

BOND MARKET REVIEW

A MONTHLY REVIEW OF
FIXED INCOME MARKETS



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Since 1988, Chandler Asset Management has specialized in the management of 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.

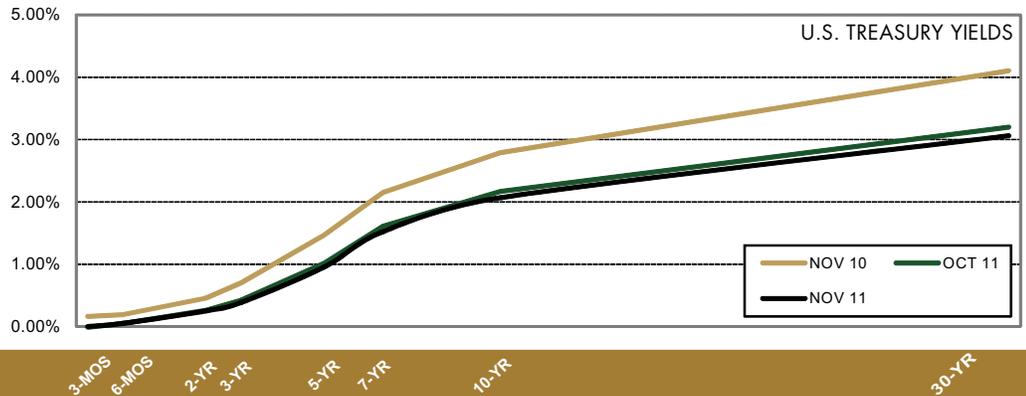
Market Summary

Treasury yields in the long end of the curve moved lower in November as concerns about sovereign debt issues in the euro zone escalated. Operation Twist continues to have a large influence on prices for longer-term Treasury securities as well.

Domestic economic data has continued to improve and fears of another U.S. recession have declined. In November, payroll jobs advanced 120,000 and the unemployment rate unexpectedly fell to 8.6% from 9.0%. Consumer Confidence has recently improved and the early read on holiday spending has been solid, with retailers posting record Black Friday weekend sales this year. In our view, domestic economic data remains indicative of a slow growth environment, but has nonetheless surprised modestly to the upside. However, the sovereign debt crisis in Europe continues to largely overshadow any positive or negative domestic economic news.

Monetary policy in the United States remains very accommodative with the Fed Funds rate on hold at 0.00-0.25% until mid-2013, and with Operation Twist pressuring long end rates lower. The European Central Bank (ECB) has been far less accommodative than the Federal Reserve throughout 2011, but has recently stepped up its involvement in the market. On December 8, the ECB announced a cut in their benchmark rate of 25 basis points to 1.00%, a cut in the reserve requirement for commercial banks, a loosening of collateral requirements for ECB loans, and, perhaps most noteworthy, two new operations to offer term loans to European banks of up to 36 months. Although these actions are significant they are still short of market expectations for some form of quantitative easing from the ECB. We expect markets to remain volatile through year end and the treasury markets to remain well supported.

A TWIST IN THE YIELD CURVE



The longer-end of the yield curve declined in November, while shorter-term rates remained stable.

TREASURY YIELDS	11/30/11	10/31/11	CHANGE
3 Month	0.00	(0.01)	0.01
2 Year	0.25	0.26	(0.01)
3 Year	0.39	0.42	(0.03)
5 Year	0.95	1.01	(0.06)
7 Year	1.52	1.61	(0.09)
10 Year	2.07	2.17	(0.10)
30 Year	3.06	3.20	(0.14)

Economic Roundup

Consumer Prices

In October, the CPI showed that consumer prices increased 3.5% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 2.1% rate. Overall, price increases remained subdued, and the Federal Reserve has recently noted that some cost pressures have eased.

Retail Sales

In October, Retail Sales rose 7.2% on a year-over-year basis. Consumer spending has rebounded from the depths of the recession and recent activity has been moderate; however, high unemployment continues to restrain consumer spending.

Labor Markets

The November employment report showed that the economy added 120,000 jobs and the previous two month's totals were revised higher by 72,000. The unemployment rate fell to 8.6% from 9.0%. Market participants were expecting the unemployment rate to remain unchanged at 9.0%. Although the report was an improvement, the greater than expected decline in the unemployment rate was largely due to a decline in the participation rate. Overall, unemployment remains elevated, but trends suggest that the labor market is slowly improving.

Housing Starts

Single-family housing starts rose 3.9% in October to 430,000, compared to 414,000 in September. The housing market remains weak, but seems to have stabilized following several years of sharp declines.

Credit Spreads Wider

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.54	0.44	0.10
2-year AA corporate note	0.65	0.44	0.21
5-year AA corporate note	0.77	0.53	0.24
5-year Agency note	0.46	0.42	0.04

Source: Bloomberg

Data as of 11/30/2011

Economic Data Modestly Improving

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(43.1) \$Bln SEP 11	(44.9) \$Bln AUG 11	(44.0) \$Bln SEP 10
GDP	2.0% SEP 11	1.3% JUN 11	2.5% SEP 10
Unemployment Rate	8.6% NOV 11	9.0% OCT 11	9.8% NOV 10
Prime Rate	3.25% NOV 11	3.25% OCT 11	3.25% NOV 10
CRB Index	313.82 NOV 11	319.84 OCT 11	301.41 NOV 10
Oil (West Texas Int.)	\$100.36 NOV 11	\$93.19 OCT 11	\$84.11 NOV 10
Consumer Price Index (y/o/y)	3.5% OCT 11	3.9% SEP 11	1.2% OCT 10
Producer Price Index (y/o/y)	5.9% OCT 11	6.9% SEP 11	4.3% OCT 10
Dollar / EURO	1.35 NOV 11	1.39 OCT 11	1.30 NOV 10

Source: Bloomberg

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Seasons Greetings

and

Best Wishes for the New Year

Bill

Ned

Scott

Kay

Jayson

Mia

Marty

Eric

Jaimie

Andy

Michelle

Patty

Shelly

Mike

Sofia

Jannie

Don

Jed

George

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