

FEBRUARY 2020



Market Data

World Stock Market Indices
 data as of 1/31/2020

	Diff (12/31/19)	% Change
S&P 500	3,225.52	-5.26 -0.16%
NASDAQ	9,150.94	178.33 1.99%
DOW JONES	28,256.03	-282.41 -0.99%
FTSE (UK)	7,286.01	-256.43 -3.40%
DAX (Germany)	12,981.97	-267.04 -2.02%
Hang Seng (Hong Kong)	26,312.63	-1,877.12 -6.66%
Nikkei (Japan)	23,205.18	-451.44 -1.91%

Source: Bloomberg. Please see descriptions of indices on Page 2.

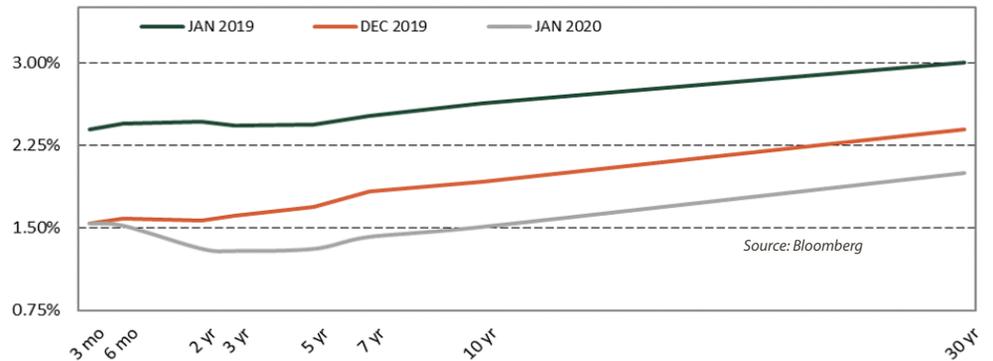
Market Summary

The Federal Open Market Committee (FOMC) unanimously voted to leave the fed funds target range unchanged in January in a range of 1.50%-1.75%. In the policy statement, the Fed revised their description of household spending as “moderate” vs. “strong”. Otherwise, there were no significant changes to the statement and Fed Chair Powell continued to signal that monetary policy is likely to remain on hold. Powell’s press conference was viewed as somewhat dovish, but the Fed remains cautiously optimistic about the overall economic outlook. Powell said the Fed would likely begin scaling back its current practice of buying \$60 billion per month in US Treasury bills sometime in the April-June time frame. After that, the Fed’s balance sheet is expected to grow as necessary to maintain an ample level of bank reserves in the system. Although we believe the hurdle rate for the FOMC to make any changes to US monetary policy over the near-term is very high, we believe policymakers would consider providing additional policy accommodation if needed.

Although we believe the economy continues to grow at a moderate pace, fears about the coronavirus and its potential impact on global economic growth, an uncertain future path of global central bank policy, lingering uncertainty about trade policy, and the upcoming US presidential election potentially sets the stage for a continued volatile financial market environment this year. A solid labor market and healthy consumer fundamentals continue to drive the economy, while the manufacturing sector remains under pressure.

The Treasury yield curve reverted to an inversion in January. At month-end the yield on 2-year and 5-year Treasuries was roughly 20 basis points below the yield on 3-month T-bills. The yield on 10-year Treasuries declined 41 basis points in January to 1.51%, slightly below the yield on 3-month T-bills at month-end. We believe the flattening of the Treasury yield curve has largely been driven by fears about the coronavirus and its potential impact on global economic growth and inflation expectations.

TREASURY YIELDS HAVE DECLINED



At January month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 84 basis points, the 2-Year Treasury yield was down 115 basis points, and the 10-Year Treasury yield was down 112 basis points, year-over-year. We believe the decline in long-term Treasury yields largely reflects a decline in global economic growth and inflation expectations, while the decline in shorter-term rates is roughly in line with the Fed’s three 25 basis point rate cuts in 2019.

