

BOND MARKET REVIEW

A MONTHLY REVIEW OF
FIXED INCOME MARKETS



WHAT'S INSIDE

Market Summary 1
Yield Curve
Current Yields

Economic Round-Up 2
Credit Spreads
Economic Indicators

Season's Greetings 3

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.

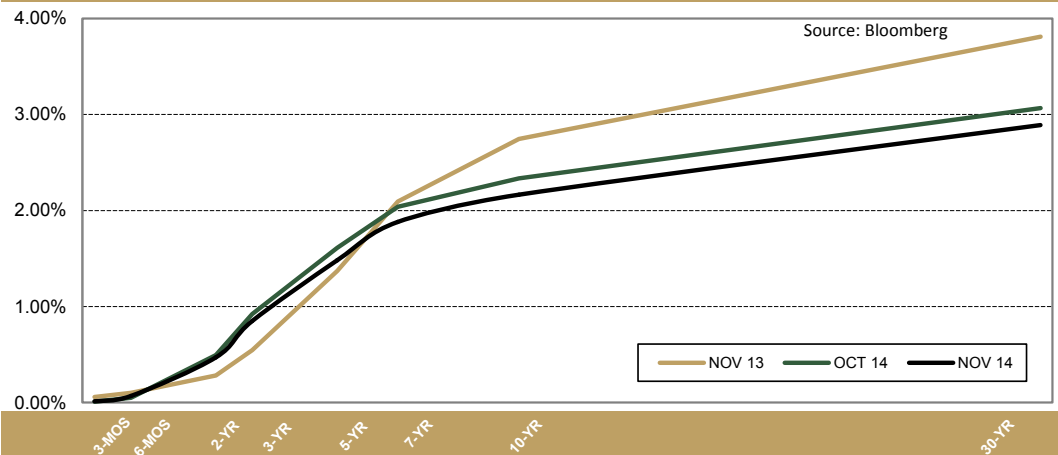
Market Summary

The November employment report was much stronger than expected. Nonfarm payrolls rose by 321,000 in the month, significantly above the consensus forecast of 230,000. However, the unemployment rate was unchanged at 5.8% and the labor participation rate held steady at 62.8%. Wages increased 0.4% in November, exceeding expectations. The labor market is clearly improving which should benefit overall economic growth and support holiday spending this quarter. We believe consumer spending is also getting a boost from the recent decline in gas prices. Meanwhile, the manufacturing sector continues to show strength. The housing sector, however, remains volatile and continues to lag behind other sectors of the economy.

The outlook for policy action by the Federal Reserve remains unclear, but the stellar November jobs report will give hawkish members of the Fed a stronger argument for lifting rates sooner than market participants are currently expecting. At this point, we continue to believe the Fed isn't likely to start raising rates until at least mid-2015. The next Federal Open Market Committee (FOMC) meeting is scheduled for December 16-17. The FOMC will update their economic projections and Fed Chair Janet Yellen will host a press conference after the meeting. The Fed's Beige Book, prepared in advance of the December FOMC meeting, provided a moderately positive view of the overall economy. The report pointed to widespread strengthening in labor market conditions, expanding manufacturing capital budgets in several Districts, and subdued inflation pressures.

The yield on the two-year Treasury note declined further in November, following a decline in October. Domestic economic data continued to be fairly solid in November, but concerns about a slowdown in global economic growth (particularly in Europe) remained elevated.

THE YIELD CURVE FLATTENED IN NOVEMBER



Mixed global economic data and geopolitical tensions caused increased volatility in the financial markets. These concerns kept downward pressure on longer yields, even as the Fed completed its program of quantitative easing and signaled the possibility of a fed funds rate hike sometime next year.

TREASURY YIELDS	11/30/2014	10/31/2014	CHANGE
3 Month	0.01	0.01	0.00
2 Year	0.47	0.49	(0.02)
3 Year	0.85	0.92	(0.07)
5 Year	1.48	1.61	(0.13)
7 Year	1.88	2.04	(0.16)
10 Year	2.17	2.34	(0.17)
30 Year	2.89	3.07	(0.18)

Source: Bloomberg

Economic Roundup

Consumer Prices

In October, overall CPI inflation was unchanged at 1.7% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) edged up slightly to 1.8% in October from 1.7% in September.

Retail Sales

In October, Retail Sales rose 4.1% on a year-over-year basis versus a gain of 4.4% in September. On a month-over-month basis, Retail Sales increased 0.3% in October, which was slightly better than expected. Gasoline sales were a drag on the October figure. Overall, consumer spending has been moderately positive.

Labor Market

The November employment report was much stronger than expected. Nonfarm payrolls rose by 321,000 in the month, significantly above the consensus forecast of 230,000. However, the unemployment rate was unchanged at 5.8%. The labor participation rate also held steady at 62.8%. The net revisions in nonfarm payrolls for October and September were +44,000 (with gains of 243,000 and 271,000 in October and September, respectively). Private payrolls rose by 314,000 in November while government jobs rose by 7,000. Wages increased 0.4% in November, exceeding expectations, after edging up 0.1% in October.

Housing Starts

Recent housing data has been volatile, but the underlying trend may be improving. Single-family housing starts rose 4.2% in both October and September. Multifamily starts declined 15.4% in October after increasing 14.9% in September.

Credit Spreads Widened Further

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.13	0.14	(0.01)
2-year A corporate note	0.54	0.54	0.00
5-year A corporate note	0.65	0.59	0.06
5-year Agency note	0.09	0.09	0.00

Source: Bloomberg

Data as of 11/30/2014

Economic Data Remains Indicative of Modest Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(43.4) \$Bln OCT 14	(43.6) \$Bln SEP 14	(39.1) \$Bln OCT 13
GDP	3.9% SEP 14	(4.6)% JUN 14	4.5% SEP 13
Unemployment Rate	5.8% NOV 14	5.8% OCT 14	7.0% NOV 13
Prime Rate	3.25% NOV 14	3.25% OCT 14	3.25% NOV 13
CRB Index	254.37 NOV 14	271.96 OCT 14	274.88 NOV 13
Oil (West Texas Int.)	\$66.15 NOV 14	\$80.54 OCT 14	\$92.72 NOV 13
Consumer Price Index (y/o/y)	1.7% OCT 14	1.7% SEP 14	1.0% OCT 13
Producer Price Index (y/o/y)	1.7% OCT 14	2.2% SEP 14	0.3% OCT 13
Dollar/EURO	1.25 NOV 14	1.25 OCT 14	1.36 NOV 13

Source: Bloomberg

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Chandler Asset Management continues to build an organization devoted to providing the highest quality service and value to our clients. We are very excited to have increased the staff available to serve our clients by hiring seven new employees and opening two new office locations in Orlando, Florida and Seattle, Washington. Our staff additions have allowed us to continue growing while also maintaining a high level of dedicated service to our clients.

When Chandler opened its doors in 1988, our vision was to be different from other investment management firms by serving virtually as an extension of each client's staff. As Chandler has grown, each new hire to the firm has stayed true to the principles that are embodied in our Vision:

To be the preferred and most trusted investment adviser, bringing the highest value, sharing knowledge and providing dedicated service to our people, our clients and our communities.

As we welcome this New Year, we will continue to dedicate ourselves to managing investment programs and providing superior client service. Our Mission Statement affirms:

We believe if we do what is right for our clients, our own success will follow.

We look forward to the opportunities to serve your needs in 2015 and we wish you Happy Holidays and Happy New Year!

Warmly on Behalf of the Team at Chandler,



Kay Chandler
President



Martin Cassell
CEO, Chief Investment Officer

