

During November, market participants digested the impact of a divided government following the Republican victory in the mid-term elections. A new wave of concern about the sovereign debt crisis in Europe also moved markets, as the European Union eventually approved a bailout for Ireland. Some economists have begun to raise their economic forecasts for 2011; however, in the absence of a stronger job market it is not clear what the primary driver of economic activity will be in the months ahead, and the prospect of a vigorous economic recovery remains questionable. As a result, market participants continue to debate the strength of the economic recovery as well as the effectiveness of the second round of Federal Reserve asset purchases.

Treasury yields were higher in November with rates in the middle of the yield curve (3-10 years) rising more than short-term or long-term rates. U.S. economic data has picked up slightly in the past month, but the November employment report was disappointing. The overhang from the housing bubble and credit crisis, as well as high levels of unemployment, are likely to restrain consumer spending and economic activity for some time to come. Inflation is tame, and the Federal Reserve is actually attempting to promote higher prices.

## TREASURY YIELDS HIGHER IN NOVEMBER



Treasury yields ended the month higher as market participants anticipated a gradual pickup in economic growth, and debated the impact of a second round of quantitative easing by the Federal Reserve. Longer-term Treasury yields remain higher than shorter-term yields.

YIELDS	11/30/10	10/31/10	CHANGE
3 Month	0.16	0.11	0.05
2 Year	0.45	0.34	0.11
3 Year	0.70	0.50	0.20
5 Year	1.46	1.18	0.28
7 Year	2.15	1.90	0.25
10 Year	2.79	2.61	0.18
30 Year	4.11	4.00	0.11

## ECONOMIC ROUNDUP

### CONSUMER PRICES

In October, the CPI showed that consumer prices increased 1.2% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 0.6% rate. Tame inflation readings reduced the pressure on the Fed to aggressively reverse their historically easy monetary policy. Most economists believe that inflation will remain moderate over the next 12 months, with deflation appearing to be more of a concern.

### RETAIL SALES

In October, Retail Sales rose 7.3% on a year-over-year basis. Consumer spending appears to have rebounded from the depths of the recession, but has not yet reached the heights of the previous economic expansion. Consumers remain somewhat cautious due to job losses, home price declines, and a general tightening of credit standards.

### LABOR MARKETS

The November employment report showed that the economy added 39,000 jobs, fewer than the market was expecting. However, the October report was revised higher to reflect a 172,000 boost in payrolls, up from the previous reading of 151,000. The private payrolls number in November showed an increase of 50,000, following a 160,000 boost the month before. The unemployment rate rose to 9.8% from 9.6%, due in part to an increase in the labor force. Overall, the latest employment report was disappointing, and many economists think that it will be some time before the unemployment rate declines in a meaningful way.

### HOUSING STARTS

Single-family housing starts declined 1.1% in October to 436,000. The housing recovery seems to have lost some momentum as the expiration of government tax credits for new homebuyers, and continued high levels of foreclosures, weigh on the market.

## CREDIT SPREADS MIXED

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.09	0.14	(0.05)
2-year AA corporate note	0.44	0.45	(0.01)
5-year AA corporate note	0.70	0.71	(0.01)
5-year Agency note	0.20	0.15	0.05

Source: Bloomberg

Data as of 11/30/2010

## MIXED ECONOMIC DATA

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(44.00) \$Bln SEP 10	(46.47) \$Bln AUG 10	(35.16) \$Bln SEP 09
GDP	2.50% SEP 10	1.70% JUN 10	1.60% SEP 09
Unemployment Rate	9.80% NOV 10	9.60% OCT 10	10.00% NOV 09
Prime Rate	3.25% NOV 10	3.25% OCT 10	3.25% NOV 09
CRB Index	301.41 NOV 10	300.67 OCT 10	277.40 NOV 09
Oil (West Texas Int.)	\$84.11 NOV 10	\$81.43 OCT 10	\$77.00 NOV 09
Consumer Price Index (y/o/y)	1.20% OCT 10	1.10% SEP 10	(0.20%) OCT 09
Producer Price Index (y/o/y)	4.30% OCT 10	4.00% SEP 10	(2.00%) OCT 09
Dollar / EURO	1.30 NOV 10	1.39 OCT 10	1.50 NOV 09

Source: Bloomberg



Seasons Greetings  
and  
Best Wishes for the New Year

Ned

Winn

Kay

Jayson

Mia

Marty

Eric

Jaimie

Andy

Brian

Shelly

Mike

Michelle

Patty

Sofia

Don

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Jannie

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