TREASURY YIELDS	Trend (▲/▼)	1/31/2020	12/31/2019	Change
3-Month	-	1.54	1.54	0
2-Year	▼	1.31	1.57	-0.26
3-Year	▼	1.29	1.61	-0.32
5-Year	▼	1.31	1.69	-0.38
7-Year	▼	1.42	1.83	-0.41
10-Year	▼	1.51	1.92	-0.41
30-Year	▼	2.00	2.39	-0.39

Source: Bloomberg

BOND MARKET REVIEW

Since 1988, Chandler Asset Management has specialized in providing fixed income investment solutions to risk-averse public agencies and institutions. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, mitigates risk and generates income in our clients' portfolios.

Credit Spreads Widened in January

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.07	0.11	(0.04)
2-year A corporate note	0.32	0.29	0.03
5-year A corporate note	0.53	0.46	0.07
5-year Agency note	0.09	0.05	0.04

Source: Bloomberg

Data as of 1/31/2020

Economic Data Remains Consistent with Trend Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(48.90) \$Bln DEC 19	(43.70) \$Bln NOV 19	(60.80) \$Bln DEC 18
Gross Domestic Product	2.10% DEC 19	2.10% SEP 19	1.10% DEC 18
Unemployment Rate	3.60% JAN 20	3.50% DEC 19	4.00% JAN 19
Prime Rate	4.75% JAN 20	4.75% DEC 19	5.50% JAN 19
Commodity Research Bureau Index	170.31 JAN 20	185.79 DEC 19	179.64 JAN 19
Oil (West Texas Int.)	\$51.56 JAN 20	\$61.06 DEC 19	\$53.79 JAN 19
Consumer Price Index (y/o/y)	2.30% DEC 19	2.10% NOV 19	1.90% DEC 18
Producer Price Index (y/o/y)	1.90% DEC 19	1.10% NOV 19	1.30% DEC 18
Dollar/Euro	1.11 JAN 20	1.12 DEC 19	1.15 JAN 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.3% year-over-year in December, up from 2.1% in November. Core CPI (CPI less food and energy) was up 2.3% year-over-year in December, unchanged from November. The Personal Consumption Expenditures (PCE) index was up 1.6% year-over-year in December versus up 1.4% year-over-year in November. Core PCE, which is the Fed's primary inflation gauge, was also up 1.6% year-over-year in December versus 1.5% year-over-year in November. Nevertheless, Core PCE remains below the Fed's 2.0% inflation target.

Retail Sales

On a year-over-year basis, retail sales were up 5.8% in December versus 3.3% in November. On a month-over-month basis, retail sales excluding autos and gas rose 0.5% in December, slightly ahead of expectations of 0.4%.

Labor Market

U.S. nonfarm payrolls rose by 225,000 in January, well above expectations of 165,000. Payrolls for November and December were also revised up by a total of 7,000. On a trailing 3-month and 6-month basis, payrolls increased an average of 211,000 and 206,000 per month, respectively. The unemployment rate ticked up to 3.6% from 3.5% in the prior month as the participation rate rose to 63.4% from 63.2%. 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, also increased to 6.9% in January from 6.7% in December. Wages edged up 0.2% in January. On a year-over-year basis, wages were up 3.1% in January, versus up 3.0% in December. The average workweek was unchanged at 34.3 hours.

Housing Starts

Housing starts rose 16.9% in December to a 1.608 million annualized rate, the highest rate since December 2006. Single-family starts jumped 11.2% in December to an annualized rate of 1,055,000, while multi-family starts surged 29.8% to an annualized rate of 553,000. Although better than average weather may have been a contributing factor for the December gains, the underlying trends suggest low mortgage rates and a strong labor market continue to drive housing activity.

World Stock Market Index Descriptions

S&P 500—The S&P 500 is a market value weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. NASDAQ—The NASDAQ Composite Index is the market capitalization-weighted index of over 3,300 common stocks listed on the NASDAQ stock exchange. Dow Jones—The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Financial Times Stock Exchange Group (FTSE)—The FTSE is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. DAX—The Deutscher Aktienindex (DAX) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. Hang Seng—The Hang Seng Index is a freefloat-adjusted market-capitalization-weighted stock market index in Hong Kong. It is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. Nikkei—Japan's Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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