CHANDLER ASSET MANAGEMENT

April 2016

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.

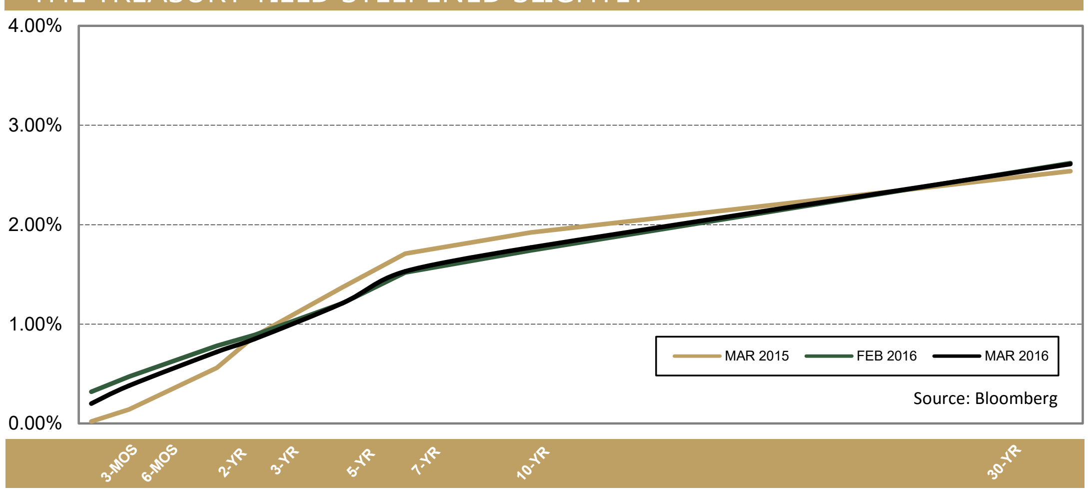
Market Summary

The Federal Open Market Committee (FOMC) left policy rates unchanged in March, as expected. The tone of the FOMC policy statement was largely dovish and the Committee's consensus forecast for the year-end target federal funds rate was revised down to a level more closely aligned with market expectations. The FOMC's median forecast now implies two rate hikes in 2016 versus the previous forecast of four rate hikes. Fed funds futures prices currently imply just one more rate hike this year. The FOMC also adjusted some of their longer term forecasts, with the pace of rate hikes in 2017 and 2018 moving modestly lower. Esther George, the President of the Federal Reserve Bank of Kansas City was the lone dissenter at the March meeting, preferring to see the target fed funds rate increase by 0.25%. We believe monetary policy continues to be data dependent and we will be watching developments in currency market valuations, in particular the direction of the US Dollar, to help ascertain the future direction of the FOMC. A stable or weaker dollar will likely give the FOMC more latitude to continue the normalization process specific to the federal funds target rate; a stronger dollar would have the opposite impact.

Domestic economic data is generally favorable. Labor market trends continue to improve, consumer confidence is strong, and housing trends remain healthy. In addition, manufacturing trends seem to be improving. Payrolls have increased by an average of 209,000 per month over the past three months. Meanwhile inflation pressures remain contained. Fourth quarter 2015 GDP grew at a stronger than expected annualized pace of 1.4%, following growth of 2.0% in the third quarter. Market participants have been forecasting GDP growth of about 2.0% in the first quarter of 2016, but some economists recently reduced their forecast.

In March, the Treasury yield curve steepened slightly, with the 2-year Treasury yield down five basis points and the 10-year Treasury yield up three basis points. We believe the modest decline in shorter-term yields was influenced by largely dovish comments made by members of the FOMC during the month. Even though inflation remains contained for now, which gives the Fed more leeway to remain highly accommodative, we believe strong labor market trends leave the door open for the Fed to continue normalizing monetary policy this year. We believe two more 25 basis point fed funds rate hikes before year-end are possible. Ongoing uncertainty about monetary policy and how the Fed communicates its economic projections will likely continue to fuel financial market volatility.

