April 2022

ORECON STATE TREASURY

# Inside the Vault

## Local Government Edition

### LGIP: New Client Portal Coming Mid-May

PFM Asset Management has been hard at work building the next generation of their client portal to provide an easy-to-use, password-protected online platform built for you—Local Government Investment Pool participants. Formerly known as EON, the new client portal will be called ‘Connect.’ In addition to a brand new look and user-friendly interface, you’ll notice the following features:

- **Updated Account Dashboard Screen** — In one screen, you’ll see balances, recent activity, and metrics for all your accounts. This gives you a better understanding of your entire relationship.
- **Interactive Graphics** — Graphs and charts are designed to be utilized, giving you instant access to your accounts over time.
- **Transaction Ready** — Utilizing the new intuitive interface, Connect’s transaction wizard is designed to accommodate purchases, withdrawals, and transfers quickly and safely.

Connect will roll out in mid-May. If you are an existing EON user, your current logon credentials will follow you to the new portal, so the transition will be seamless.

Be on the lookout for more details in the coming weeks and reach out to PFMAM Client Services with any questions.

### Interest Rates

| Average Annualized Yield | |
|---|---|
| March | 0.5016% |

| Interest Rates | |
|---|---|
| March 1–March 15 | 0.45% |
| March 16—31 | 0.55% |

## Market Update


The first quarter of 2022 saw an incredible amount of market volatility that led to a dramatic sell-off in short duration securities. Two-year Treasurys saw yields increase from 0.77% at the end of 2021 to a current level of 2.44%, the highest level since March 2019. Driving the move in the short-end was a broad-based inflationary spike, with the consumer price index moving to 7.9% year-over-year in March—the highest print since 1982. Moreover, while the market was still processing the potential response from the Federal Reserve, the military conflict in Ukraine caused a shock in energy, food, and metals markets.

Prior to the outbreak of war in eastern Europe, the Fed policy risk was the driving force in market uncertainty. There was a great deal of speculation that the March 16 meeting would result in a 50 basis point hike. Markets briefly rallied on the 25 basis point raise announcement; however, ebullience was short-lived as follow-on statements made a 50 basis point hike feel inevitable for the May 4 meeting.

At the end of December, the futures market priced in a 1% federal funds rate for close of 2022. By April, this figure reached 3%. The Board of Governors' own projections via the March "dot plot" remains below the market at 2.5%. Although the phrase "transitory inflation" fell out of fashion when oil broke past $100 per barrel, there is an element of math on the CPI that might lead to some slowing off 'base year effects' going into the summer. Moreover, during periods of price volatility, inflation measures struggle with accuracy given that the indices are backwards looking, due to both the survey instrument and composition of the consumer basket.

In this environment, attention tends to focus in on commodity markets as they provide our best real-time picture of prices, and there the dislocation from Russia is not helping the situation. West Texas Intermediate crude oil reached $125 per barrel in early March, leading to a 30% increase in U.S. gas prices at the pump—a national average of $4.70 per gallon and historic high for the series. The situation for refineries is perhaps more dire with reported diesel shortages leading to $5.20 per gallon, which will have an economy-wide impact from logistics expenses.

But food markets remain the greatest risk factor for continued inflation. Russia is a leading global producer of several key fertilizer ingredients and, combined with Ukraine, provides 15% of global cereals supply. Wheat futures surged from $800 to $1,300 per bushel, having since come back to $1,000 per bushel. With sanctions and export restrictions unfolding each week, the ability for farmers to price fertilizer during the planting season is challenging harvest forecasts. Increasingly, acreage is being switched to less fertilizer-intensive soybeans, which hopefully will help alleviate knock-on feed impacts on livestock markets. There is little that monetary policy can do to reduce the immediate pressures of food and energy (central bankers purposely follow "core inflation" that excludes these items). Here we could expect more policy measures, like the recent decision to use some of the U.S. strategic petroleum reserve and directed allocations to food production.

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Global markets continue to search for safe havens from a possible sanction-created, technical default in Russian sovereign bonds. Unfortunately, many traditional low-risk assets are selling-off against historical trends. Most notably, the Japanese yen saw a two-week 8% loss in value against the dollar while gold had an 8% gain against the dollar before falling back to only 1% over the pre-invasion price. Of metals, it was those with the largest Russian production that saw the biggest moves off supply concerns. Russia mines approximately 35% of global palladium, which caused a run in the price from $1,800 per ounce at the start of the year to $3,200 per ounce before retreating to a current level of $2,300 per ounce. The nickel trade made a rare appearance in the headlines after a short squeeze caused a 95% price spike in the first week of March (resulting in the London Metals Exchange briefly closing the trade).

