3Q 2021

Investment Highlights

Oregon Local Government Intermediate Fund

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	Portfolio	Index**
3Q21 Performance*	0.11%	0.05%

As of 30 Sep 21.
**Performance is gross of fees*
*** Bloomberg 1-5 Year US Government/Credit Bond Index*

Performance Review

During the third quarter of 2021 the portfolio outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 6 basis points (bps) on a gross basis.

US economic data was weaker than expected later in the quarter as the recovery appeared to be losing some steam. Economists have continued to ratchet down third-quarter GDP estimates, which the Atlanta Federal Reserve's model now projects will be 2.3%. The Citi US Economic Surprise Index, which measures the degree to which macroeconomic data are beating economists' estimates, has been declining for several months and recently fell into negative territory for the first time this year. The Covid delta variant surge over the summer and weaker economic data have weighed on consumer and risk sentiment. US jobs data had been improving over the summer but weakened considerably at the end of the quarter. The greatest contributor to performance during the quarter was an allocation to investment-grade credit, as bond spreads slightly widened but coupons generated positive excess returns. Yield-curve positioning was a modest detractor over the quarter.

Investment Outlook

The US economy in recent months has performed in line with our expectations. Growth has moderated in the manufacturing and construction sectors now that these have achieved essentially complete recovery from the Covid-induced shutdown recession of 1Q20. Meanwhile, growth in the service sectors has been decent, but not spectacular and not suggestive of a quick return to pre-Covid norms. Much of this relatively sluggish rebound in services reflects the fact that a general reopening of the service sectors has been occurring only in the spring months of 2021, with some of that reopening reversed as the latest, delta-variant outbreak of Covid cases emerged.

Within services, growth in the restaurant and medical care sectors was especially brisk earlier this year, but as with manufacturing and construction, these sectors are largely fully recovered from the Covid shutdown so they should see only minimal growth going forward. As a result of these factors, we expect growth in the service sectors to continue to disappoint relative to consensus expectations—especially so with respect to job growth, and we expect that growth in manufacturing and construction sectors will be muted as the recovery there is already complete. There is enough slack remaining in service sectors to single-handedly drive annualized US GDP growth of 7% or so for several quarters yet. Instead, however, we expect growth in a 2% to 4% range: not bad, but lower than at least what the Federal Reserve (Fed) is looking for.

While market and media rhetoric are still trumpeting an inflation flareup, we see most of the run-up in reported inflation in recent months as reflecting adverse comparisons to especially low Consumer Price Index (CPI) prints in April and May 2020, and to rebounds in prices of a number of services where reopening is occurring to some extent (and where prices are still well below pre-Covid levels even with the recent run-up). Treasury markets have already reacted to these developments with rates moving higher from the summer lows. That stated, we expect rates to remain range-bound with the 10-year trading within 1.25% to 1.75%.

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