

# Oregon Local Government Intermediate Fund

## Performance Review

The portfolio slightly outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 3 basis points (bps) on a gross basis.

The first quarter of 2026 was characterized by elevated geopolitical risk and accelerating AI-driven disruption across the software sector and its incumbent business models. The period was shaped by a series of international developments, including the capture and indictment of Nicolás Maduro, escalating diplomatic tensions between the US and European NATO allies over Greenland, and a US-Israeli military operation against Iran. Amid these conditions, equity markets declined, with the S&P 500 posting negative returns for the quarter, while fixed-income credit spreads generally widened. Meanwhile, the US Treasury (UST) yield curve bear-flattened as the front-end yields repriced expectations for rate cuts, driven by sharp increases in oil and natural gas prices that reignited inflation concerns.

Total nonfarm payrolls declined by 92,000 jobs in February, a sharp reversal from January's downwardly revised gain of 126,000, previously reported as 130,000. The unemployment rate remained unchanged from December 2025 at 4.4%. Inflation data were mixed with headline Consumer Price Index (CPI) easing to 2.4% year-over-year (YoY) from 2.7% in December, while core Personal Consumption Expenditures (PCE), which is targeted by the Federal Reserve (Fed) and excludes food and energy, rose to 3.1% YoY from 2.8% in December.

The Federal Open Market Committee (FOMC) left the target range for its policy rate unchanged at 3.50% to 3.75% at its January and March meetings. The median forecast in the Summary of Economic Projections (SEP) showed one rate cut in each of 2026 and 2027, alongside higher inflation. Fed Chair Powell was relatively hawkish in his assessment, noting that uncertainty stemming from the Middle East conflict creates risks to both sides of the Fed's dual mandate and that the committee would need to see "progress on inflation" in order to cut rates again this year.

The European Central Bank (ECB) kept policy rates on hold as expected, with its deposit rate at 2%. ECB President Lagarde underscored a "calm, determined and laser-focused" approach to the energy shock, and communications made explicit reference to heightened uncertainty. The ECB sees upside risks to inflation and downside risks to growth, and future policy decisions remain data-dependent. Eurozone inflation of 2.5% YoY in March signaled a material jump from the 1.9% February print and, along with a slew of hawkish ECB rhetoric and disappointing survey data, market angst grew over stagflationary outcomes. In the UK, the Bank of England (BoE) voted unanimously to maintain its Bank Rate at 3.75%, while indicating that it "stands ready to act as necessary" to return inflation to target, a hawkish tone versus a previous easing bias. Despite BoE Governor Bailey subsequently cautioning against drawing

"any strong conclusions" about future rate hikes, market participants instead focused on energy prices and a surge in inflation expectations. Downside surprises in monthly GDP data and private-sector regular pay growth did little to shift the prevailing narrative.

As of 31 Mar 26	Portfolio (gross)	Portfolio (net)	Index*
1Q26 Performance	-0.77%	-0.78%	-0.80%

\*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

**Trend-like growth and disinflation remain in place:** Our 2026 base case calls for trend-like GDP growth, stable to improving labor markets and core inflation falling in the second half of the year (H2). The war in Iran and private credit concerns have shifted the range of potential outcomes. A prolonged conflict could raise energy prices, hurting US growth and inflation, complicating the Federal Reserve's mandate. We plan to add duration as rates rise and selectively add to spread sectors if spreads widen from current tight levels.

Geopolitical tensions remain a defining feature of the outlook, with the Middle East conflict introducing ongoing uncertainty and contributing to oil price volatility as supply routes face occasional disruption. Even with these pressures, the global economic backdrop is gradually improving as fiscal support, easier financial conditions and moderating inflation help strengthen the 2026 outlook. In the US, policy tailwinds and deregulation continue to support activity despite signs of softer labor conditions. Europe and the UK face trade and labor-market challenges, but easing inflation and selective fiscal measures offer stabilization. China's recovery remains policy-driven amid structural constraints, while Japan's persistent inflation supports further policy normalization. Credit markets remain supported by strong fundamentals and healthy demand, with issuance elevated by AI-related capex, M&A and refinancing needs. Structured products—including MBS, CLOs and select CMBS—offer relative value, and EM economies continue to benefit from high real yields and improving fundamentals. Despite crosscurrents from geopolitics and commodities, investor sentiment remains constructive.

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