While markets for nickel, palladium, wheat, fertilizer, neon, or vegetable oils is not generally the focus of fixed income traders, the point is that extracting Russia from global supply chains is a more painful process than just the impact on energy markets or basic capital exposure. Higher rates plus higher risk has equaled a broad sell off in credit markets, with even investment-grade bonds seeing spreads widen. Lacking other options, capital has surged into the long-duration treasurys, resulting in a yield curve inversion across several key maturities—a common harbinger of economic slowdown and leading to much talk of "stagflation." For now, the market remains very much day-to-day focused on the data, the headlines, and hopes for peace in eastern Europe.

## Oregon Short Term Fund

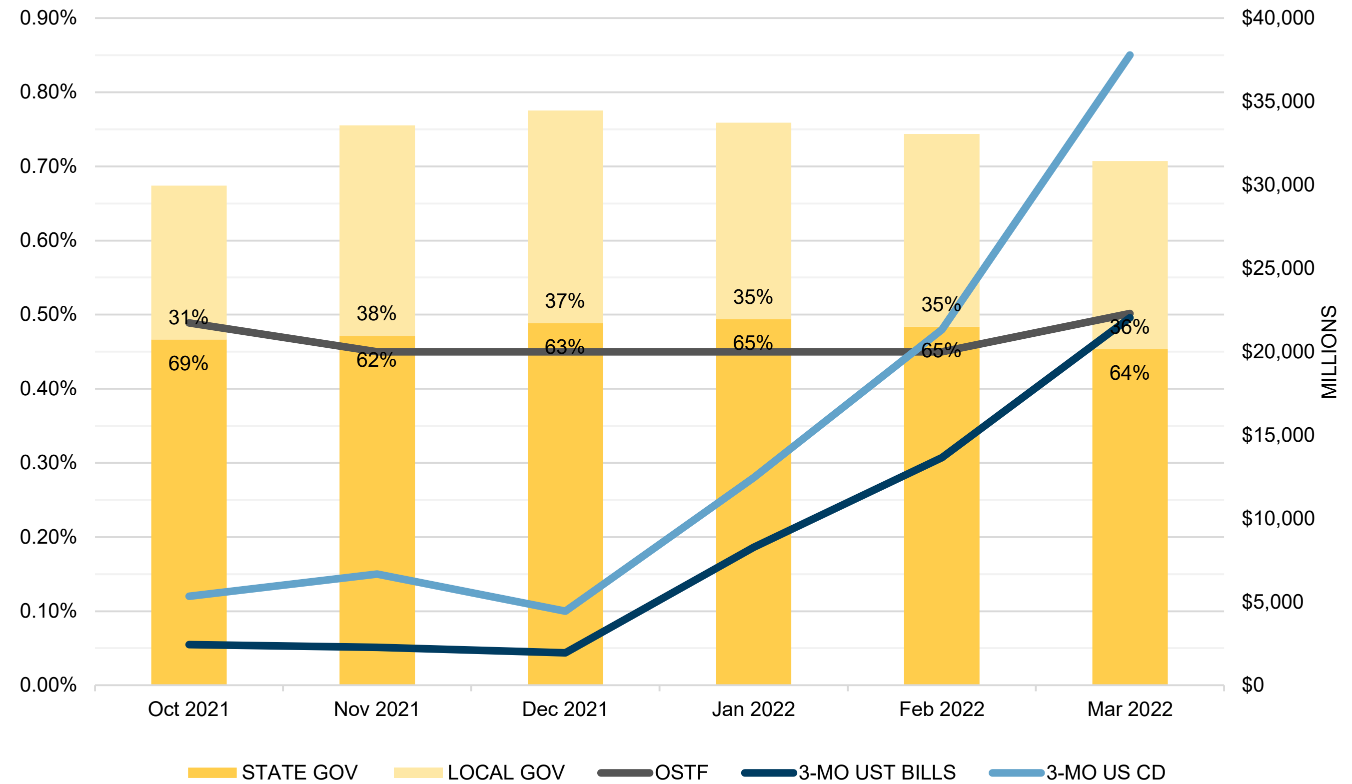
The OSTF paid rate was raised on March 16 from 0.45% to 0.55% and again on April 7 to 0.65%, increasing with the rise in rates. Since approximately 40% of the fund is allocated to floating rate securities, additional increases are expected to be forthcoming.

Treasury and PFM Asset Management have maintained normal operations and participants remain able to perform all transactions as normal. We remain focused on functioning in an open and transparent manner and, should you have any questions, contact our Fixed Income Team at 503.431.7900.

