

AUGUST 2020



Market Data

World Stock Market Indices
 data as of 7/31/2020

	Diff (6/30/20)	% Change
S&P 500	3,271.12	170.83 5.51%
NASDAQ	10,745.27	686.50 6.82%
DOW JONES	26,428.32	615.44 2.38%
FTSE (UK)	5,897.76	-271.98 -4.41%
DAX (Germany)	12,313.36	2.43 0.02%
Hang Seng (Hong Kong)	24,595.35	168.16 0.69%
Nikkei (Japan)	21,710.00	-578.14 -2.59%

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

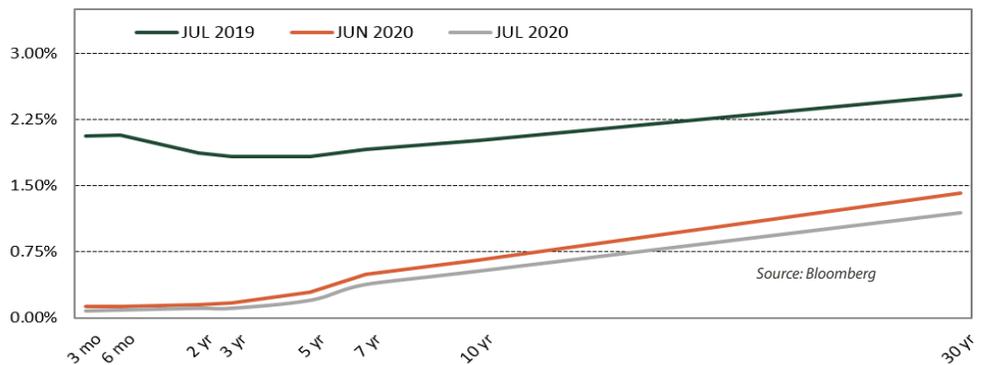
Market Summary

The second quarter was likely the low point for economic activity and the consensus forecast calls for a fairly strong rebound in activity in the current quarter and a slowing pace in improvement thereafter. However, the outlook remains uncertain, particularly amid ongoing US COVID-19 outbreaks. We believe the outlook for economic activity is largely dependent on the course of the pandemic, the amount of additional fiscal relief from the government, and the timeline for a vaccine. Notably, the effects of the pandemic continue to weigh heavily on the labor market. Year-to-date, the S&P 500 is up slightly as the US equity market has nearly recovered all of its pandemic-fueled decline and the worst of the economic data appears to be in the rearview mirror.

As expected, the Federal Open Market Committee kept the fed funds target rate unchanged at their July meeting in a range of 0.0% to 0.25%. The Fed extended its emergency lending programs through the end of 2020, a three-month extension, and will continue to use its balance sheet to support the flow of credit and stability of financial markets. Fed Chair Powell indicated that the Fed is more cautious about the downside risks to the economy and less concerned about the upside and potential threat of inflation. In his words, the Fed's job is to "hope for the best and plan for the worst." In our view, this suggests that policy rates are likely to remain low until employment is clearly back on track.

The Treasury yield curve flattened in July, with short-term rates anchored near 0.0% and the yield on 10-year Treasuries down 13 basis points. On a year-to-date basis, the yield on 2-year Treasuries was down 146 basis points to 0.11% and the yield on 10-year Treasuries was down about 139 basis points to 0.53% at the end of July. Global economic weakness continues to put downward pressure on inflation expectations. An ongoing global demand for safe-haven assets has also kept a lid on Treasury rates.

TREASURY YIELDS REMAIN LOW ON A HISTORICAL BASIS



At July month-end, Treasury yields were much lower on a year-over-year basis. The 3-month T-bill yield was down 198 basis points, the 2-year Treasury yield was down 177 basis points, and the 10-Year Treasury yield was down 149 basis points, year-over-year. Much of the spread movement was in the month of March 2020, with the Fed cutting rates by a total of 150 basis points and concerns about a global recession and a flight to safe-haven assets driving down yields across the curve.

TREASURY YIELDS	Trend (▲/▼)	7/31/2020	6/30/2020	Change
3-Month	▼	0.08	0.13	-0.05
2-Year	▼	0.11	0.15	-0.04
3-Year	▼	0.11	0.17	-0.06
5-Year	▼	0.20	0.29	-0.09
7-Year	▼	0.38	0.49	-0.11
10-Year	▼	0.53	0.66	-0.13
30-Year	▼	1.19	1.41	-0.22

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 Continued to Tighten in July

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.01	0.00	0.01
2-year A corporate note	0.27	0.35	(0.08)
5-year A corporate note	0.55	0.66	(0.11)
5-year Agency note	0.19	0.18	0.01

Source: Bloomberg

Data as of 7/31/2020

Economic Activity Has Improved But Remains Well Below Pre-Pandemic Levels

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(50.70) \$Bln JUN 20	(54.80) \$Bln MAY 20	(51.70) \$Bln JUN 19
Gross Domestic Product	(32.90%) JUN 20	(5.00%) MAR 20	1.50% JUN 19
Unemployment Rate	10.20% JUL 20	11.10% JUN 20	3.70% JUL 19
Prime Rate	3.25% JUL 20	3.25% JUN 20	5.50% JUL 19
Commodity Research Bureau Index	143.69 JUL 20	137.97 JUN 20	178.52 JUL 19
Oil (West Texas Int.)	\$40.27 JUL 20	\$39.27 JUN 20	\$58.58 JUL 19
Consumer Price Index (y/o/y)	0.60% JUN 20	0.10% MAY 20	1.60% JUN 19
Producer Price Index (y/o/y)	(2.20%) JUN 20	(2.80%) MAY 20	0.50% JUN 19
Dollar/Euro	1.18 JUL 20	1.12 JUN 20	1.11 JUL 19

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 0.6% year-over-year in June, versus 0.1% in May. Core CPI (CPI less food and energy) was up 1.2% year-over-year in June, unchanged from May. The Personal Consumption Expenditures (PCE) index was up 0.8% year-over-year in June, versus up just 0.5% year-over-year in May. Core PCE, which is the Fed's primary inflation gauge, was up 0.9% year-over-year in June, versus up 1.0% year-over-year in May. Both CPI and PCE are running meaningfully lower than pre-pandemic levels at the start of this year, indicating that the effect of the pandemic has been deflationary.

Retail Sales

On a year-over-year basis, retail sales were up 1.1% in June versus down 5.6% in May and down 19.9% in April. On a month-over-month basis, retail sales rose 7.5% in June (stronger than expected), following an 18.2% increase in May and 14.7% decline in April. Retail sales have rebounded quickly in many subsectors, though gasoline and restaurant sales remain well below prior year levels. Nonstore retail sales were up 23.5% year-over-year in June.

Labor Market

U.S. nonfarm payrolls were better than expected, increasing by 1,763,000 in July versus expectations of 1,480,000. Private payrolls increased by 1,462,000 and government payrolls increased by 301,000. The unemployment rate declined to 10.2% in July (versus expectations of 10.6%) from 11.1% in June. However, the participation rate edged down to 61.4% from 61.5%. Furthermore, workers who classified themselves as employed but absent from work in the July survey understated the unemployment rate by about 1%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, remained very high but eased to 16.5% in July from 18.0% in June.

Housing Starts

Total housing starts rose 17.3% in June to an annual pace of 1,186,000. Single family starts rose 17.2% to an annualized rate of 831,000, while multi-family starts increased 17.5% to an annualized rate of 355,000. However, housing starts remain below prior-year levels, with single family starts down 3.9% year-over-year, and multi-family starts down 4.1%.

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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