4Q 2023

Investment Highlights

Oregon Local Government Intermediate Fund

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	Portfolio (gross)	Portfolio (net)	Index*
4Q23 Performance	3.66%	3.65%	3.44%

As of 31 Dec 23.

**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

In the fourth quarter of 2023, the portfolio outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 22 basis points (bps) on a gross basis.

During the fourth quarter, US Treasury (UST) yields pushed higher in October, as 30- and 10- year yields surpassed the 5% mark for the first time since the global financial crisis. US economic data had surprised to the upside and this–coupled with concerns over the supply and demand for US debt–acted as the main catalysts behind the surge in UST yields. This was reversed during November and December when UST yields plummeted due to stronger evidence of disinflation along with more balanced comments from central bankers. Early in the quarter, some Federal Reserve (Fed) officials commented that higher long-term interest rates might be serving to tighten financial conditions along with the currently restrictive level for the fed funds rate. Optimism that major global central banks have succeeded in sufficiently tightening monetary policy while averting an economic "hard landing" and the prospect of monetary easing next year lifted risk assets and tightened credit spreads.

Investment Outlook

US economic growth improved in 2023, almost solely due to a rebound in construction activity. Consumer spending has been credited with improving the economy in 2023. However, the fact is that consumer spending on services grew no faster in 2023 than in 2022, and the improvement in consumer spending on goods was fully offset by declines in inventory investment. Market sentiment is optimistic about construction staying strong in 2024. Our guess is that non-residential construction will slow as the stimulus from federal government programs fades, and we think residential construction could also be prone to renewed declines as inventories of unsold new homes remain very high and as higher mortgage rates and higher home prices take their toll on demand. Nominal spending growth has continued to decelerate reasonably steadily, and we believe that deceleration will put further downward pressure on inflation in 2024. We expect inflation to be well below Fed targets by late-2024 on a month-to-month basis. These trends should drive more Fed easing than is currently expected.

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