

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

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.

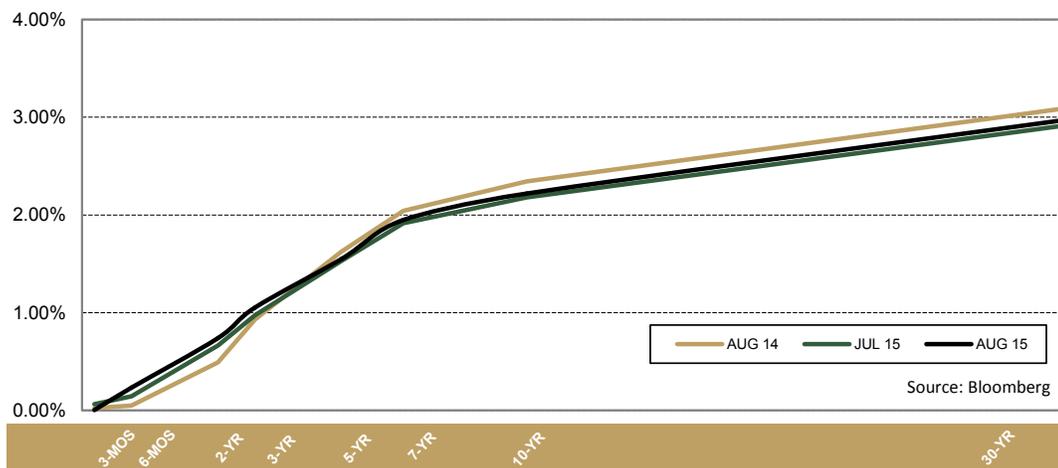
Market Summary

Concerns about global economic growth, falling commodity prices, and ongoing uncertainty about future Federal Reserve (Fed) monetary policy fueled significant financial market volatility and a flight to higher quality assets during the second half of August. Asian financial markets have been under pressure as concerns about China's economy remain heightened. Meanwhile, the European Central Bank has tempered its outlook for economic growth and inflation in the eurozone. Though multiple Fed presidents have made public comments in the past month indicating they are moving closer toward the lift-off date for monetary policy normalization, the implied probability of a September rate hike based on fed funds futures is currently less than 30%. The recent financial market volatility gives us some pause, but at this point we still believe the first fed funds rate hike will occur before the end of this year.

U.S. economic data remains mostly favorable. In August, nonfarm payrolls rose by 173,000 and the unemployment rate fell to 5.1%. Over the past three months, payrolls have increased by an average of 221,000 per month. Meanwhile, housing continues to be a growing source of strength for the US economy, and consumer discretionary spending should continue to benefit from ongoing improvement in the labor market and low gas prices. The manufacturing sector remains under pressure, largely due to the strength of the US dollar. However, the ISM manufacturing index remained above 50.0 in the latest reading, which suggests the manufacturing sector is still growing. Second quarter GDP growth was revised upward to an annualized rate of 3.7% from the advance estimate of 2.3%. Market participants currently expect annualized GDP growth of about 2.6% in the third quarter, and 2.8% growth in the fourth quarter.

Interest rate volatility remains elevated. The yield on the two-year Treasury note increased nearly 8 basis points in August while the yield on the ten-year Treasury note rose about 4 basis points.

TREASURY YIELDS HAVE BEEN VOLATILE



Concerns about global economic growth, uncertainty about Fed monetary policy changes, as well as technical supply factors have influenced global interest rates. During August, Treasury yields rose across most of the curve.

TREASURY YIELDS	8/31/2015	7/31/2015	CHANGE
3 Month	0.00	0.06	(0.06)
2 Year	0.74	0.66	0.08
3 Year	1.05	0.97	0.08
5 Year	1.55	1.53	0.02
7 Year	1.95	1.92	0.03
10 Year	2.22	2.18	0.04
30 Year	2.96	2.91	0.05

Source: Bloomberg

Economic Roundup

Consumer Prices

In July, overall Consumer Price Index (CPI) inflation was up 0.2% on a year-over-year basis after being up 0.1% in June. Headline inflation remains low, in light of a precipitous decline in energy prices. The year-over-year Core CPI (CPI less food and energy) was unchanged at 1.8% in July. Pricing pressures (excluding food and energy) at the consumer and producer levels have firmed slightly, but inflation remains below the Fed's target.

Retail Sales

Retail sales were stronger than expected in July, up 0.6% on a month-over-month basis. On a year-over-year basis, retail sales rose 2.4% in the month, following a 1.8% year-over-year gain in June. Ongoing improvement in the labor market, along with low gas prices, should have a positive influence on consumer discretionary spending. In recent months, consumer spending trends have been somewhat lackluster, but the July gain may signal an improving trend.

Labor Market

Nonfarm payrolls rose by 173,000 in August, below the consensus forecast of 217,000. However, June and July payrolls were revised upward by a total of 44,000. The unemployment rate improved to 5.1%, and the participation rate held steady at a low level of 62.6%. A broader measure of unemployment called the U-6, which includes those whom are marginally attached to the labor force and employed part time for economic reasons, declined to 10.3% from 10.4%. Wages rose 0.3% on a month-over-month basis in August, and rose to 2.2% on a year-over-year basis. Over the past three months, payrolls have increased by an average of 221,000 per month, compared to the trailing six-month average of 205,000.

Housing Starts

Total housing starts inched up 0.2% in July. Single-family housing starts jumped 12.8% in July. Multi-family starts fell 17%. Total housing starts have risen 11% year-to-date. Overall, the housing sector is showing strength.

Credit Spreads Widened in August

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.22	0.17	0.05
2-year A corporate note	0.67	0.64	0.03
5-year A corporate note	0.99	0.90	0.09
5-year Agency note	0.25	0.21	0.04

Source: Bloomberg

Data as of 8/31/2015

Economic Data Is Indicative of Modest Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(41.9) \$Bln JUL 15	(45.2) \$Bln JUN 15	(41.4) \$Bln JUL 14
GDP	3.7% JUN 15	0.6% MAR 15	4.6% JUN 14
Unemployment Rate	5.1% AUG 15	5.3% JUL 15	6.1% AUG 14
Prime Rate	3.25% AUG 15	3.25% JUL 15	3.25% AUG 14
CRB Index	202.09 AUG 15	202.57 JUL 15	292.75 AUG 14
Oil (West Texas Int.)	\$49.20 AUG 15	\$47.12 JUL 15	\$95.96 AUG 14
Consumer Price Index (y/o/y)	0.2% JUL 15	0.1% JUN 15	2.0% JUL 14
Producer Price Index (y/o/y)	(2.6)% JUL 15	(2.6)% JUN 15	2.9% JUL 14
Dollar/EURO	1.12 AUG 15	1.10 JUL 15	1.31 AUG 14

Source: Bloomberg

© 2015 Chandler Asset Management, Inc, An Independent Registered Investment Adviser. The information contained herein was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. Opinions and forecasts regarding industries, companies, and/or the economy are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation.