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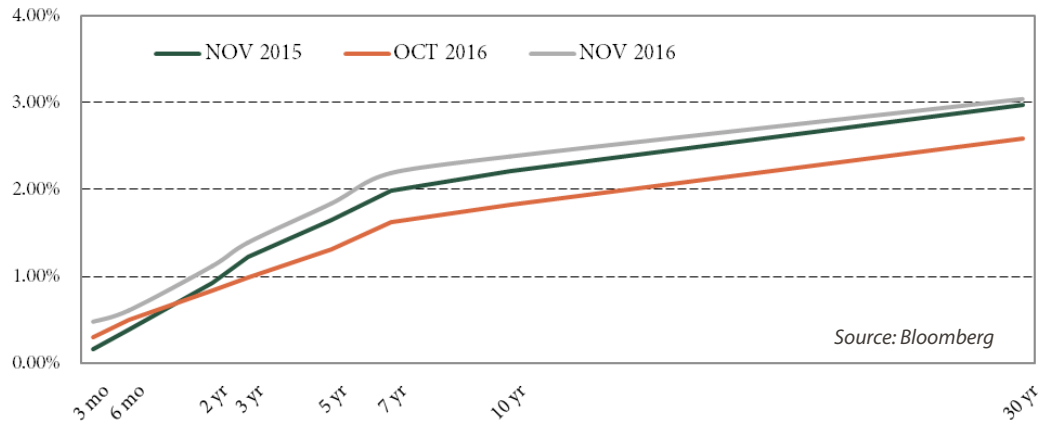
Since 1988, Chandler Asset Management has specialized in the management of fixed income portfolios. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our clients' portfolios.

## Market Summary

In November, the U.S. Treasury rate curve steepened significantly with the 2-year Treasury yield up 27 basis points to 1.11%, and the 10-year Treasury yield up nearly 56 basis points to 2.38%. The recent move in rates has largely been driven by heightened expectations for fiscal stimulus, a potential increase in inflation, and a potential increase in Treasury issuance, following President-elect Trump's victory and the Republican Party congressional sweep in the November election. Global factors also continue to influence US Treasury yields. The German sovereign bond yield curve steepened meaningfully in November and Japanese sovereign yields rose across the curve in the month. Meanwhile, the Federal Reserve has signaled a willingness to let the economy run hot (i.e. allow inflation to run above-target) in order to boost labor-force participation, which has fueled an increased in market-based inflation expectations and put upward pressure on longer-term Treasury yields. However, expectations for a fed funds rate hike this month to a range of 0.50%-0.75% are high. Fed funds futures prices currently imply more than a 90% probability of a 25 basis point rate hike on December 14, 2016. Looking further ahead, the market is currently pricing in a 45% probability of another 25 basis point rate hike in June 2017.

Domestic economic data remains indicative of moderate growth. The labor market continues to improve with the unemployment rate falling to 4.6% in December. Consumer confidence remains strong. Housing trends remain favorable. The manufacturing sector has slightly improved but may come under renewed pressure due to recent dollar strength. Third quarter 2016 GDP grew 3.2%, following growth of 1.4% in the second quarter and 0.8% in the first quarter. The consensus forecast calls for GDP growth of 2.2% in the fourth quarter. In 2017, GDP growth is expected to be 2.2%, up from an expected rate of 1.6% in 2016.

## The Treasury Yield Curve Steepened:



In November, the yield curve steepened. On a year-over-year basis the 2-year Treasury yield and 10-year Treasury yield are both up about 18 basis points. Over the past year, bond market yields have been volatile due to concerns about global economic growth, volatile commodity prices, political uncertainty, and divergent global central bank monetary policy.

