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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

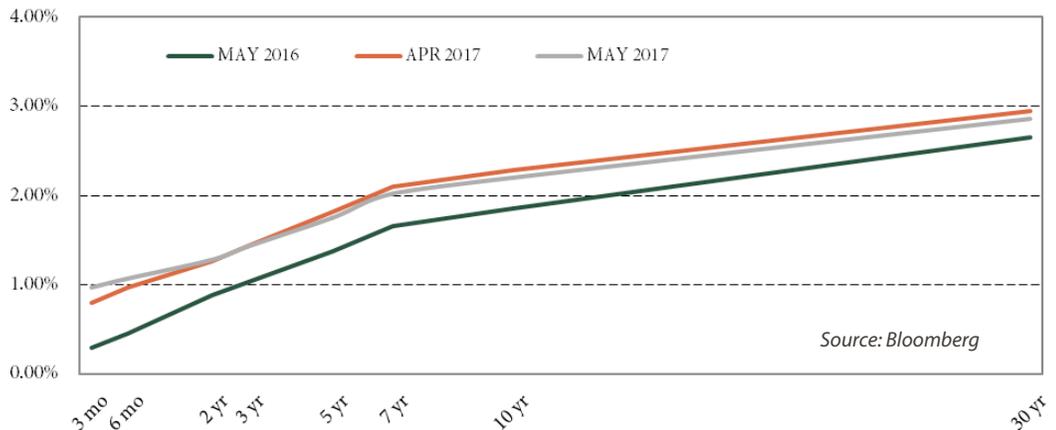
The minutes from the May Federal Open Market Committee (FOMC) meeting indicated most policymakers believed it would be appropriate to continue removing monetary policy accommodation, if economic data remained in line with expectations. A couple of FOMC members thought it would be warranted to raise the fed funds target rate at the May meeting, but the Committee ultimately voted to keep it unchanged. Overall, the FOMC generally thought it would be best to wait for more evidence that the first quarter slowdown in economic growth was transitory before taking another step in removing policy accommodation.

More recently, the Beige Book report (compiled in May ahead of the June 13-14 FOMC meeting) suggested economic conditions remained less than stellar in the second quarter. A few Federal Reserve banks reported growth in their districts had slowed during the reporting period and one said that economic activity had flattened out. The report also suggested consumer spending softened. The Beige Book report further noted labor markets continued to tighten but pricing pressures were little changed from the prior report.

The May employment report was disappointing, and inflation remains below the Fed's target, which raises some doubt that the FOMC will go ahead with another rate hike at the upcoming June meeting. The Personal Consumption Expenditures (PCE) index was up just 1.7% year-over-year in April. Moreover, the Core PCE index was up just 1.5% year-over-year in April, well below the Fed's 2.0% target. According to the fed funds futures prices, the implied probability of a June rate hike is almost certain. However, the aforementioned data will give Fed doves some important talking points at the upcoming June FOMC meeting.

The Treasury yield curve continued to flatten modestly in May. The 2-year Treasury yield was up just two basis points month-over-month, while the 10-year Treasury yield decreased about eight basis points.

The Treasury Yield Curve Flattened in Recent Months:



On a year-over-year basis the 2-year Treasury yield has increased about 41 basis points and 10-year Treasury yield is up about 36 basis points. However, in recent months the yield curve has flattened.

TREASURY YIELDS	Trend (▲/▼)	5/31/2017	4/30/2017	Change
3-Month	▲	0.97	0.80	0.17
2-Year	▲	1.28	1.26	0.02
3-Year	▼	1.43	1.44	(0.01)
5-Year	▼	1.75	1.82	(0.07)
7-Year	▼	2.02	2.10	(0.08)
10-Year	▼	2.20	2.28	(0.08)
30-Year	▼	2.86	2.95	(0.09)

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.2% year-over-year in April, versus up 2.4% year-over-year in March. Core CPI (CPI less food and energy) was up just 1.9% year-over-year in April, versus up 2.0% year-over-year in March. The Personal Consumption Expenditures (PCE) index was up 1.7% year-over-year in April, versus up 1.9% year-over-year in March. Core PCE (excluding food and energy) was up just 1.5% year-over-year in April, versus up 1.6% year-over-year in March. 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 4.5% in April compared with a 4.8% increase in March. On a month-over-month basis, retail sales increased 0.4% in April, below expectations of 0.6%, following a 0.1% increase in March. Excluding autos and gas, retail sales increased 0.3% in April, following a 0.4% gain in March. Overall, consumer spending trends remain soft.

Labor Market

Nonfarm payrolls were lower than expected in May, up just 138,000 versus the consensus forecast of 182,000. In addition, March and April payrolls were revised down by 66,000 in total. On a trailing 3-month and 6-month basis, payrolls increased by an average of 121,000 and 161,000 per month, respectively. The unemployment rate fell further to 4.3% in May from 4.4% in April. However, the labor participation rate also declined to 62.7% from 62.9%. 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 8.4% in May from 8.6% in April. Wage growth rose 0.2% in May, in line with expectations, but this follows a downwardly revised gain of 0.2% in April (previously 0.3%). On a year-over-year basis, wages were up 2.5% in May, unchanged from April.

Housing Starts

Total housing starts fell 2.6% in April, following a 7.7% decrease in March, missing expectations. Single-family starts rose 0.4% in April, but multi-family starts declined 9.2%. Permits were also weaker than expected in April, due to a 4.5% decline in single-family permits.

Credit Spreads Tightened Slightly in May

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.03	0.15	(0.12)
2-year A corporate note	0.53	0.56	(0.03)
5-year A corporate note	0.69	0.70	(0.01)
5-year Agency note	0.12	0.12	0.00

Source: Bloomberg

Data as of 5/31/2017

Economic Data Points to Continued Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(47.6) \$Bln APR 17	(45.3) \$Bln MAR 17	(38.4) \$Bln APR 16
GDP	1.2% MAR 17	2.1% DEC 16	0.8% MAR 16
Unemployment Rate	4.3% MAY 17	4.4% APR 17	4.7% MAY 16
Prime Rate	4.0% MAY 17	4.0% APR 17	3.5% MAY 16
CRB Index	179.77 MAY 17	181.72 APR 17	186.15 MAY 16
Oil (West Texas Int.)	\$48.32 MAY 17	\$49.33 APR 17	\$49.10 MAY 16
Consumer Price Index (y/o/y)	2.2% APR 17	2.4% MAR 17	1.1% APR 16
Producer Price Index (y/o/y)	3.9% APR 17	3.7% MAR 17	(1.5%) APR 16
Dollar/Euro	1.12 MAY 17	1.09 APR 17	1.11 MAY 16

Source: Bloomberg

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Market Data

World Indices

data as of 5/31/2017

	Diff (4/30/17)	% Change
S&P 500		
2,411.80	27.60	1.16%
NASDAQ		
6,198.52	150.91	2.50%
DOW JONES		
21,008.65	68.14	0.33%
FTSE (UK)		
7,519.95	316.01	4.39%
DAX (Germany)		
12,615.06	177.05	1.42%
Hang Seng (Hong Kong)		
25,660.65	1,045.52	4.25%
Nikkei (Japan)		
19,650.57	453.83	2.36%

Source: Bloomberg



Toll Free: 800.317.4747
 info@chandlerasset.com
 chandlerasset.com