

# 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.

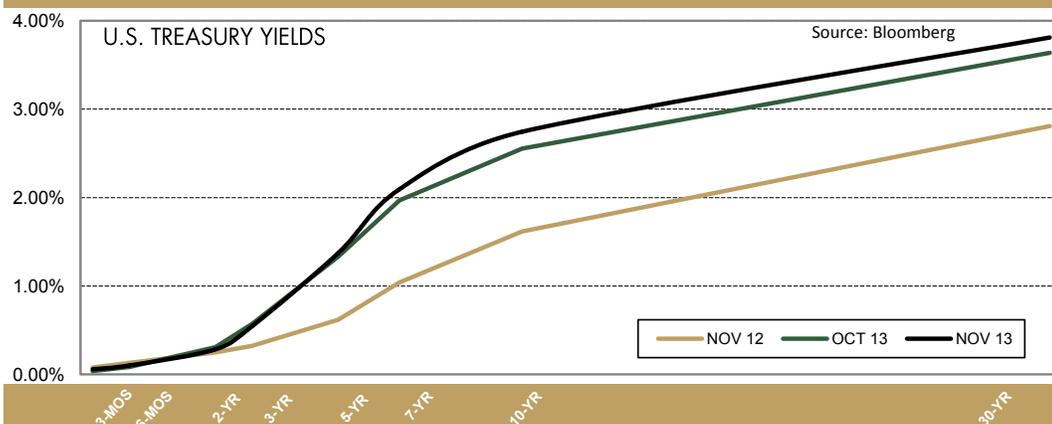
## Market Summary

There has been a stream of positive economic data in recent weeks. Job growth was stronger than expected in November, and the unemployment rate dropped to 7.0% from 7.3%. Nonfarm payrolls increased 203,000 in November exceeding the consensus forecast of 180,000. Average nonfarm payroll growth over the past 3 months has been about 193,000 per month. Overall, the labor market is showing moderate improvement. Meanwhile, manufacturing data has been mixed, but one of the most closely watched indicators (the ISM manufacturing index) suggests that the manufacturing sector is expanding at a healthy pace. Some of the most recent housing data, such as new home sales and housing permits, have also been favorable. The index of leading economic indicators (LEI) also continues to point to modest economic growth.

The recent improvement in economic data will likely intensify the Fed's discussion about tapering its bond purchases. However, we don't expect the Fed to announce tapering at the upcoming December 17-18 FOMC meeting. We continue to believe that uncertainty about the country's longer-term fiscal policy will delay the unwinding of quantitative easing until 2014. The bigger unknowns at this point are the composition of the taper (mortgage-backed securities vs. Treasuries), the overall size of the taper (we estimate that the Fed will initially trim their purchases by about \$10 billion), and the tone of the Fed's message about the overall trajectory of the economy and monetary policy.

Treasury yields have continued to be somewhat volatile, as the outlook on Fed policy and long-term fiscal policy remains uncertain.

### TREASURY YIELD CURVE STEEPENED IN NOVEMBER



During the past three months, the yield curve steepened slightly, but rates experienced volatility during this time period. Economic data has been mixed and the timing of when the Fed will begin winding down quantitative easing is uncertain.

TREASURY YIELDS	11/30/2013	10/31/2013	CHANGE
3 Month	0.06	0.04	0.02
2 Year	0.28	0.31	(0.03)
3 Year	0.55	0.57	(0.02)
5 Year	1.37	1.33	0.04
7 Year	2.09	1.97	0.12
10 Year	2.75	2.56	0.19
30 Year	3.81	3.64	0.17

Source: Bloomberg

## Economic Roundup

### Consumer Prices

In October, overall CPI inflation fell to 1.0% on a year-over-year basis from 1.2% in September. The year-over-year Core CPI (CPI less food and energy) was unchanged at 1.7%. The core inflation rate is still trending below the Fed's long-term goal of 2.0% and remains below the trigger rate for policy action of 2.5%.

### Retail Sales

In October, Retail Sales rose 3.9% on a year-over-year basis up from 3.4% in September. On a month-over-month basis, Retail Sales rose 0.4% in October which exceeded the consensus forecast.

### Labor Markets

The November employment report was better than expected as payrolls rose by 203,000 exceeding the 180,000 consensus estimate. The unemployment rate declined to 7.0% from 7.3%. Net revisions for job growth in September and October were +8,000. Average nonfarm payroll growth over the past 3 months has been about 193,000. Private payrolls increased 196,000 in November while government jobs rose 7,000.

### Housing Starts

Single-family housing starts rose 5.6% in August to 620,000 from 587,000 in July.

## Credit Spreads Were Mixed

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.07	0.09	(0.02)
2-year A corporate note	0.56	0.54	0.02
5-year A corporate note	0.73	0.72	0.01
5-year Agency note	0.31	0.36	(0.05)

Source: Bloomberg

Data as of 11/30/13

## Economic Data Has Improved Moderately

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(40.6) \$Bln OCT 13	(43.0) \$Bln SEP 13	(42.7) \$Bln OCT 12
GDP	3.6% SEP 13	2.5% JUN 13	2.8% SEP 12
Unemployment Rate	7.0% NOV 13	7.3% OCT 13	7.8% NOV 12
Prime Rate	3.25% NOV 13	3.25% OCT 13	3.25% NOV 12
CRB Index	274.88 NOV 13	277.86 OCT 13	298.98 NOV 12
Oil (West Texas Int.)	\$92.72 NOV 13	\$96.38 OCT 13	\$88.91 NOV 12
Consumer Price Index (y/o/y)	1.0% OCT 13	1.2% SEP 13	2.2% OCT 12
Producer Price Index (y/o/y)	0.7% NOV 13	0.3% OCT 13	1.5% NOV 12
Dollar/EURO	1.36 NOV 13	1.36 OCT 13	1.30 NOV 12

Source: Bloomberg

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Fixed income investments are subject to interest, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

ESTABLISHED 1988



**CHANDLER**  
ASSET  
MANAGEMENT

**A**s we close the books on 2013, a year that marks our 25<sup>th</sup> anniversary, we want to express our thanks for your loyalty and reflect a bit on what has brought us here.

When Kay Chandler founded the company in 1988, she had a vision of the kind of investment firm she wanted to establish. Having served as investment officer for the County of San Diego and for the City of San Diego, she understood the needs of public agencies, hospitals and other safety minded investors. Kay wanted a firm that was different, a firm that put client “peace of mind” first by avoiding risks that others might take in search of short term gains. She set up a firm designed to answer only to its clients, not to outside investors, banks or brokerages.

Over the past 25 years, Chandler Asset Management has stayed true to these principles and they have carried us and our clients through all manner of interest-rate environments and market upheavals. As we look to 2014 and beyond, we will continue to work hard managing client portfolios and enhancing our technology to better serve you.

We look forward to sharing with you – our clients and friends – a productive and prosperous New Year.

The Chandler Team

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