Oregon Local Government Intermediate Fund

Performance Review
During the second quarter of 2021 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 16 basis points (bps) on a gross basis.

US economic data surprised in both directions over the quarter with the employment data coming in surprisingly weak. Only 266,000 jobs were added in April compared to expectations of approximately 1,000,000. This was followed by a slightly better but still disappointing 550,000 jobs added in May. There were a number of reasons put forth to explain the disappointing jobs reports due to labor supply shortages. However, it could also be the case that matching one million plus workers with employers is quite difficult, especially if workers are changing industries or relocating. Restarting an economy takes time. The greatest contributor to performance during the quarter was duration positioning, contributing 8 bps as yields fell. Agency mortgage-backed securities (MBS) exposure detracted over the quarter.

Investment Outlook
The US economy in recent months has performed in line with our expectations as set out a few months ago. Growth has moderated in the manufacturing and construction sectors now that these have achieved essentially complete recovery from the Covid-induced shutdown recession of 1Q20. Meanwhile, growth in the service sectors has been decent, but not spectacular and not suggestive of a quick return to pre-Covid norms. Much of this relatively sluggish rebound in services reflects the fact that a general reopening of the service sectors has been occurring only in the last few weeks. Still, growth has moderated in the restaurant and medical care sectors—the reopening occurring in various states in late-June and after are not quite “full” reopening, and residual fears of Covid among some cohorts will likely be an ongoing restraining factor as well.

As a result of these factors, we would expect growth in the service sectors to continue to disappoint relative to consensus expectations and that growth in manufacturing and construction sectors will be muted as the recovery there is already complete. There is enough slack remaining in service sectors to single-handedly drive US GDP growth of 7% or so for a number of quarters yet. Instead, however, we would expect growth in a 2% to 5% range—not bad, but, again, lower than what seems to be already baked into consensus accounts.

While market and media rhetoric are still trumpeting a recovery there is already complete. There is enough slack remaining in service sectors to single-handedly drive US GDP growth of 7% or so for a number of quarters yet. Instead, however, we would expect growth in a 2% to 5% range—not bad, but, again, lower than what seems to be already baked into consensus accounts.

Treasury markets have already reacted to these developments, pulling the 10-year yield down from a high of 1.74% in April to the low 1.40s range recently. We don’t expect further significant declines in term yields, but we would expect yields to remain in the trading range of the last three months, with a lot of time spent toward the lower end of that range.

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

© Western Asset Management Company, LLC 2021. This publication is the property of Western Asset and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission.

Past results are not indicative of future investment results. This publication is for informational purposes only and reflects the current opinions of Western Asset. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160. Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore. Western Asset Management Company Ltd is a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan. Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority (“FCA”) (FRN 145930). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK as defined by the FCA. This communication may also be intended for certain EEA countries where Western Asset has been granted permission to do so. For the current list of the approved EEA countries please contact Western Asset at +44 (0)20 7422 3000.

Performance Review
During the second quarter of 2021 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 16 basis points (bps) on a gross basis.

US economic data surprised in both directions over the quarter with the employment data coming in surprisingly weak. Only 266,000 jobs were added in April compared to expectations of approximately 1,000,000. This was followed by a slightly better but still disappointing 550,000 jobs added in May. There were a number of reasons put forth to explain the disappointing jobs reports due to labor supply shortages. However, it could also be the case that matching one million plus workers with employers is quite difficult, especially if workers are changing industries or relocating. Restarting an economy takes time. The greatest contributor to performance during the quarter was duration positioning, contributing 8 bps as yields fell. Agency mortgage-backed securities (MBS) exposure detracted over the quarter.

Investment Outlook
The US economy in recent months has performed in line with our expectations as set out a few months ago. Growth has moderated in the manufacturing and construction sectors now that these have achieved essentially complete recovery from the Covid-induced shutdown recession of 1Q20. Meanwhile, growth in the service sectors has been decent, but not spectacular and not suggestive of a quick return to pre-Covid norms. Much of this relatively sluggish rebound in services reflects the fact that a general reopening of the service sectors has been occurring only in the last few weeks. Still, growth has moderated in the restaurant and medical care sectors—the reopening occurring in various states in late-June and after are not quite “full” reopening, and residual fears of Covid among some cohorts will likely be an ongoing restraining factor as well.

As a result of these factors, we would expect growth in the service sectors to continue to disappoint relative to consensus expectations and that growth in manufacturing and construction sectors will be muted as the recovery there is already complete. There is enough slack remaining in service sectors to single-handedly drive US GDP growth of 7% or so for a number of quarters yet. Instead, however, we would expect growth in a 2% to 5% range—not bad, but, again, lower than what seems to be already baked into consensus accounts.

Treasury markets have already reacted to these developments, pulling the 10-year yield down from a high of 1.74% in April to the low 1.40s range recently. We don’t expect further significant declines in term yields, but we would expect yields to remain in the trading range of the last three months, with a lot of time spent toward the lower end of that range.

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