

MAY 2017



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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.

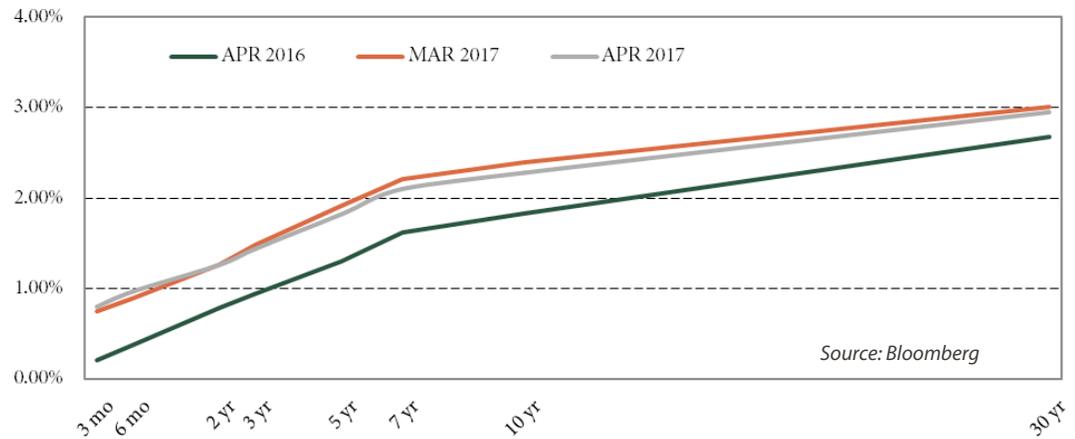
Market Summary

As anticipated, the Federal Open Market Committee (FOMC) left the fed funds target rate unchanged at a range of 0.75%-1.00% in May. The vote was unanimous. The Fed noted growth in economic activity slowed. The Fed also stated that inflation continues to run somewhat below the 2.0% target, but the labor market continues to strengthen. The Fed believes the slowdown in economic growth during the first quarter was likely transitory. The FOMC's statement was not accompanied by updated economic projections or a press conference. The Fed did not provide any new information on their strategy to unwind the balance sheet and kept their current reinvestment policy unchanged. There may be more details disclosed on the Fed's balance sheet reinvestment discussion in the meeting minutes.

Domestic economic data remains indicative of slow growth. GDP grew by 0.7% in the first quarter, following growth of 2.1% in the fourth quarter. We expect modest economic growth of about 2.0%-2.5% in 2017. Looking ahead, fiscal stimulus and/or tax reform could provide a boost to economic growth.

The Treasury yield curve continued to flatten in April. The 2-year Treasury yield was virtually unchanged while the 10-year Treasury yield decreased eleven basis points. Meanwhile sovereign yields in Germany were little changed in April, and the sovereign yield curve in Japan flattened slightly. Following the US Presidential election last fall, US Treasury yields increased meaningfully, driven by heightened expectations for fiscal stimulus and growth under the Trump administration. Some of the post-election exuberance regarding fiscal spending, tax reform, and healthcare reform has started to wane, as market participants begin to sense the timeline and magnitude of such policies may be delayed or potentially less robust than previously hoped.

The Treasury Yield Curve Flattened in Recent Months:



On a year-over-year basis the 2-year Treasury yield has increased 48 basis points and 10-year Treasury yield is up about 45 basis points. However, in recent months the yield curve has flattened. In April, the 2-year Treasury yield was virtually unchanged while the 10-year Treasury yield decreased eleven basis points.

TREASURY YIELDS	Trend (▲/▼)	4/30/2017	3/31/2017	Change
3-Month	▲	0.80	0.75	0.05
2-Year	-	1.26	1.26	0.00
3-Year	▼	1.44	1.49	(0.05)
5-Year	▼	1.82	1.92	(0.10)
7-Year	▼	2.10	2.21	(0.11)
10-Year	▼	2.28	2.39	(0.11)
30-Year	▼	2.95	3.01	(0.06)

Source: Bloomberg

Market Data

World Indices

data as of 4/30/2017

	Diff (3/31/17)	% Change
S&P 500		
2,384.20	21.48	0.91%
NASDAQ		
6,047.61	135.87	2.30%
DOW JONES		
20,940.51	277.29	1.34%
FTSE (UK)		
7,203.94	(118.98)	(1.62%)
DAX (Germany)		
12,438.01	125.14	1.02%
Hang Seng (Hong Kong)		
24,615.13	503.54	2.09%
Nikkei (Japan)		
19,196.74	287.48	1.52%

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.4% year-over-year in March, versus up 2.7% year-over-year in February. Core CPI (CPI less food and energy) was up 2.0% year-over-year in March, versus up 2.2% year-over-year in February. The Personal Consumption Expenditures (PCE) index was up 1.8% year-over-year in March, versus up 2.1% year-over-year in February. Core PCE (excluding food and energy) was up just 1.6% year-over-year in March, versus up 1.8% year-over-year in February. Core CPI is in line with the Fed's 2.0% target, but the Fed's primary inflation gauge (PCE) remains below the target.

Retail Sales

On a year-over-year basis, total retail sales were up 4.6% in March compared with a 4.7% increase in February. On a month-over-month basis, retail sales declined 0.2% in March, following a downwardly revised 0.3% decrease in February (previously reported up 0.1%). Excluding autos and gas, retail sales increased 0.1% in March, following a 0.1% gain in February. Overall, March retail sales trends and the downward revisions to February sales results were disappointing.

Labor Market

Nonfarm payrolls were modestly higher than expected in April, up 211,000 versus the consensus forecast of 185,000. February and March payrolls were revised down by net 6,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 174,000 and 176,000 per month, respectively. The unemployment rate fell further to 4.4% in April from 4.5% in March. However, the labor participation rate also declined to 62.9% from 63.0%. 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, decreased to 8.6% in April from 8.9% in March. Wage growth rose 0.3% in April, in line with expectations, but this follows a downwardly revised gain of 0.1% in March (previously 0.2%). On a year-over-year basis, wages were up 2.5% in April, vs. 2.6% in March.

Housing Starts

Total housing starts fell 6.8% in March, following a 5.0% increase in February. Single-family starts fell 6.2% in March, and multi-family starts declined 7.9%. However, both single- and multi-family starts are up on a year-over-year basis. Permits were slightly stronger than expected in March, due to a 14.0% gain in multi-family permits.

Credit Spreads Were Little Changed in April

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.15	0.21	(0.06)
2-year A corporate note	0.56	0.59	(0.03)
5-year A corporate note	0.70	0.69	0.01
5-year Agency note	0.12	0.10	0.02

Source: Bloomberg

Data as of 4/30/2017

Economic Data Points to Continued Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(43.7) \$Bln MAR 17	(43.8) \$Bln FEB 17	(37.3) \$Bln FEB 16
GDP	0.7% MAR 17	2.1% DEC 16	0.8% MAR 15
Unemployment Rate	4.4% APR 17	4.5% MAR 17	5.0% APR 16
Prime Rate	4.0% APR 17	4.0% MAR 17	3.5% APR 16
CRB Index	181.72 APR 17	185.88 MAR 17	184.61 APR 16
Oil (West Texas Int.)	\$49.33 APR 17	\$50.60 MAR 17	\$45.92 APR 16
Consumer Price Index (y/o/y)	2.4% MAR 17	2.7% FEB 17	0.9% MAR 16
Producer Price Index (y/o/y)	3.7% MAR 17	3.7% FEB 17	(2.3%) MAR 16
Dollar/Euro	1.09 APR 17	1.07 MAR 17	1.14 APR 16

Source: Bloomberg

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