



Oregon Local Government Intermediate Fund

| | Portfolio | Index** |
|-------------------|-----------|---------|
| 4Q19 Performance* | 0.42% | 0.50% |

As of 31 Dec 19

*Performance is gross of fees

**Bloomberg Barclays 1-5 Year US Government/Credit Bond Index

Performance Review

During the fourth quarter of 2019 the portfolio underperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 8 basis points (bps) on a gross basis.

The greatest contributor to performance during the quarter was the portfolio's emerging markets exposure as spreads tightened and most currencies appreciated versus the USD. The final quarter of 2019 was marked by several positive developments to a number of economic events that had weighed on markets for much of the year. TIPS exposure was the second largest contributor as breakeven inflation rates rose, 10 year from 1.52% to 1.79%. The primary detractor over the quarter was our yield curve positioning, which detracted 13 bps as the curve steepened, 10s-30s from 44 bps to 47 bps.

Investment Outlook

We expect 2019 growth results for the US to come in between 2.0% and 2.25%. With consumer spending growth looking decent, there is some upside risk for 2019 relative to our forecast. Trade war concerns continue, but as of yet, these are fears more than reality, as trade has actually been a net positive to US growth in 2019. The only downside risk for 2019 growth lies in inventories, but this is merely a transitory effect.

Nowhere is there actual weakness in the US economic data. "Soft data" indicators suggest manufacturing weakness, but hard data on the factory sector indicate this weakness to have occurred early in 2019, with a distinct stabilization or improvement in factory indicators lately. We expect this better factory tone to continue into next year. Consequently, we project 2020 growth for the US to be only slightly slower than in 2019, say right around 2%.

Regarding the Federal Reserve, we maintain the view that Chair Jerome Powell's focus on below-target inflation, as evidenced by his statement in the most recent Federal Open Market Committee (FOMC) meeting, leaves the door open to future rate cuts to further support inflation. While Powell did not signal that any such action is particularly imminent, nor is it in the FOMC's current base case, the meeting's dovish tilt implied openness to such future action.

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