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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.

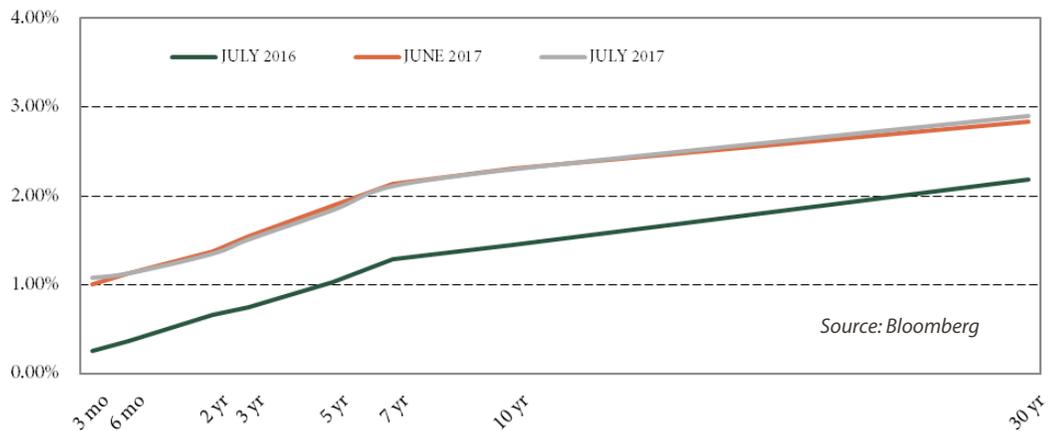
Market Summary

As expected, the Federal Open Market Committee (FOMC) left the fed funds target rate unchanged at a range of 1.00%-1.25% at the July 26 meeting. The FOMC did not update their economic projections (which point to another rate hike before the end of the year) or host a press conference in conjunction with the meeting. The language of the Fed's policy statement suggested that they could begin tapering the amount of their balance sheet reinvestments in September. The statement specifically said they plan to begin implementing their balance sheet normalization program "relatively soon". Though inflation is expected to remain below the Fed's target in the near-term, the FOMC expects inflation to stabilize over the medium term. We continue to believe the Fed is likely to keep policy rates unchanged through year-end, but believe policymakers are firmly committed to starting the balance sheet normalization process this fall. All else being equal, we believe the FOMC's plans to normalize the balance sheet could ultimately foster a steeper Treasury yield curve.

GDP grew by 2.6% in the second quarter, following growth of 1.2% in the first quarter. We expect economic growth to remain modest through year-end. While tax reform or fiscal stimulus may ultimately help fuel stronger economic growth, there is a growing sense of skepticism among market participants that the Trump administration will deliver on their legislative agenda. The outlook for tax reform may become more clear after lawmakers return from their recess on September 5th. Though financial market volatility has been quite low in recent months, we are likely to see increased volatility next month as the debt ceiling debate comes into focus.

Treasury yields were relatively unchanged in July. The 2-year Treasury yield declined three basis points to 1.35% and the 10-year Treasury yield declined about one basis point to 2.29%. Meanwhile the German sovereign yield curve steepened in July, due to in part to expectations that the European Central Bank will announce plans to begin tapering its bond-buying program in the coming months. The US dollar also continued to depreciate against the euro during the month.

The Treasury Yield Curve Was Relatively Unchanged in July:



The yield curve has flattened meaningfully this year. The spread between 2-year and 10-year Treasury yields was just 95 basis points as of July 31, compared to 126 at the end of 2016. In the three months ending in July, the 2-year Treasury yield increased nearly nine basis points while the 10-year Treasury yield increased one basis point.

TREASURY YIELDS	Trend (▲/▼)	7/31/2017	6/30/2017	Change
3-Month	▲	1.08	1.01	0.07
2-Year	▼	1.35	1.38	(0.03)
3-Year	▼	1.51	1.55	(0.04)
5-Year	▼	1.84	1.89	(0.05)
7-Year	▼	2.11	2.14	(0.03)
10-Year	▼	2.30	2.31	(0.01)
30-Year	▲	2.90	2.84	0.06

Source: Bloomberg

Market Data

World Indices
data as of 7/31/2017

	Diff (6/30/17)	% Change
S&P 500		
2,470.30	46.89	1.93%
NASDAQ		
6,348.12	207.70	3.38%
DOW JONES		
21,891.12	541.49	2.54%
FTSE (UK)		
7,372.00	59.28	0.81%
DAX (Germany)		
12,118.25	(206.87)	(1.68%)
Hang Seng (Hong Kong)		
27,323.99	1,559.41	6.05%
Nikkei (Japan)		
19,925.18	(108.25)	(0.54%)

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.6% year-over-year in June, versus up 1.9% year-over-year in May. Core CPI (CPI less food and energy) was up just 1.7% year-over-year in June. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in June, versus up 1.5% year-over-year in May. Core PCE (excluding food and energy) was up 1.5% year-over-year in June, unchanged from May. Core CPI is has fallen back below the Fed's 2.0% target, and the Fed's primary inflation gauge (PCE) also remains below the target.

Retail Sales

On a year-over-year basis, total retail sales were up 2.8% in June compared with a 4.1% increase in May. On a month-over-month basis, retail sales declined 0.2% in June, below expectations for a 0.1% increase, following a 0.1% decrease in May. Excluding autos and gas, retail sales were down 0.1% in June. Overall, consumer spending trends remain soft.

Labor Market

Job growth was stronger than expected in July, signaling ongoing strength in the labor market. Nonfarm payrolls increased by 209,000 versus the consensus forecast of 180,000. In addition, May and June payrolls were revised up by a total of 2,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 195,000 and 179,000 per month, respectively. The unemployment rate edged lower to 4.3% in July from 4.4% in June, and the labor participation rate also rose to 62.9% 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, was unchanged from the prior month at 8.6%. Wage growth rose 0.3% in July, in line with expectations. On a year-over-year basis, wages were up 2.5% in July, unchanged from the year-over-year rate in June.

Housing Starts

Total housing starts increased 8.3% in June, following a 2.8% decrease in May, exceeding expectations. Single-family starts increased 6.3% in June, and multi-family starts increased 13.3%. Permits were also stronger than expected in June, up 7.4%.

Credit Spreads Tightened Further in July

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.17	0.18	(0.01)
2-year A corporate note	0.46	0.50	(0.04)
5-year A corporate note	0.58	0.63	(0.05)
5-year Agency note	0.08	0.07	0.01

Source: Bloomberg

Data as of 7/31/2017

Economic Data Remains Indicative of Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(43.6) \$Bln JUN 17	(46.4) \$Bln MAY 17	(43.8) \$Bln JUN 16
GDP	2.6% JUN 17	1.2% MAR 16	2.2% JUN 16
Unemployment Rate	4.3% JUL 17	4.4% JUN 17	4.9% JUL 16
Prime Rate	4.25% JUL 17	4.25% JUN 17	3.5% JUL 16
CRB Index	182.64 JUL 17	174.78 JUN 17	181.01 JUL 16
Oil (West Texas Int.)	\$50.17 JUL 17	\$46.04 JUN 17	\$41.60 JUL 16
Consumer Price Index (y/o/y)	1.6% JUN 17	1.9% MAY 17	1.0% JUN 16
Producer Price Index (y/o/y)	2.2% JUN 17	2.6% MAY 17	(2.0%) JUN 16
Dollar/Euro	1.18 JUL 17	1.14 JUN 17	1.12 JUL 16

Source: Bloomberg

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