## Impact on Markets from January through March 2022

| | 1/1/22 | 3/31/22 | Delta | |
|---|---|---|---|---|
| S&P 500 | 4,766 | 4,530 | -5.07% | Intraday low: 4,115 on 2/24 |
| 30-Year Treasury | 1.90% | 2.45% | +54.6 bps | Intraday low: 1.878% on 1/2 |
| 10-Year Treasury | 1.51% | 2.34% | +82.8 bps | Intraday low: 1.56% on 1/3 |
| 2-Year Treasury | 0.73% | 2.34% | +160.3 bps | Intraday low: 0.75% on 1/4 |
| 3-Month Treasury | 0.03% | 0.48% | +45.2 bps | Intraday low: 0.076% on 1/5 |

# Oregon Short Term Fund Analysis




| | Oct 2021 | Nov 2021 | Dec 2021 | Jan 2022 | Feb 2022 | Mar 2022 |
|---|---|---|---|---|---|---|
| TOTAL OSTF AVG DOLLARS INVESTED (MM) | 29,957 | 33,570 | 34,462 | 33,737 | 33,050 | 31,437 |
| STATE GOV PORTION (MM) | 20,726 | 20,944 | 21,709 | 21,950 | 21,506 | 20,147 |
| LOCAL GOV PORTION (MM) | 9,231 | 12,626 | 12,753 | 11,787 | 11,544 | 11,290 |
| OSTF ANNUAL YIELD (ACT/ACT) | 0.49 | 0.45 | 0.45 | 0.45 | 0.45 | 0.50 |
| 3-MO UST BILLS (BOND EQ YLD) | 0.055 | 0.051 | 0.044 | 0.186 | 0.307 | 0.496 |
| 3-MO US CD (ACT/360)* | 0.12 | 0.15 | 0.10 | 0.28 | 0.48 | 0.85 |

NOTE: The OSTF ANNUAL YIELD represents the average annualized yield paid to participants during the month. Since interest accrues to accounts on a daily basis and the rate paid changes during the month, this average rate is not the exact rate earned by each account.

3-MO UST BILLS yield is the yield for the Treasury Bill Issue maturing closest to 3 months from month end. 3-MO US CD rates are obtained from Bloomberg and represent a composite of broker dealer quotes on highly rated (A1+/P1/F1+ from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings respectivley) bank certificates of deposit and are quoted on a CD equivalent yield basis.

# Market Data Table

| | 3/31/2022 | 1 Month | 3 Months | 12 Months | | 3/31/2022 | 1 Month | 3 Months | 12 Months |
|---|---|---|---|---|---|---|---|---|---|
| 7-Day Agency Discount Note** | 0.13 | 0.02 | 0.01 | 0.00 | Bloomberg Barclays 1-3 Year Corporate YTW* | 2.78 | 1.94 | 1.05 | 0.56 |
| 30-Day Agy Nt Disc** | 0.15 | 0.07 | 0.01 | 0.00 | Bloomberg Barclays 1-3 Year Corporate OAS* | 0.59 | 0.62 | 0.42 | 0.41 |
| 90-Day Agy Nt Disc** | 0.47 | 0.34 | 0.04 | 0.01 | Bloomberg Barclays 1-3 Year Corporate Modified Duration* | 1.91 | 1.87 | 1.83 | 1.88 |
| 180-Day Agy Nt Disc** | 0.95 | 0.42 | 0.09 | 0.00 | | | | | |
| 360-Day Agy Nt Disc** | 2.34 | 2.34 | 0.29 | 0.02 | 7-Day Muni VRDN Yield** | 0.51 | 0.20 | 0.10 | 0.07 |
| | | | | | O/N GGC Repo Yield** | 0.09 | 0.06 | 0.01 | (0.05) |
| 30-Day Treasury Bill** | 0.07 | 0.04 | 0.02 | 0.00 | | | | | |
| 60-Day Treasury Bill** | 0.30 | 0.18 | 0.01 | 0.00 | Secured Overnight Funding Rate (SOFR)** | 0.29 | 0.05 | 0.05 | 0.01 |
| 90-Day Treasury Bill** | 0.52 | 0.32 | 0.04 | 0.00 | | | | | |
| 6-Month Treasury Yield** | 1.02 | 0.64 | 0.19 | 0.03 | US 10 Year Inflation Break-Even** | 2.83 | 2.62 | 2.59 | 2.37 |
| 1-Year Treasury Yield** | 1.61 | 0.99 | 0.38 | 0.06 | | | | | |
| 2-Year Treasury Yield** | 2.34 | 1.43 | 0.73 | 0.16 | 1-Day CP (A1/P1)** | 0.30 | 0.08 | 0.04 | 0.23 |
| 3-Year Treasury Yield** | 2.51 | 1.63 | 0.96 | 0.35 | 7-Day CP (A1/P1)** | 0.31 | 0.08 | 0.05 | 0.23 |
| | | | | | 30-Day CP (A1/P1)** | 0.42 | 0.24 | 0.07 | 0.19 |
| 1-Month LIBOR** | 0.45 | 0.24 | 0.10 | 0.11 | | | | | |
| 3-Month LIBOR** | 0.96 | 0.50 | 0.21 | 0.19 | 30-Day CD (A1/P1)** | 0.46 | 0.21 | 0.10 | 0.10 |
| 6-Month LIBOR** | 1.47 | 0.80 | 0.34 | 0.21 | 90-Day CD (A1/P1)** | 0.89 | 0.53 | 0.24 | 0.15 |
| 12-Month LIBOR** | 2.10 | 1.29 | 0.58 | 0.28 | 6-Month CD (A1/P1)** | 1.37 | 0.82 | 0.32 | 0.19 |
| Sources: *Bloomberg Index Services, **Bloomberg | | | | | 1-Year CD (A1/P1)** | 2.19 | 1.26 | 0.55 | 0.27 |

