



Oregon Local Government Intermediate Fund

	Portfolio	Index**
2Q19 Performance*	1.98%	1.92%

As of 30 Jun 19

*Performance is gross of fees

**Bloomberg Barclays 1-5 Year US Government/Credit Bond Index

Performance Review

During the second quarter of 2019 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 6 basis points (bps) on a gross basis.

The largest contributor to performance during the quarter was the portfolio's long duration positioning as yields fell significantly; the 10-year US Treasury declined from 2.41% to 2.00%. The Federal Reserve kept rates on hold in June but delivered a dovish message through its statement, press conference and dot plots. Fed Chair Jerome Powell also communicated a clear path for cutting rates later this year and even suggested a cut at the July meeting is a strong possibility. The portfolio's overweight to investment-grade credit was the second largest contributor as spreads tightened from 113 bps to 109 bps, generating 91 bps of excess returns. The only detractor over the quarter was our yield curve positioning—the portfolio had a flattener on which slightly detracted from returns as the curve steepened, 2s10s from 14 bps to 25 bps.

Investment Outlook

Global growth concerns have intensified since last quarter as an initial trade spat between the US and China has morphed into a broader conflict with the risk of expanding on new fronts. Markets have also been rattled by the prospect of a US recession, a sustained slowdown in eurozone growth and higher oil price volatility on escalating tensions in the Middle East. Despite these concerns, we expect global growth to remain resilient on the back of steady US growth, improving domestic conditions in Europe and signs that sustained monetary and fiscal stimuli across Asia are gaining traction. We acknowledge that trade friction will be an ongoing drag on investor and business confidence, but central banks globally have become much more explicit in their commitment to unleash additional policy accommodation to truncate downside risks.

At present, we are estimating US growth between 1.75% and 2.00% in 2019. This is a slight downgrade from the 2.00%-2.25% range projected in April. We were expecting slower growth this year in manufacturing activity and in home construction, and this has occurred. In addition, retail sales growth has slowed a bit, sharpening the slowing in manufacturing activity relative to what we projected earlier this year. Even though equipment investment, exports and inventories have slowed, none of them are showing outright weakness—certainly not enough to threaten recession. Even for homebuilding, the roughly 10% drop seen in 2018 pales against the 30% or so declines seen over the 2006-2008 period. So, at this time, again, we expect slower growth in 2019 than what was experienced over 2017-2018, but we do not see recession risk as being more than slight.

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