

# 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.

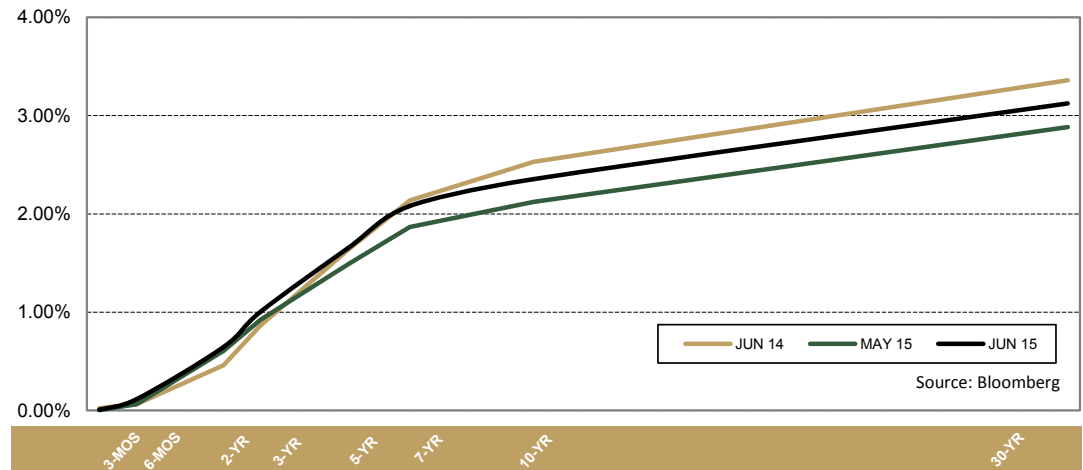
## Market Summary

The June employment report was softer than expected. Nonfarm payrolls rose by 223,000, slightly lower than the consensus forecast of 230,000. April and May payrolls were also revised downward by a total of 60,000. The unemployment rate declined to 5.3% in June from 5.5% in May, but the participation rate also dropped to 62.6% from 62.9%. Wages were flat on a month-over-month basis in June, and declined to 2.0% from 2.3% on a year-over-year basis. The economy continues to add jobs but there is still excess slack in the labor market. Meanwhile, inflation pressures remain subdued. The Personal Consumption Expenditures price index (PCE) was up just 0.2% in May on a year-over-year basis, well below the Fed's 2.0% target. Notably, the housing sector and consumer spending trends appear to be strengthening, but manufacturing data remains weak. Overall, domestic economic data is mixed, leaving the outlook for monetary policy unclear.

As expected, the Federal Open Market Committee (FOMC) left policy rates unchanged at its June 16-17 meeting without any dissenting votes. The FOMC continued to emphasize that monetary policy changes will be data-dependent. The Committee expects to see further improvement in the labor market and needs to be confident that inflation will move back toward its 2% target before they raise rates. The Fed also discussed increased risk tied to Greece and China. At this point, we still believe the first fed funds rate hike will be near the end of this year. However, we believe ongoing slack in the labor market, depressed oil prices and weakness in other commodities, and increased instability in Greece and/or China, could potentially push out the Fed's timeline. Ongoing uncertainty about the timing of the first fed funds rate hike will likely continue to fuel financial market volatility.

The yield on the two-year Treasury note declined slightly in June. Global bond yields have been volatile due to diverging global central banks' monetary policies, along with increased instability tied to financial conditions in Greece and China.

### THE YIELD CURVE STEEPENED IN JUNE



The yield curve continued to steepen in June. Overall, financial market volatility fueled by diverging global central banks' monetary policies (both conventional and unconventional), concerns about a potential sovereign bond default in Greece, and technical supply factors have influenced global interest rates. Meanwhile, domestic economic data remains soft, and the timing of the first fed funds rate hike remains unclear. The European Central Bank continues to execute its bond-buying program and other global central banks are pursuing highly accommodative monetary policies.

TREASURY YIELDS	6/30/2015	5/31/2015	CHANGE
3 Month	0.01	0.00	0.01
2 Year	0.65	0.61	0.04
3 Year	1.01	0.93	0.08
5 Year	1.65	1.49	0.16
7 Year	2.08	1.87	0.21
10 Year	2.35	2.12	0.23
30 Year	3.12	2.88	0.24

Source: Bloomberg

# Economic Roundup

## Consumer Prices

In May, overall Consumer Price Index (CPI) inflation was flat on a year-over-year basis after being -0.2% in April. Headline inflation remains low due to a precipitous decline in energy prices. The year-over-year Core CPI (CPI less food and energy) declined slightly to 1.7% in May from 1.8% in April.

## Retail Sales

Following a string of disappointing monthly retail sales reports, the May retail sales report was strong, signaling a long-awaited pick-up in consumer spending. In May, retail sales rose 2.7% on a year-over-year basis, following a 1.5% gain in April. On a month-over-month basis, retail sales rose 1.2% in May after inching up just 0.2% in April.

## Labor Market

The June employment report was modestly below expectations as nonfarm payrolls rose by 223,000, below the consensus estimate of 233,000. The prior two months saw net downward revisions totaling 60,000 jobs. Private payrolls rose by 223,000 and manufacturing payrolls rose by 4,000, both slightly below consensus forecasts. The unemployment rate ticked down 0.2% to 5.3%; however, the decline in the participation rate to 62.6%, the lowest since the 1970's, is indicative of the impact of changing demographics and continued slack in the economy. Wages were flat on the month, following a revised 0.2% increase in May. On a 3-month basis ending in June, payrolls rose by an average of 221,000 per month compared to the trailing 6-month average of 208,000.

## Housing Starts

Housing starts fell 11.1% in May following a 22.1% gain in April. However, the annual rate of housing starts remained strong in May at 1.036 million. Single-family starts fell 5.4% in May while multi-family starts fell 20.2%. Notably, permits were much stronger than expected in May, up 11.8%. Overall, activity in the housing sector has recently picked up.

## Credit Spreads Widened in June

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.15	0.16	(0.01)
2-year A corporate note	0.63	0.51	0.12
5-year A corporate note	0.82	0.74	0.08
5-year Agency note	0.17	0.16	0.01

Source: Bloomberg

Data as of 6/30/2015

## Economic Data Has Softened But Remains Indicative of Modest Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(41.9) \$Bln MAY 15	(40.7) \$Bln APR 15	(42.1) \$Bln MAY 14
GDP	(0.2)% MAR 15	2.2% DEC 14	(2.1)% MAR 14
Unemployment Rate	5.3% JUN 15	5.5% MAY 15	6.1% JUN 14
Prime Rate	3.25% JUN 15	3.25% MAY 15	3.25% JUN 14
CRB Index	227.17 JUN 15	223.18 MAY 15	308.22 JUN 14
Oil (West Texas Int.)	\$59.47 JUN 15	\$60.30 MAY 15	\$105.37 JUN 14
Consumer Price Index (y/o/y)	0.0% MAY 15	(0.2)% APR 15	2.1% MAY 14
Producer Price Index (y/o/y)	(3.0)% MAY 15	(4.4)% APR 15	2.5% MAY 14
Dollar/EURO	1.11 JUN 15	1.10 MAY 15	1.37 JUN 14

Source: Bloomberg

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