OREGON STATE TREASURY

Local Government

News Report

JULY 2018

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350 WINTER ST, NE SUITE 100
SALEM, OREGON 97301

INSIDE THIS ISSUE

HOLIDAY

No holiday in August

LGIP INVESTOR MEETING

We are in this together. To achieve Oregon's unparalleled quality of life, public officials at all levels of government strive to provide vital functions such as high-quality education, public safety and prevention programs, community sustainability and environmental protection efforts, and business development—to name just a few. Thank you for the work you do, every day, to make our state better.

As public finance leaders, you also know that for government to work, it takes money and strong financial management. I'm proud to be your partner in ensuring Oregon public funds are safe and managed well.

Since I was elected Treasurer, I have been proud of the efforts at the State Treasury that serve the financial needs of every Oregon local government and special district. We have a great team, and I stand in admiration of their tireless commitment to serving you and helping you achieve your goals.

My goals as State Treasurer can be summed up in three priorities: We will facilitate long-term thinking and investments; we will help Oregonians to invest in themselves and their loved ones; and we will do business the right way.

As part of doing business the right way, I am pleased to announce that we are pursuing new ways to engage with our business partners and the public. We are here to serve Oregon, and that means committing to transparency and customer service, and helping you to achieve your financial goals.

From time to time, we receive questions from local government finance leaders about the Local Government Investment Pool and how it is invested on your behalf. With that in mind, I would like to invite you to the first-ever LGIP Investor Meeting sponsored by Treasury. The one-day seminar will be August 30 from 8:30 a.m. to 3:00 p.m. at the Treasury office in Tigard, and is specifically tailored to help answer your questions about the outlook for financial markets and how the LGIP portfolio is structured and managed to provide you with superior investment rates. I look forward to meeting you there.

The event will be free, including a catered lunch, but space is limited. Click here to register. I'm excited about this new opportunity to better connect Treasury with your efforts.

Thank you for your leadership in your community, and for our positive partnership. Every Oregonian is benefitting from your efforts to enhance the state's financial health, and the shared quality of life for all of us.

