3Q 2019

Investment Highlights

Oregon Local Government Intermediate Fund

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	Portfolio	Index**
3Q19 Performance*	1.12%	0.89%

As of 30 Sep 19
**Performance is gross of fees*
*** Bloomberg Barclays 1-5 Year US Government/Credit Bond Index*

Performance Review

During the third quarter of 2019 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 23 basis points (bps) on a gross basis.

The greatest contributor to performance during the quarter was the portfolio's tactical duration positioning as yields fluctuated but ended lower over the quarter, with the 10-year US Treasury (UST) declining from 2.00% to 1.68%. The third quarter was marked by slowing global growth and escalating trade tensions between the US and China, somewhat offset by further monetary accommodation from US and European central banks. Yield curve positioning was the second largest contributor, generating 24 bps of excess return, as the curve flattened, 5s-30s from 76 bps to 57 bps. The only detractor over the quarter was our TIPS exposure, which detracted 8 bps as breakeven inflation rates fell, with the 10-year UST declining from 1.70% to 1.52%.

Investment Outlook

At present, we are estimating US growth between 2.0% and 2.25% for 2019. Earlier in the year, an apparent sputter in consumer spending and income growth had caused us to reduce our forecast, but both indicators have rebounded over recent months making a low 2%-handle outcome most likely. This rebound in consumer spending and a tentative recent improvement in US manufacturing sector data make the chances of recession even lower now than they were a few months ago when we were expecting slightly slower 2019 growth. While various elements of the US economy are showing slower growth than was the case over 2017-2018, nowhere is there actual weakness or any indication of an ongoing deceleration that would raise the threat of recession.

Constant news of tariffs—and retaliatory tariffs—between the US and China have caused some to fear the downside implications of this ongoing spat for the US economy. At present, however, we see no tangible evidence that trade wars are adversely affecting US economic aggregates. If anything, the US trade balance has improved slightly relative to trend so far this year, implying a slight boost to GDP growth, rather than the drag some profess to see. Developments in capital spending by US corporations also show some recent improvement, if anything, contrary to claims that trade fears are restraining capital expenditures. While core inflation measures have also rebounded a bit in recent months, the upswing merely offsets some of the especially low inflation seen earlier in 2019. All in all, then, inflation looks to be holding below the Fed's 2% target. We see nothing in Fed policy nor in the ongoing growth rates of nominal GDP that would suggest any meaningful upside pressure on inflation.

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