CHANDLER ASSET MANAGEMENT

April 2015

BOND MARKET REVIEW

A MONTHLY REVIEW OF FIXED INCOME MARKETS

WHAT'S INSIDE

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.

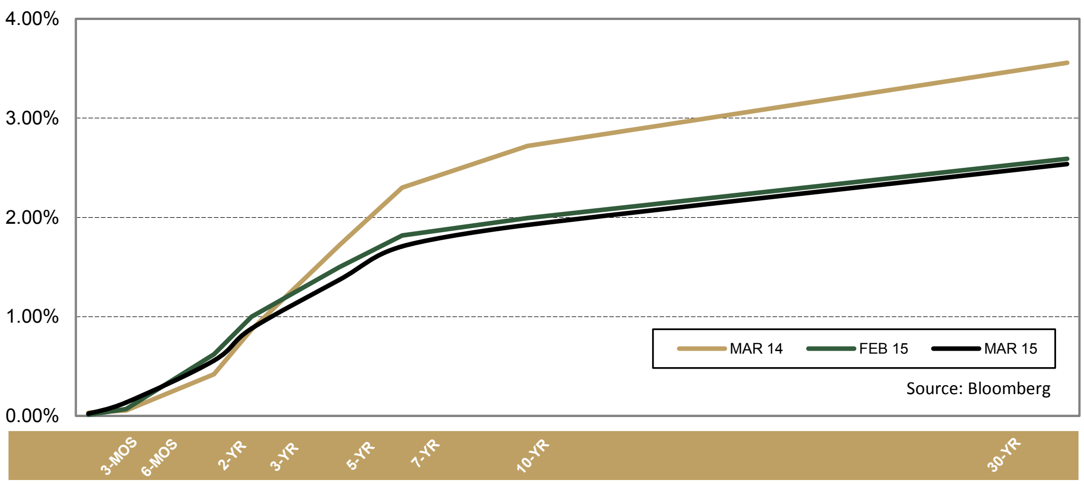
Market Summary

Job growth was weaker than expected in March with nonfarm payrolls up 126,000, well below the consensus forecast of 245,000. The unemployment rate was unchanged at 5.5%, though the labor participation rate declined to 62.7% from 62.8%. Wages rose 0.3% (higher than expected). Unfavorable weather and the strong dollar were likely factors for weak job growth in March. Overall, there is still excess slack in the labor market. Growth in the manufacturing sector has also softened. We believe the strong U.S. dollar and sluggish economic growth abroad has dampened U.S. manufacturing trends. U.S. consumer confidence remains strong, but consumer spending trends have underwhelmed. Housing data remains volatile. There have been pockets of weakness in recent economic data, but some of the factors for this weakness may be transitory (such as unfavorable weather and the West Coast port delays).

The Federal Open Market Committee (FOMC) left policy rates unchanged at its March 17-18 meeting, without any dissenting votes. The Committee noted economic activity moderated and the inflation rate declined further. The word "patient" (with regard to the timing of a potential future rate hike) was removed from the policy statement, but the Committee indicated a rate hike at the next FOMC meeting in April is unlikely. The Fed left the door open for a possible rate hike in June, but we believe the first rate hike is likely to occur later in the second half of this year. Notably, the Fed expects to see further improvement in the labor market before it starts to raise rates, which implies that the Fed remains dissatisfied with current employment conditions. The Committee also needs to be confident inflation will move back to its 2% target, before they raise rates. With inflation low, we believe the Fed faces no urgency to begin raising rates. Even though the Committee removed the word "patient" from its policy statement, we believe the Fed's overall message was somewhat dovish, which makes a June rate hike unlikely. We believe ongoing uncertainty about the timing of the Federal Reserve's first interest rate hike will likely continue to fuel market volatility.

The yield on the two-year Treasury note decreased in March. Domestic economic data has recently softened, and the timing of the first fed funds rate hike remains unclear. Meanwhile, the European Central Bank continues to execute its bond-buying program and other global central banks are pursuing highly accommodative monetary policies.