Tobias Read
State Treasurer

INTEREST RATES

Average Annualized Yield

June
2.165 percent

Interest Rates

June 1–17
2.10 percent

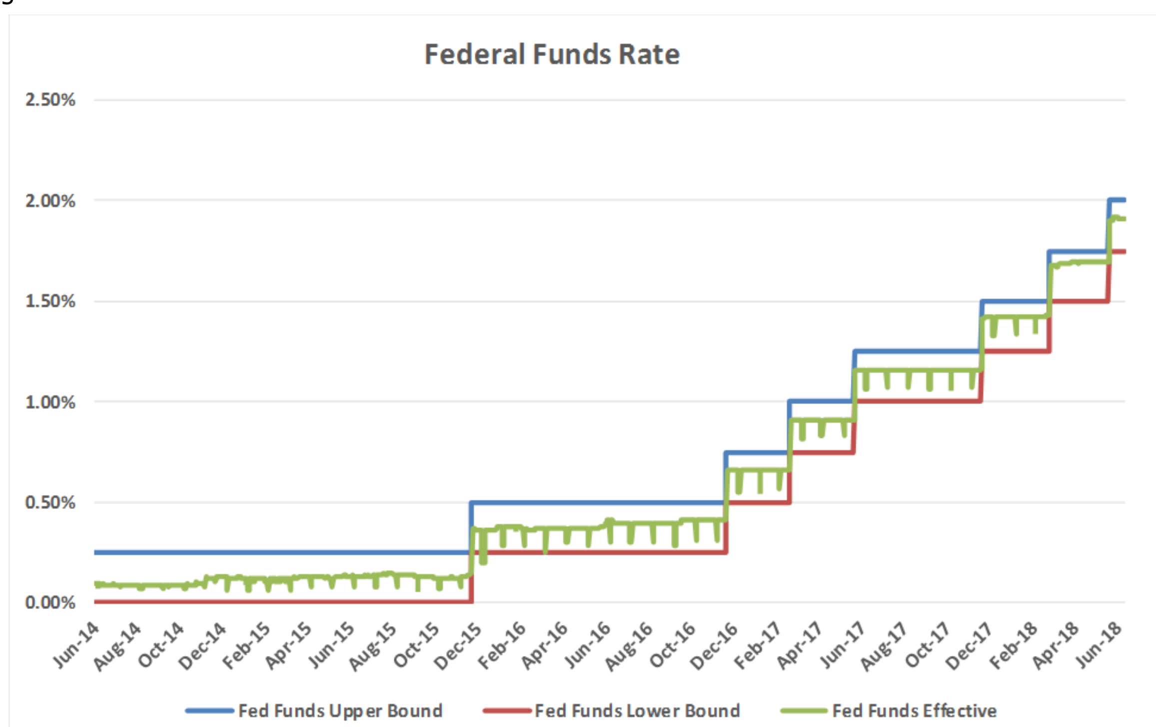
June 18–30
2.25 percent

CREDIT MARKET REVIEW

Trade wars, Italian politics, impacts of fiscal stimulus and transitioning central banks were the main themes of the first half of 2018. In early March, The Trump administration placed fresh tariffs on steel and aluminum shipments to the United States. This was the first meaningful action that moved rhetoric into reality on the trade front. In early July a fresh set of import tariffs began on $34 billion dollars' worth of Chinese goods. Through the actions, the administration is aiming to negotiate better trade deals, close the trade deficit and protect technology and national security interests. China was quick to retaliate on the United States as they placed tariffs on imported goods such as soybeans and automobiles. Thus far the bark is worse than the bite, however, investors should remain on guard for increased action as trade conflicts have a history of being economically unpleasant and also have a history of disproportionally impacting certain targeted sectors and companies within an economy.

The emerging trade conflicts weren't the only challenge faced by investors in the first half as the Italian political scene jumped to the front pages in late May. The emerging risk is the newly elected populist groups in Italy who are less inclined to stay in the single-currency bloc. Europe has faced a number of similar tests in the post-crisis era, most notably with Greece. Italy is different as it is the third largest economy in the Eurozone and the eight largest in the world. As a comparison, according to the World Bank, Italy's economy is nearly 10 times larger than the Greek economy. According to the International Monetary Fund, Italy is also one of the most indebted nations on earth with a ratio of gross government debt to GDP of 130 percent. The sheer size of Italy makes it much more difficult to solve the underlying issues of slow growth, aging demographics and high debt loads. The news out of Italy in late May caused a selloff in risk assets, a spike in Italian bond yields and a sharp rally in U.S. interest rates as investors sought the safety of the US dollar. Italian bond yields remain elevated as 10-year Italian government bonds currently yield 2.67 percent compared to German 10-year yields at 0.32 percent.

The Federal Reserve stuck to their forecast and increased the Federal Funds target rate at the conclusion of their June meeting. This action moved the target range for the rate from 1.50 percent - 1.75 percent to 1.75 percent - 2.00 percent. In a nod to the uptick in economic activity since the March 2018 meeting, the Fed modestly upgraded the near-term economic and inflation expectations. The Committee upgraded their 2018 real GDP growth expectations from 2.7 percent to 2.8 percent and increased their 2018 core inflation outlook from 1.9 percent to 2.0 percent. They left unchanged their growth and core inflation expectations for 2019, 2020 and the long-run. This is to say they believe the recently enacted tax reform is leading to a near-term rise in business activity and investment but see the impact as temporary. In keeping with the quarterly pace, the FOMC is forecasting another 2 rate hikes in 2018 and 3 rate hikes in 2019.



