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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.

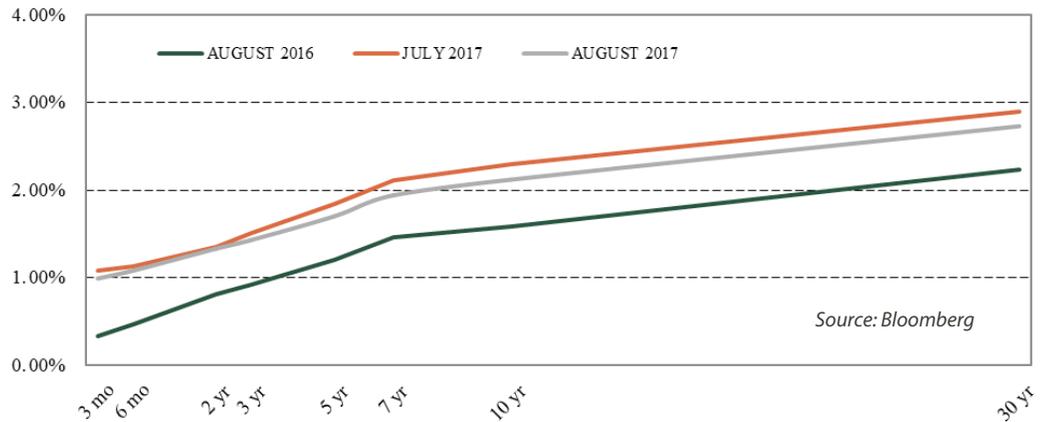
Market Summary

The labor market continued to firm in August but wage growth was lackluster and inflation remains below target. Given the lack of inflationary pressure, we continue to believe the Fed is likely to keep policy rates unchanged through year-end. We expect the Fed will maintain a cautious approach to policy rate tightening in light of heightened geopolitical tensions and ongoing uncertainty about US tax reform. However, we believe policymakers are firmly committed to starting the balance sheet normalization process soon.

Second quarter GDP grew at an annualized pace of 3.0%, according to the second estimate, following growth of 1.2% in the first quarter. Second quarter GDP growth was revised up four tenths from the advance estimate of 2.6% and was higher than expected. The upward revision was led by consumer spending and business investment. The consensus forecast currently calls for GDP growth of about 2.5% in the current quarter. We believe economists may trim their forecast for third quarter GDP growth, to reflect disruptions caused by hurricane Harvey.

The Treasury yield curve flattened in August. The 2-year Treasury yield declined two basis points to 1.33% and the 10-year Treasury yield declined about 18 basis points to 2.12%. Immediately following the US Presidential election last fall, the Treasury yield curve steepened meaningfully, driven by heightened expectations for tax reform, fiscal stimulus, and above-trend economic growth under the Trump administration. However, market participants are now skeptical the Trump administration will deliver on their legislative agenda. We also believe geopolitical tensions and domestic political uncertainty have weighed on the long end of the yield curve.

The Treasury Yield Curve Flattened in August:



The yield curve has flattened meaningfully since the beginning of this year. The spread between 2-year and 10-year Treasury yields was just 79 basis points as of August 31, compared to 126 at the end of 2016. On a year-over-year basis, the yield curve has shifted up with the spread on 2-year Treasury yields up 52 basis points to 1.33%, and the spread on 10-year Treasury yields up 54 basis points to 2.12%. The Federal Reserve has raised the target fed funds rate by a total of 75 basis points in the past 12 months.

TREASURY YIELDS	Trend (▲/▼)	8/31/2017	7/31/2017	Change
3-Month	▼	0.99	1.08	(0.09)
2-Year	▼	1.33	1.35	(0.02)
3-Year	▼	1.43	1.51	(0.08)
5-Year	▼	1.70	1.84	(0.14)
7-Year	▼	1.94	2.11	(0.17)
10-Year	▼	2.12	2.30	(0.18)
30-Year	▼	2.73	2.90	(0.17)

Source: Bloomberg

Market Data

World Indices

data as of 8/31/2017

	Diff (7/31/17)	% Change
S&P 500		
2,471.65	1.35	0.05%
NASDAQ		
6,428.66	80.54	1.27%
DOW JONES		
21,948.10	56.98	0.26%
FTSE (UK)		
7,430.62	58.62	0.80%
DAX (Germany)		
12,055.84	(62.41)	(0.52%)

Hang Seng (Hong Kong)

27,970.30 646.31 2.37%

Nikkei (Japan)

19,646.24 (278.94) (1.40%)

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 1.7% year-over-year in July, versus up 1.6% year-over-year in June. Core CPI (CPI less food and energy) was up just 1.7% year-over-year in July, unchanged from the prior month. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in July, unchanged from June. Core PCE (excluding food and energy) was up 1.4% year-over-year in July, versus up 1.5% year-over-year in June. Inflation remains below the Fed's 2.0% target.

Retail Sales

On a year-over-year basis, total retail sales were up 4.2% in July compared with an upwardly revised 3.4% increase in June. On a month-over-month basis, retail sales increased 0.6% in July, above expectations for a 0.3% increase, following a 0.3% increase in June. Excluding autos and gas, retail sales were up 0.5% in July. Overall, July retail sales were better than expected.

Labor Market

Nonfarm payrolls rose 156,000 in August, weaker than the 180,000 consensus estimate of economists. In addition, June and July payrolls were revised down by a total of 41,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 185,000 and 160,000 per month, respectively. The unemployment rate increased to 4.4% in August from 4.3% in July, and the labor participation rate held steady at 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, was unchanged from the prior month at 8.6%. Wages increased 0.1% in August and 2.5% on a year-over-year basis.

Housing Starts

Total housing starts fell 4.8% in July, following a 7.4% increase in June. Single-family starts fell 0.5% in July, while multi-family starts plunged 15.3%. Permits were also weaker than expected in July, down 4.1%, driven by a significant decline in multi-family permits. Although the July housing starts report was disappointing, the weakness was driven by declines in the multi-family component which tends to be more volatile.

Credit Spreads Widened in August

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.24	0.17	0.07
2-year A corporate note	0.47	0.46	0.01
5-year A corporate note	0.65	0.58	0.07
5-year Agency note	0.11	0.08	0.03

Source: Bloomberg

Data as of 8/31/2017

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	3.0% JUN 17	1.2% MAR 17	2.2% JUN 16
Unemployment Rate	4.4% AUG 17	4.3% JUL 17	4.9% AUG 16
Prime Rate	4.25% AUG 17	4.25% JUL 17	3.5% AUG 16
CRB Index	180.86 AUG 17	182.64 JUL 17	180.21 AUG 16
Oil (West Texas Int.)	\$47.23 AUG 17	\$50.17 JUL 17	\$44.70 AUG 16
Consumer Price Index (y/o/y)	1.7% JUL 17	1.6% JUN 17	0.8% JUL 16
Producer Price Index (y/o/y)	2.2% JUL 17	2.2% JUN 17	(2.0%) JUL 16
Dollar/Euro	1.19 AUG 17	1.18 JUL 17	1.12 AUG 16

Source: Bloomberg

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