THE TREASURY YIELD STEEPENED SLIGHTLY



In March, the Treasury yield curve steepened slightly. However, over the past three month the yield curve has flattened with the 2-year Treasury yield down about 33 basis points and the 10-year Treasury yield down about 50 basis points. We believe the modest curve steepening during March was influenced by dovish comments made by members of the FOMC in the month.

TREASURY YIELDS	3/31/2016	2/29/2016	CHANGE
3 Month	0.20	0.32	(0.12)
2 Year	0.72	0.78	(0.06)
3 Year	0.85	0.89	(0.04)
5 Year	1.21	1.21	0.00
7 Year	1.53	1.52	0.01
10 Year	1.77	1.74	0.03
30 Year	2.61	2.62	(0.01)

Source: Bloomberg

Economic Roundup

Consumer Prices

Inflation pressures remain contained for now. The Consumer Price Index (CPI) was up just 1.0% year-over-year in February, vs. 1.4% in January. Core CPI (CPI less food and energy) was up 2.3% in February, vs. 2.2% in January. The Personal Consumption Expenditures (PCE) index was up 1.0% year-over-year in February, vs. up 1.3% in January. Core PCE (excluding food and energy) was up 1.7% year-over-year in February, unchanged from January. PCE remains below the Fed's 2.0% target.

Retail Sales

Consumer spending trends have underwhelmed but we are hopeful the impact of lower commodity prices will begin to provide a tailwind. On a year-over-year basis, retail sales were up 3.1% in February, vs. up 3.0% in January. On a month-over-month basis, retail sales, excluding autos and gas, were in line with expectations in February, up 0.3%. However, retail sales in January were revised down to a decline of 0.1% from a gain of 0.4%. Overall retail sales, including autos and gas, were down 0.1% in February, following a disappointing 0.4% decline in January.

Labor Market

The March employment report was stronger than expected. Nonfarm payrolls rose by 215,000 in March, exceeding the consensus forecast of 205,000. January and February payrolls were revised down slightly by a net total of 1,000. The unemployment rate inched up to 5.0% from 4.9%, as the participation rate increased to 63.0% from 62.9%. 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, also ticked up to 9.8% from 9.7%. Wages rose 0.3% in March, exceeding expectations. During the first quarter of 2016, payrolls increased by an average of 209,000 per month, compared to the trailing six-month average of 246,000. Overall, the March jobs report points to ongoing strength in the labor market.

Housing Starts

Total housing starts rose 5.2% on a month-over-month basis in February, exceeding expectations. Single-family housing starts grew 7.2% while multi-family starts rose 0.8%. Housing starts tend to be volatile on a month-to-month basis, but the underlying trend is solid with total housing starts up 30.9% on a year-over-year basis. Overall, we believe housing market trends remain healthy.

Credit Spreads Tightened in March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change (%)
3-month top-rated commercial paper	0.29	0.18	0.11
2-year A corporate note	0.57	0.69	(0.12)
5-year A corporate note	0.85	1.05	(0.20)
5-year Agency note	0.19	0.23	(0.04)

Source: Bloomberg *Data as of 3/31/2016*

Domestic Economic Data Is Mostly Favorable

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(47.1) $Bln FEB 16	(45.9) $Bln JAN 16	(38.6) $Bln FEB 15
GDP	1.4% DEC 15	2.0% SEP 15	2.1% DEC 14
Unemployment Rate	5.0% MAR 16	4.9% FEB 16	5.5% MAR 15
Prime Rate	3.5% MAR 16	3.5% FEB 16	3.25% MAR 15
CRB Index	170.52 MAR 16	163.21 FEB 16	211.86 MAR 15
Oil (West Texas Int.)	$38.34 MAR 16	$33.75 FEB 16	$47.60 MAR 15
Consumer Price Index (y/o/y)	1.0% FEB 16	1.4% JAN 15	(0.0)% FEB 15
Producer Price Index (y/o/y)	(1.9%) FEB 16	(1.2%) JAN 16	(3.2)% FEB 15
Dollar/EURO	1.14 MAR 16	1.09 FEB 16	1.07 MAR 15

Source: Bloomberg