Oregon Local Government Intermediate Fund

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	Portfolio (gross)	Portfolio (net)	Index*
3Q22 Performance	-2.10%	-2.12%	-2.16%

As of 30 Sep 22.
**Bloomberg 1-5 Year US Government/Credit Bond Index*
Past investment results are not indicative of future investment results. *Gross-of-fees returns are presented before management fees, but after all trading expenses. Net-of-Fees performance returns are an estimate of time-weighted rate of return. The effective fee, based on a fee schedule, is deducted from the monthly gross return.*

Performance Review

During the third quarter of 2022 the portfolio slightly outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 7 basis points (bps) on a gross basis.

During the third quarter of 2022, risk assets whipsawed and bond yields spiked as initial market optimism earlier in the quarter—on the back of a lower US inflation print—was decisively countered by strong hawkish rhetoric from the Federal Reserve (Fed), which emphasized the need to maintain rates at a restrictive level for some time. Fresh growth concerns dragged oil prices lower as credit spreads widened and the S&P 500 fell to a year-to-date (YTD) low.

Investment Outlook

Over the last three months, inflation has failed to moderate the way we anticipated, but consumer spending growth has slowed in line with our expectations, and US homebuilding activity has also pulled back substantially in line with our expectations. Meanwhile, the Fed has continued to ratchet short rates higher, and the lack of clear progress on inflation indicates that such hiking will proceed further than we were expecting three months ago. After holding steady for much of the (Northern-Hemisphere) summer, term yields have moved higher as well, presumably also in response to the diminished chances for a tapering of Fed rate hikes.

The ongoing Fed moves higher should increase the chances for recession both in the US and globally. As yet, however, the only real sign of weakness in the US economy is the emerging sharp declines in residential construction spending. This measure had already been trending down since early 2021, but the downward pace has intensified in recent months—and also widened from multi-family to both multi- and single-family—as large inventories of unsold new homes have become oppressive. Meanwhile, manufacturing activity has decelerated, but is not declining. For services and sectors, consumer spending growth has slowed a bit lately, reflecting falling real incomes, but it is not (yet) declining.

Then again, the onerous pace of Fed hikes—and rising long-term yields—emerged only six months or so ago, and the yield increases seen as a result of the latest Fed increases are likely to have larger impact on economic activity in the months ahead. Recession is still not inevitable in the US, but the chances of avoiding it lessen each day that we do not see any indications that Fed hiking initiatives will let up. On the price front, there are a number of encouraging signs that inflation will slow markedly, but these indications have yet to bear tangible fruit.

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