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CREDIT MARKET REVIEW

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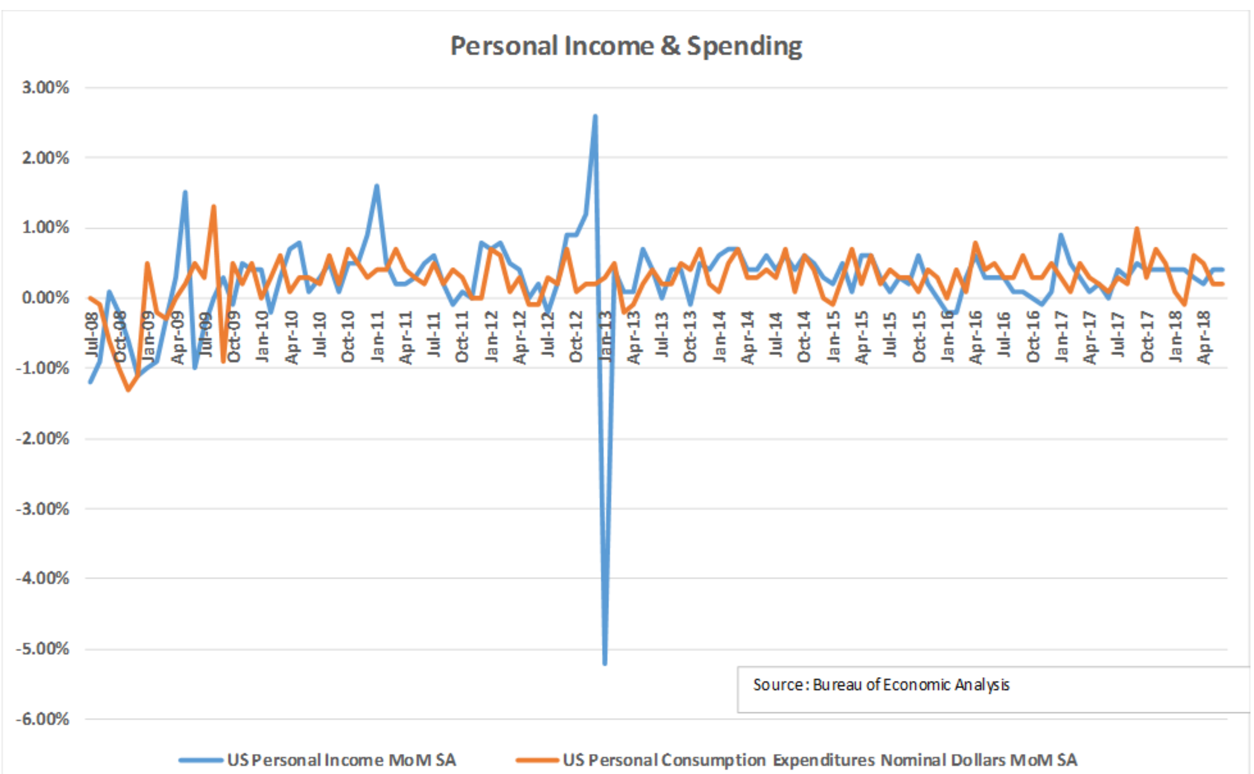
July marks another step up in the gradual wind-down of the Federal Reserve's balance sheet. As you will recall, the Federal Reserve went on multiple large-scale asset buying binges after the financial crisis in an attempt to stoke the economy. At the end of the programs, the Federal Reserve's balance sheet ballooned to over $4 trillion dollars' worth of US Treasury and Agency Mortgage Backed Securities. The Fed is now slowly trimming their holdings by allowing matured bonds to roll-off. Beginning in July, The Fed will now roll-off $40 billion of maturing US Treasuries and Agency Mortgage each month, this is an increase of $10 billion of runoff from the prior three months.

We got more clarity out of the European Central Bank (ECB) with the release of their most recent statement in mid-June. The announcement came as a bit of surprise to the markets for two reasons. First, the ECB announced they would slow their asset purchases in September of this year and stop their asset purchases in December of 2018. This taper and exit of purchases came sooner than markets had expected. To offset this hawkish tone, the ECB modified their statement on interest rate policy by making a pledge to keep them unchanged "at least through the summer of 2019". With policy on cruise control, the focus for the ECB will now shift toward a leadership transition as current President, Mario Draghi, will have his term expire on October 31.

U.S. economic growth appears set for a rebound in the second quarter as the tax cut takes begins to make an impact on business investment. Companies are faced with the incentive to pull-forward investment as they are able to fully deduct capital investments in the year the investment is made rather than apply depreciation schedules that spread the deduction out over several years. The uptick in business investment is welcome news as data out of the U.S. consumer indicates a slower rate of consumer spending than we witnessed in the back half of 2017. We won't get the first estimate of second-quarter real GDP growth until July 27 but current estimates are for growth near 4 percent on an annualized basis. Looking beyond the second quarter, it is yet to be seen if this level of growth is sustainable or temporary due to the temporary tax incentive features of the recent legislation.



