3Q 2020

Investment Highlights

Oregon Local Government Intermediate Fund

WESTERN ASSET

Oregon Local Government Intermediate Fund

	Portfolio	Index**
3Q20 Performance*	0.48%	0.37%

As of 30 Sep 20
**Performance is gross of fees*
*** Bloomberg Barclays 1-5 Year US Government/Credit Bond Index*

Performance Review

During the third quarter of 2020 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 11 basis points (bps) on a gross basis.

Markets extended their rally during the third quarter and the US economy continued to improve steadily, though most economic measures remained far from where they started the year. The greatest contributor to performance during the quarter was emerging markets exposure, contributing 6 bps, as USD bond spreads tightened. Tactical changes to US long duration positioning contributed to performance as yields fluctuated. Investment-grade credit was a modest detractor over the quarter.

Investment Outlook

The US economy made steady and impressive progress in 3Q20. It is uncontestable that the economy is still suffering from the effects of the Covid-induced shutdowns and related strictures on business operations. However, the remaining softness is either confined to sectors that are still laboring under severe shutdown constraints, or is the lagged effect of weak demand some months ago.

Both consumer and business demand for merchandise has rebounded fully back to and through their pre-Covid levels. Goods production is rising nicely, but has not bounced as sharply as demand, as producers have been cautious to see whether the restored demand would sustain. The difference was accommodated by a sharp reduction in inventories. Inventories are showing signs of rebounding, restored demand is continuing and we believe it is just a matter of time before goods production fully reaches pre-shutdown levels.

The situation is even more positive for construction. There, new-home sales are much higher than their pre-Covid levels, and only pipeline issues have so far kept construction spending below pre-Covid levels. This will likely change very soon, as builders catch up with demand. In service sectors, however, shutdowns and consumer fears have kept passenger travel, accommodations and recreation sectors from achieving anything more than a token bounce, though health care and restaurants have rebounded more strongly.

A full recovery in these sectors most probably awaits the introduction of a credible COVID-19 vaccine. Until then, it will be a bifurcated economy, with near-complete recovery in some sectors, but only partial recovery in those sectors most affected by social distancing. Both the Federal Reserve's monetary policy and governments' fiscal policy are likely to key off those sectors still suffering.

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