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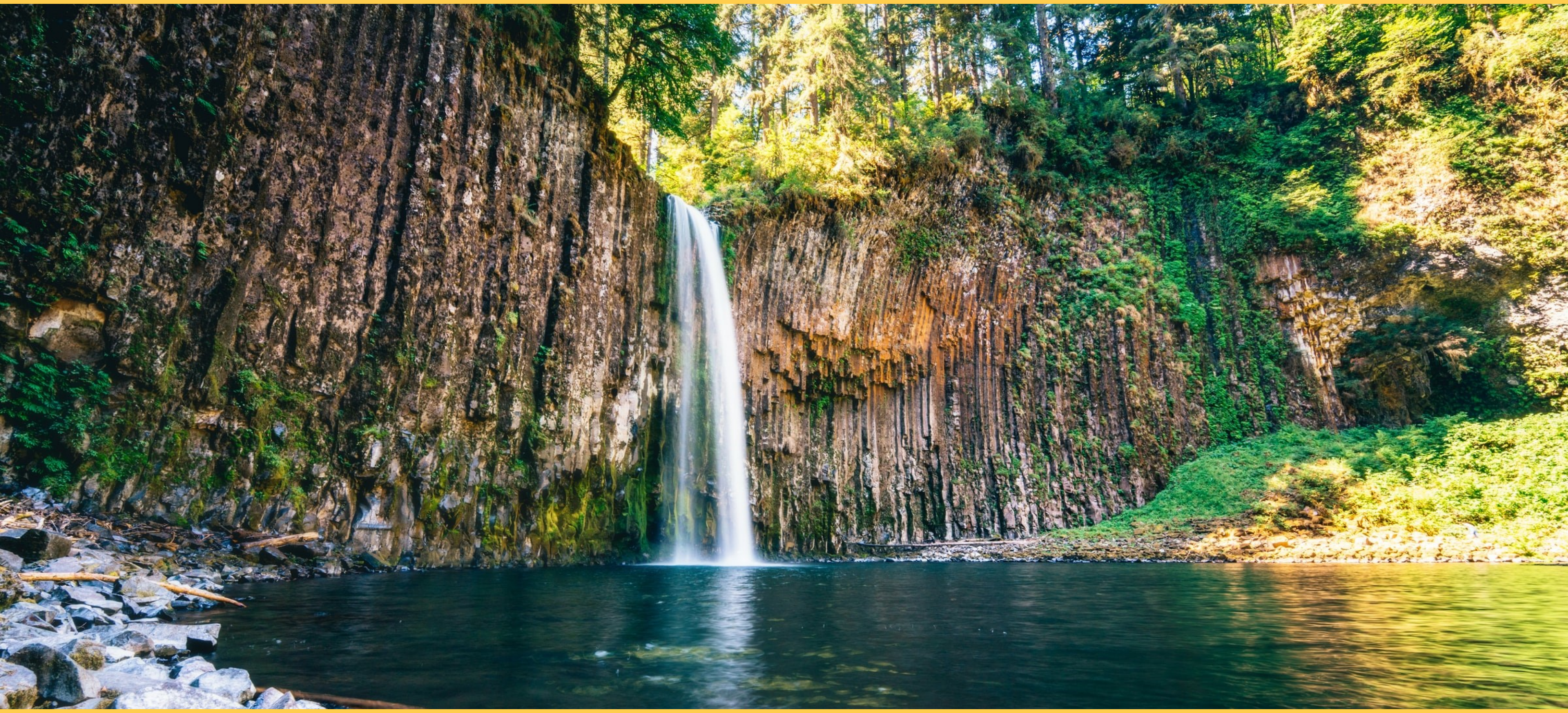

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