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CREDIT MARKET REVIEW

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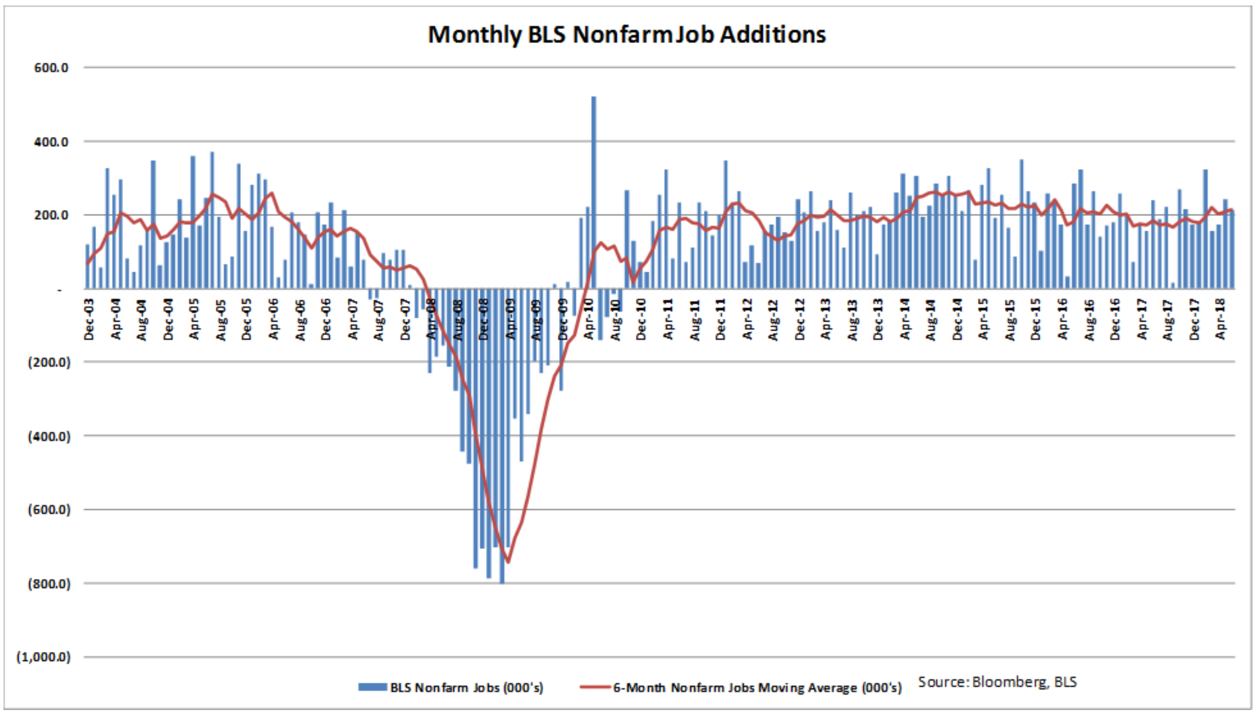
The United States continues to be a strong and steady job-creating machine. The economy added 632,000 nonfarm jobs in the second quarter of 2018, averaging 210,000 per month. Wage growth still remains tepid as the June report indicated that wages increased 2.7 percent year-over-year which is roughly in-line with the 2.8 percent year-over-year increase in the urban consumer price index (CPI) measure of inflation. Notable in the June 2018 jobs report was the increase in the unemployment rate from 3.8 percent to 4.0 percent. Typically increases in the unemployment rate are not good news, however, this increase was encouraging as the cause was an increase in people coming back into the labor force in search of work. Let's hope the economic momentum continues and these new entrants are able to get back to work.

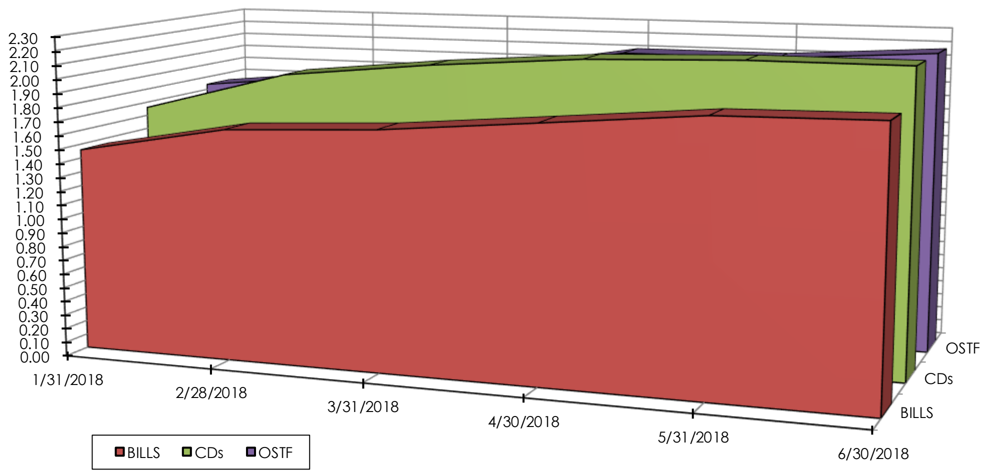


Front-end interest rates continued to grind higher in yield as the Federal Reserve hiked rates in June for the second time in 2018. After many years of ultra-low interest rates, it is almost hard to believe we now have a 3-month Treasury bill yield at 1.90 percent. Corporate credit spreads, as measured by the Bloomberg Barclays 1-3 Year Corporate Index, widened out by 5 basis points in June as tough trade talk and corporate activity impacted large multinational companies.