TREASURY YIELDS	Trend (▲/▼)	11/30/2016	10/31/2016	Change
3-Month	▲	0.48	0.30	0.18
2-Year	▲	1.12	0.84	0.28
3-Year	▲	1.39	0.99	0.40
5-Year	▲	1.84	1.31	0.53
7-Year	▲	2.19	1.62	0.57
10-Year	▲	2.38	1.83	0.55
30-Year	▲	3.04	2.58	0.46

Source: Bloomberg

## Market Data

### World Indices

data as of 11/30/2016

	Diff. (10/31/16)	% Change
S&P 500		
<b>2,198.81</b>	72.66	(3.42%)
NASDAQ		
<b>5,323.68</b>	134.55	(2.59%)
DOW JONES		
<b>19,123.58</b>	981.16	(5.41%)
FTSE (UK)		
<b>6,783.79</b>	-170.43	(-2.45%)
DAX (Germany)		
<b>10,640.30</b>	-24.71	(-0.23%)
Hang Seng (Hong Kong)		
<b>22,789.77</b>	-144.77	(-0.63%)
Nikkei (Japan)		
<b>18,308.48</b>	883.46	(5.07%)

Source: Bloomberg

## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 1.6% year-over-year in October, versus up 1.5% year-over-year in September. Core CPI (CPI less food and energy) was up 2.1% year-over-year in October, vs. 2.2% in September. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in October, versus 1.2% in September. Core PCE (excluding food and energy) was up 1.7% year-over-year in October, unchanged from September. Although Core CPI is trending above 2.0%, the Fed's primary inflation gauge is PCE which remains below the Fed's 2.0% target.

### Retail Sales

On a year-over-year basis, total retail sales were solid, up 4.3% in October compared with a 3.2% increase in September. On a month-over-month basis, retail sales were up 0.8% in October, exceeding expectations. Excluding autos and gas, retail sales rose 0.6% in the month.

### Labor Market

Nonfarm payrolls were roughly in line with expectations in November, up 178,000 versus the consensus forecast of 180,000. September and October payrolls were revised down by a net total of 2,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 176,000 and 205,000 per month, respectively. The unemployment rate dropped to 4.6% in November from 4.9% in October, but the participation rate also decreased to 62.7% from 62.8%. A broader measure of unemployment called the U-6, which includes those who are marginally attached to the labor force and employed part time for economic reasons, declined to 9.3% in November from 9.5% in October. Wages were disappointing, down 0.1% in November, versus expectations for a 0.2% increase. On a year-over-year basis, wages were up 2.5% in November, down from 2.8% in October.

### Housing Starts

Total housing starts surged 25.5% in October, following a decline of 9.5% in September. Single-family starts increased 10.7% in October and multi-family starts rose 68.8%. Housing starts tend to be volatile on a month-to-month basis. Permits were up slightly in October.

## Credit Spreads Tightened Slightly in November

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.29	0.37	(0.08)
2-year A corporate note	0.62	0.57	0.05
5-year A corporate note	0.72	0.72	0.00
5-year Agency note	0.09	0.14	(0.05)

Source: Bloomberg

Data as of 11/30/2016

## Economic Data Points to Continued Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(42.6) \$Bln OCT 16	(36.2) \$Bln SEP 16	(41.6) \$Bln OCT 15
GDP	3.2% SEP 16	1.4% JUN 16	2.0% SEP 15
Unemployment Rate	4.6% NOV 16	4.9% OCT 16	5.0% NOV 15
Prime Rate	3.5% NOV 16	3.5% OCT 16	3.25% NOV 15
CRB Index	189.31 NOV 16	186.28 OCT 16	182.54 NOV 15
Oil (West Texas Int.)	\$49.44 NOV 16	\$46.86 OCT 16	\$41.65 NOV 15
Consumer Price Index (y/o/y)	1.6% OCT 16	1.5% SEP 16	0.2% OCT 15
Producer Price Index (y/o/y)	0.6% OCT 16	(0.1%) SEP 16	(4.0%) OCT 15
Dollar/Euro	1.06 NOV 16	1.10 OCT 16	1.06 NOV 15

Source: Bloomberg

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