

1Q
2019

Investment Report

Oregon Local Government Intermediate Fund



Performance Review

During the first quarter of 2019 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 41 basis points (bps) on a gross basis.

The largest two contributors to performance during the quarter were the portfolio's overweight to emerging markets (EM) and investment-grade credit. Spread sectors recovered from the year-end selloff, driven by meaningful spread tightening in January as the Federal Reserve (Fed) committed to a patient and data dependent approach. EM headwinds, largely trade war tensions and Fed tightening, abated during the first quarter. There were no meaningful detractors from strategy.

Investment Outlook

Our view is that the US and global expansions will continue, albeit at a very slow pace, allowing a sustained rebound in spread sectors. Underpinning the recovery will be the continuing primary focus by monetary policymakers on the need to extend the expansion. We also believe the most underappreciated theme continues to be the extraordinarily subdued inflation rates around the globe. Nine years into the US expansion and inflation has yet to reach the Fed's 2% target, despite massive monetary and fiscal stimulus. The global inflation rate, which flirted with zero as recently as 2016, has once again been subject to downward revisions after the 2017 and early-2018 bounces. Below-trend core infla-

tion allows central banks the very long leash to get and/or keep interest rates low. And until growth picks up substantially enough to bring these inflation rates back to life—rather than central bank forecasts that they may come back to life—interest-rate hikes are off the table.

We believe the severe underperformance of spread sectors to global sovereign bonds last year presents a very meaningful opportunity. The expectation or fears of further slowing growth and further Fed tightening may both be misplaced. A meaningful diminution of trade tensions would be a further positive development. Clearly there are many sources of concern. We are particularly focused on protecting downside risks. The very low rate of global inflation is clearly a very serious yellow light with respect to global growth prospects. But the same dampened inflation strongly suggests we can lean on our expectation of very dovish monetary policy to use government duration as a complement to overweights in spread sectors.

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

Exhibit 1
Oregon Local Government Intermediate Fund

	Portfolio	Index**
1Q19 Performance*	2.02%	1.62%

*As of 31 Mar 19. *Performance is gross of fees. **Bloomberg Barclays U.S. Government/Credit Bond Index (1-5 year).*

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