MUNICIPAL ISSUER DISCLOSURE MANAGEMENT: UPDATES & BEST PRACTICES

On June 27, Bill Rhodes, Partner at Ballard Spahr, and Gregg Bienstock, CEO and Co-Founder of Lumesis, Inc. conducted a presentation and Q&A regarding SEC Rule 15c2-12 continuing disclosure obligations for municipal issuers. The 1-hour webinar covered discussion of the underlying rule, the MCDC initiative, settlements and cases since MCDC, and best practices for disclosure management. The interesting and informative webinar recording and slide show are now available for replay. If you have difficulties accessing the webinar, please contact Mark Harries, Lumesis, at mharries@lumesis.com or (203) 276-6519.

OREGON SHORT TERM FUND ANALYSIS AS OF 6-30-18



	1/31/2018	2/28/2018	3/31/2018	4/30/2018	5/31/2018	6/30/2018
LGIP AV DOLLARS INVESTED (MM)	8,509	8,257	8,085	8,051	8,001	7,167
STATE AGENCY AV DOLLARS INVESTED (MM)	10,589	10,451	10,667	10,720	11,312	11,747
TOTAL OSTF AV DOLLARS INVESTED (MM)	19,098	18,708	18,752	18,771	19,313	18,914
OST ANNUAL YIELD (ACT/ACT)	1.74	1.85	1.92	2.10	2.10	2.17
3-MO UST BILLS (BOND EQ YLD)	1.46	1.66	1.71	1.80	1.90	1.92
3-MO US CD (ACT/360)*	1.66	1.95	2.06	2.14	2.17	2.17

NOTE: The OST ANNUAL YIELD represents the average annualized yield paid to account holders during the month. Since interest accrues to accounts on a daily basis and the rate paid changes during the month, this average rate is not the exact rate earned by each account.

3-MO UST BILLS yield is the yield for the Treasury Bill Issue maturing closest to 3 months from month end. 3-MO US CD rates are obtained from Bloomberg and represent a composite of broker dealer quotes on highly rated (A1+/P1/F1+ from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings respectivley) bank certificates of deposit and are quoted on a CD equivalent yield basis.

This material is available in alternative format and media upon request.

MARKET DATA TABLE

	6/30/2018	1 Month	3 Months	12 Months		6/30/2018	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	1.64	1.58	1.57	0.81	Bloomberg Barclays 1-3 Year Corporate YTW*	3.10	2.95	2.88	1.91
30-Day Agy Nt Disc**	1.76	1.72	1.62	0.91	Bloomberg Barclays 1-3 Year Corporate OAS*	0.65	0.60	0.67	0.61
90-Day Agy Nt Disc**	1.89	1.89	1.70	1.02	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.95	1.95	1.95	1.95
180-Day Agy Nt Disc**	1.95	1.96	1.86	1.06					
360-Day Agy Nt Disc**	2.08	2.02	2.00	1.16	7-Day Muni VRDN Yield**	1.51	1.06	1.58	0.91
					O/N GGC Repo Yield**	2.30	1.89	2.10	1.17
30-Day Treasury Bill**	1.76	1.71	1.54	0.86					
60-Day Treasury Bill**	1.84	1.79	1.64	0.90	US 1 Year Inflation Break-Even**	1.42	1.65	2.24	0.70
90-Day Treasury Bill**	1.90	1.86	1.71	0.98	US 2 Year Inflation Break-Even**	1.80	1.84	1.98	1.27
6-Month Treasury Yield**	2.11	2.08	1.92	1.13	US 3 Year Inflation Break-Even**	1.94	1.93	2.00	1.47
1-Year Treasury Yield**	2.31	2.23	2.09	1.22					
2-Year Treasury Yield**	2.53	2.43	2.27	1.37	1-Day CP (A1/P1)**	1.96	1.71	2.40	1.18
3-Year Treasury Yield**	2.62	2.55	2.38	1.53	7-Day CP (A1/P1)**	1.98	1.75	2.26	1.20
					30-Day CP (A1/P1)**	2.06	1.90	1.96	1.25
1-Month LIBOR**	2.09	2.00	1.88	1.23					
3-Month LIBOR**	2.34	2.32	2.31	1.30	30-Day CD (A1/P1)**	2.03	1.90	1.65	1.03
6-Month LIBOR**	2.50	2.47	2.45	1.45	90-Day CD (A1/P1)**	2.21	2.22	2.06	1.26
12-Month LIBOR**	2.76	2.72	2.66	1.74	6-Month CD (A1/P1)**	2.40	2.42	2.37	1.37
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	2.63	2.63	2.59	1.46

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