

Oregon Local Government Intermediate Fund

Performance Review

In the first quarter of 2025, the portfolio outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 10 basis points (bps) on a gross basis.

US Treasury (UST) yields fell and the yield curve bull-steepened during a risk-off period. The S&P 500 Index declined and credit spreads widened. The S&P 500 posted its worst quarterly performance since 2022, and the significant market decline was largely attributed to escalating trade tensions and economic uncertainties.

Diverging signals in the market between “hard data”—quantifiable metrics—and “soft data,” which includes surveys and sentiments, persisted throughout the quarter. Hard data (retail sales, durable goods orders and the unemployment rate) suggests that the economy remained resilient. However, several surveys indicated that policy uncertainty was weighing heavily upon consumer and business sentiment, which could lead to slower activity in the coming months. Policy uncertainty remained elevated as the US announced that 25% tariffs on imports from Mexico and Canada (though a one-month reprieve for most goods was announced soon thereafter), an additional 10% tariff on Chinese imports, a 25% tariff on steel and aluminum imports and a 25% tariff on auto imports, would become effective in early April, when reciprocal tariffs were also scheduled to be announced.

In the US, job growth showed an upward trend, with nonfarm payrolls increasing by 151,000 jobs in February, up from a downwardly revised 125,000 jobs in January. The three-month payroll average of 200,000 jobs was above the fourth-quarter average of 182,000 jobs, which included weak numbers in October due to a severe storm and a labor strike. The unemployment rate remained steady at 4.1%. Inflation data was mixed; over the last three months, core Consumer Price Index (CPI) data year-over-year (YoY) declined from 3.30% to 3.10%, while the Core Personal Consumption Expenditures (PCE) Price Index targeted by the Federal Reserve (Fed) remained steady at 2.80%, indicating persistent inflationary pressures.

The Federal Open Market Committee (FOMC) maintained the target range for the fed funds rate at 4.25% to 4.50% at both its January and March meetings. The post-meeting statement in March announced that the monthly pace of UST balance sheet reduction would decrease from \$25 billion to \$5 billion beginning in April, while the cap on agency debt and agency mortgage-backed securities (MBS) would remain unchanged at \$35 billion. During the press conference, Fed Chair Jerome Powell described the economy as “strong overall,” but noted that recent policy changes in trade, immigration, fiscal policy and regulatory policy complicate the reliability of near-term forecasts.

As of 31 Mar 25	Portfolio (gross)	Portfolio (net)	Index*
1Q25 Performance	2.13%	2.11%	2.02%

*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.

Investment Outlook

Soft Landing Remains on Track: This year’s growth and inflation trade-off is highly dependent on Trump’s policies. Despite market uncertainty, the US economy should manage to retain positive growth in 2025. Core inflation measures already show moderating services inflation, while the impact from tariffs should be a one-year event only. Barring a recession, we expect UST yields to trade in a range of 4% to 5%.

Proposed tariffs and other policy changes from the new US administration have created uncertainty and volatility in financial markets. Global growth is expected to slow given the heightened uncertainty but should remain solidly in positive territory. US growth is downshifting due to a myriad of factors: uncertainty over tariffs, waning benefits from immigration and reduced government spending, among others. A significant fiscal boost from European defense and Germany infrastructure spending should support eurozone confidence and growth, providing some relief from tariff-related uncertainty. In China, deflationary pressures remain and confidence is weak amid property market concerns, but sentiment is improving with fiscal stimulus and policy easing.

The disinflationary trend may be interrupted as tariffs and retaliatory actions are implemented, but we expect inflation to move lower again over the longer term. Monetary policy remains restrictive. We expect central banks will continue to cut rates further in 2025. The Fed remains well positioned to provide support if the US economy falters. Public debt levels continue to rise and yield curves may steepen given concerns over fiscal policies globally. We see pockets of opportunity in developed market (DM) rates in Europe, the UK and Australia. While the overall uncertainty in the market environment necessitates caution, we do see some longer-term value opportunities in emerging market (EM) local currency debt. Spread sector fundamentals remain supportive, but valuations reflect those fundamentals and credit spreads persist at below historical averages. We continue to find opportunities within spread sectors and related securities while remaining tactical. DM duration provides useful diversification.

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