# Oregon Local Government Intermediate Fund

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| | Portfolio | Index** |
|---|---|---|
| 4Q21 Performance* | -0.64% | -0.72% |

*As of 31 Dec 21.*
**Performance is gross of fees*
*** Bloomberg 1-5 Year US Government/Credit Bond Index*

## Performance Review

During the fourth quarter of 2021 the portfolio outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 9 basis points (bps) on a gross basis.

Risk assets and bond yields were volatile over the quarter as news of the omicron variant first surfaced in late November which sparked fresh concerns over the global recovery. The initial news pushed risk assets lower as markets weighed the impact of what appeared to be a much more contagious variant and the potential for renewed travel bans and lockdowns. Cautious optimism grew later in December, however, as early reports appeared to show that omicron might be a milder variant and lead to less severe symptoms than previous waves even though it is much more transmissible. At the end of 2021, case counts were breaking records in many places around the globe but the market continued to focus on a possible decoupling of case counts compared to hospitalizations and deaths. Rates positioning was the greatest contributor to performance over the quarter as the curve significantly flattened.

## Investment Outlook

The US economy has evolved in recent months essentially in line with our outlook for economic growth. Price increases have been sharper than we expected, but we still anticipate these to moderate substantially in the months to come. Consumer spending has been shifting in recent months from goods back to services, after the reverse switch in late-2020 and early-2021. Thus, consumer spending on goods has been essentially flat since March 2021. At the same time, consumer spending on services has grown steadily if unspectacularly. Services spending has actually slowed a bit in recent months, as the recovery in restaurants came to completion and as lingering Covid concerns limited growth in other hard-hit sectors such as recreation, lodging and travel. Meanwhile, homebuilding has largely continued a gradual slide that has been in place since late-2020, as rates of homebuilding continue to pull back to levels more consistent with the pace of new-home sales.

In most of the economy, the recovery from the shutdown-induced recession/repression is largely complete. The sectors where there is room for further recovery are precisely those where Covid restrictions still bite: the leisure-oriented sectors referenced earlier. Non-residential construction also remains depressed, but post-Covid realities suggest this sector will likely see little recovery in the next few years. In sum, our best guess is that US growth will be mostly trend-like, 1.5%-2.5%, with some potential for above-trend growth in leisure-oriented sectors, if government policies allow.

We still fail to see any credible sign that Federal Reserve (Fed) policy has stimulated the economy, in which case we believe the inflation increase seen to date reflects pipeline pressures as well as a retracement of shutdown declines by some commodities and services. Hence, we expect inflation to return toward pre-Covid rates sometime soon, as pipeline pressures begin to ease.

*For more information on Western Asset, visit westernasset.com.*