THE YIELD CURVE FLATTENED IN MARCH



The yield curve flattened in March. Domestic economic data has recently softened, and the timing of the first fed funds rate hike remains unclear. Meanwhile, other global central banks are pursuing highly accommodative monetary policies.

TREASURY YIELDS	3/31/2015	2/28/2015	CHANGE
3 Month	0.02	0.01	0.01
2 Year	0.56	0.62	(0.06)
3 Year	0.88	1.00	(0.12)
5 Year	1.37	1.50	(0.13)
7 Year	1.71	1.82	(0.11)
10 Year	1.92	1.99	(0.07)
30 Year	2.54	2.59	(0.05)

Source: Bloomberg

Economic Roundup

Consumer Prices
In February, overall Consumer Price Index (CPI) inflation was flat on a year-over-year basis after being down 0.1% in January. Headline inflation has fallen sharply in recent months due to a precipitous decline in energy prices. The year-over-year Core CPI (CPI less food and energy) increased slightly to 1.7% in February from 1.6% in January.

Retail Sales
In February, retail sales rose 1.7% on a year-over-year basis, following a 3.6% gain in January. On a month-over-month basis, retail sales declined 0.6% in February (below the consensus forecast for a 0.3% increase) after declining 0.8% in January. Gasoline sales actually rebounded in February after plunging in the prior month. However, auto sales declined 2.5% in February after a 0.5% increase in January. Retail sales have disappointed over the past few months, which is surprising since consumer confidence remains strong. Unfavorable weather may have contributed to the weak February retail sales report.

Labor Market
Nonfarm payrolls rose by 126,000 in March, well below the consensus forecast of 245,000. February and January payrolls were also revised down a net 69,000. Private payrolls rose by 129,000 in March, while government jobs declined by 3,000. The unemployment rate was unchanged at 5.5%. The labor participation rate edged down to 62.7% in February from 62.8%. Wages rose 0.3% (higher than expected), following a 0.1% increase in February. On a year-over-year basis, wages rose 2.1% in March versus 2.0% in February. Job growth in weather-sensitive sectors such as construction, and leisure & hospitality, were much weaker in March than in previous months, which suggests unfavorable weather had a significant impact on the overall March nonfarm payroll figure. There was also a sharp decline in manufacturing payrolls in March which may be attributable to the strong U.S. dollar.

Housing Starts
Single-family housing starts fell 14.9% in February after declining 3.9% in January. Overall housing starts (including single- and multi-family) dropped 17.0% in February, well below expectations. Unfavorable weather may have contributed to the sharp drop in housing starts in February.

Credit Spreads Widened in March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.16	0.19	(0.03)
2-year A corporate note	0.50	0.44	0.06
5-year A corporate note	0.64	0.55	0.09
5-year Agency note	0.08	0.06	0.02

Source: Bloomberg *Data as of 3/31/2015*

Economic Data Has Softened But Remains Indicative of Modest Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(35.4) $Bln FEB 15	(42.7) $Bln JAN 15	(41.9) $Bln FEB 14
GDP	2.2% DEC 14	5.0% SEP 14	3.5% DEC 13
Unemployment Rate	5.5% MAR 15	5.5% FEB 15	6.6% MAR 14
Prime Rate	3.25% MAR 15	3.25% FEB 15	3.25% MAR 14
CRB Index	211.9 MAR 15	224.1 FEB 15	304.67 MAR 14
Oil (West Texas Int.)	$47.60 MAR 15	$49.76 FEB 15	$101.58 MAR 14
Consumer Price Index (y/o/y)	0.0% FEB 15	(0.1)% JAN 15	1.1% FEB 14
Producer Price Index (y/o/y)	(3.4)% FEB 15	(3.1)% JAN 15	1.3% FEB 14
Dollar/EURO	1.07 MAR 15	1.12 FEB 15	1.38 MAR 14

Source: Bloomberg