

JANUARY 2020



Market Data

World Stock Market Indices
 data as of 12/31/2019

	Diff (11/30/19)	% Change
S&P 500	89.80	2.86%
NASDAQ	307.13	3.54%
DOW JONES	487.03	1.74%
FTSE (UK)	195.91	2.67%
DAX (Germany)	12.63	0.10%
Hang Seng (Hong Kong)	1,843.26	7.00%
Nikkei (Japan)	362.71	1.56%

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

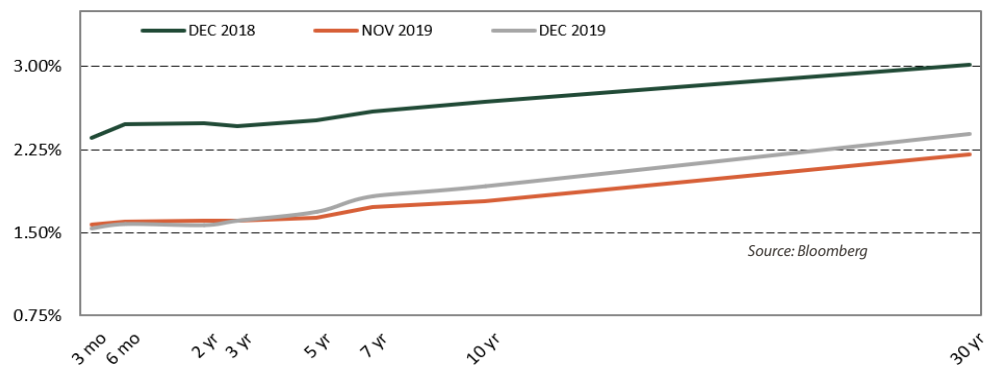
Market Summary

We expect US economic growth to moderate in 2020 toward trend growth of about 1.8% compared to 2.3% in 2019. We believe the impact of monetary policy on economic growth is somewhat lagged, and the more accommodative monetary policy stance of the Federal Reserve and other global central banks throughout 2019 should provide a tailwind for the economy in 2020. Though slow global growth continues to create a headwind for the US economy, recent domestic economic data has been mostly in line with expectations and consistent with modest growth. Most notably, the US labor market remains firm which should continue to support consumer spending trends as well as the housing market.

The Federal Open Market Committee (FOMC) kept the target fed funds rate unchanged in December in a range of 1.50%-1.75%. The vote to keep policy unchanged was unanimous and the Fed's quarterly update on their Summary of Economic Projections was little changed from the September 2019 forecast. Notably the Fed's forecast calls for no change to the fed funds rate in 2020. We believe the hurdle rate to tighten policy remains high, as market-based measures of inflation are still too low. Conversely, if market-based inflation metrics fail to improve, and/or the domestic or global economy experiences an exogenous shock, we believe the Fed has left the door open for additional policy accommodation.

The Treasury yield curve steepened slightly in December. The 2-year Treasury yield decreased about four basis points to 1.57%, the 5-year Treasury yield increased almost seven basis points to 1.69%, and the 10-year Treasury yield increased about 14 basis points to 1.92%. We believe the increase in longer-term yields were driven by more favorable developments with regard to global trade and Brexit.

Treasury Yields Have Declined Year-Over-Year



Treasury yields declined meaningfully in 2019. At year-end, the 3-month T-bill yield was down 81 basis points, the 2-Year Treasury yield was down 92 basis points, and the 10-Year Treasury yield was down 77 basis points. We believe the year-over-year 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 in line with the Fed's three 25 basis point rate cuts in 2019. Notably, the shape of the yield curve has normalized to some extent over the past few months and is now upward sloping, which we believe reflects increased optimism about the domestic economic outlook.

TREASURY YIELDS	Trend (▲/▼)	12/31/2019	11/30/2019	Change
3-Month	▼	1.54	1.57	-0.03
2-Year	▼	1.57	1.61	-0.04
3-Year	▲	1.61	1.61	0
5-Year	▲	1.69	1.63	0.06
7-Year	▲	1.83	1.73	0.10
10-Year	▲	1.92	1.78	0.14
30-Year	▲	2.39	2.21	0.18

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 Tightened in December

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.11	0.18	(0.07)
2-year A corporate note	0.29	0.31	(0.02)
5-year A corporate note	0.46	0.53	(0.07)
5-year Agency note	0.05	0.07	(0.02)

Source: Bloomberg

Data as of 12/31/2019

Economic Data Remains Consistent with Trend Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(43.10) \$Bln NOV 19	(46.90) \$Bln OCT 19	(53.60) \$Bln NOV 18
Gross Domestic Product	2.10% SEP 19	2.00% JUN 19	2.90% SEP 18
Unemployment Rate	3.50% DEC 19	3.50% NOV 19	3.90% DEC 18
Prime Rate	4.75% DEC 19	4.75% NOV 19	5.50% DEC 18
Commodity Research Bureau Index	185.79 DEC 19	176.65 NOV 19	169.80 DEC 18
Oil (West Texas Int.)	\$61.06 DEC 19	\$55.17 NOV 19	\$45.41 DEC 18
Consumer Price Index (y/o/y)	2.10% NOV 19	1.80% OCT 19	2.20% NOV 18
Producer Price Index (y/o/y)	1.10% NOV 19	(0.20%) OCT 19	2.00% NOV 18
Dollar/Euro	1.12 DEC 19	1.10 NOV 19	1.15 DEC 18

Source: Bloomberg

Economic Roundup

Consumer Prices

The Consumer Price Index (CPI) was up 2.1% year-over-year in November, up from 1.8% in October. Core CPI (CPI less food and energy) was up 2.3% year-over-year in November, unchanged from October. The Personal Consumption Expenditures (PCE) index was up 1.5% year-over-year in November versus up 1.4% year-over-year in October. Core PCE, which is the Fed's primary inflation gauge, was up 1.6% year-over-year in November versus 1.7% year-over-year in October. Core PCE softened and remains below the Fed's 2.0% inflation target.

Retail Sales

Retail sales increased 0.2% in November, following growth of 0.4% in October. Excluding auto and gas, retail sales were flat in November, below expectations of 0.4%. On a year-over-year basis, retail sales increased 3.3% in November, versus 3.2% in October.

Labor Market

U.S. nonfarm payrolls rose by 145,000 in December, below expectations of 160,000. Payrolls for October and November were revised down by a total of 14,000. On a trailing 3-month and 6-month basis, payrolls increased an average of about 184,000 and 189,000 per month, respectively. The unemployment rate was unchanged at 3.5% and the participation rate held steady at 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, declined to 6.7% in December from 6.9% in November. Wages edged up 0.1% in December, below expectations of 0.3%, but the November increase in wages was revised up slightly to 0.3% from 0.2%. The average workweek was unchanged at 34.3 hours. On a year-over-year basis, wages were up 2.9% in December, versus up 3.1% in November.

Housing Starts

Housing starts increased 3.2% in November to a 1.365 million annualized rate and starts in the prior month were revised higher. Permits were also stronger than expected in November, up 1.4%. Multi-family starts rose 4.9% month-over-month in November to an annualized rate of 427,000. Single-family starts rose 2.4% in November to an annualized rate of 938,000. The trends suggest that 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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