May 2020

OREGON STATE TREASURY

Inside the Vault

Local Government Edition

Market Update

Markets recovered during April following the unprecedented intervention of the Federal Reserve and some signs of a potential reopening of the economy. Full damage from the shutdown continues to come through on the weekly macro prints. Initial jobless claims are declining from the historic 6.8 million released on April 2 for the week ending March 27, with the most recent May 1 figures at (a still extraordinary) 3.1 million. These claims reports were confirmed in the April employment report: a staggering loss of 20.5 million jobs. To put that figure into historical perspective, the prior largest monthly loss occurred 75 years ago with a loss of close to two million jobs in September 1945. The current downturn means the 21.9 million jobs created over the past 10 years were nearly erased in one month. Unfortunately, the employment news is likely to worsen before improving.

Nevertheless, the market is trading with a view toward recovery with the S&P 500 stock index climbing from 2,470 on April 1 to close the month at 2,912. Credit markets saw a similar "risk-on" trade as spreads versus U.S. Treasurys have narrowed considerably since the peak in late March. Investment-grade bond spreads over Treasurys tightened by 68 basis points, while high-yield debt saw spreads decline by 181 basis points. The better-rated corporates took advantage of buyers' appetites, pushing year-to-date new issuance to $732 billion versus $1.1 trillion in total for all of 2019. Interestingly, the Fed's Secondary Market Corporate Credit Facility (a program to purchase shares in IG corporate bond funds) has not yet made any purchases.

An exception to the rebound is the oil patch. The real-time depths of the demand shock pushed WTI Crude contracts with May expiry to -$40 per barrel. The oddly negative value came from delivery risk and rising storage costs. Markets recovered

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Interest Rates

Average Annualized Yield

April	1.7583%

Interest Rates

April 1	2.00%
April 2–30	1.75%

Upcoming Holiday

The pool will be closed on Monday, May 25, for Memorial Day. EON will be available but the system will not allow transactions to settle on the holiday.

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after the assignment date and began trading over $20 per barrel by the end of the month. Credit markets are currently pricing an approximate 40% default rate for the sector.

While markets are off the lows, risks continue to linger regarding the long-term impact of COVID-19 and the breathtaking unemployment numbers. How long the U.S. economy will take to reopen and re-employ the labor force is unclear. Moreover, segments of the credit market yet to be backstopped by the Fed are not seeing an uptick in buying. Municipal bonds, particularly in highly indebted states and cities, remain depressed as the U.S. Congress wrestles over the politics of such a bailout. As tempting as it is to say the worst is in the rearview mirror, significant risks remain.

As mentioned in last month's issue, due to the drop in the Federal Funds rate, the Oregon Short Term Fund paid rate was lowered from 2.00% to 1.75% on April 2. Due to the recent performance of short-term securities, *e.g.*, 1–14 day top tier commercial paper between 0.03-0.15%, the paid rate was lowered again on May 14 to 1.30%. Treasury and PFM Asset Management have maintained normal operations and participants remain able to perform all transactions as normal. We remain focused on functioning in an open and transparent manner and, should you have any questions, please contact our Fixed Income Team at 503.431.7900.

Impact on Markets in April 2020

	4/1/20	4/30/20	Delta	
S&P 500	2,470	2,912	+17.9%	S&P 500 intraday low at 2,489 on 4/3
30-Year Treasury	1.280%	1.290%	-1.0 bps	30-Year Bonds intraday low at 1.160% on 4/23
10-Year Treasury	0.623%	0.642%	-1.9 bps	10-Year Notes intraday low at 0.567% on 4/21
2-Year Treasury	0.206%	0.198%	+0.7 bps	2-Year Notes intraday low at 0.198% on 4/30
3-Month Bills	0.103%	0.104%	-0.1 bps	3-Month Bill intraday low at 0.101% on 4/29

**Treasury yields represent closing bid side levels*

Federal Reserve's Response

April 6

- Issues SR 20-10: Small Business Administration (SBA) and Treasury Small Business Loan Programs
- Establishes a facility for lending to small businesses via the Small Business Administration's Paycheck Protection Program (PPP) by providing term financing backed by PPP loans

April 7

- Agencies issue revised interagency statement on loan modifications by financial institutions working with customers affected by the pandemic

April 9

- Takes additional actions to provide up to $2.3 trillion in loans to support the economy

April 14

- Federal banking agencies to defer appraisals and evaluations for real estate transactions affected by the pandemic

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April 16

- Announces PPP Liquidity Facility is fully operational and available to provide liquidity to eligible financial institutions

April 23

- Announces it is working to expand access to its PPP Liquidity Facility for additional SBA-qualified lenders as soon as possible
- Federal Reserve Board announces temporary actions aimed at increasing the availability of intraday credit extended by the Federal Reserve Banks

April 27

- Federal Reserve Board announces an expansion of the scope and duration of the Municipal Liquidity Facility

April 30

- Expands access to its PPP Liquidity Facility to additional lenders and expands the collateral that can be pledged
- Federal Reserve Board announces it is expanding the scope and eligibility for the Main Street Lending Program

Local Government Financial Wellness Grants Program

The National Association of State Treasurers (NAST) recently announced a new national initiative to provide grants to state and local governments to establish or improve financial wellness programs for their employees. Research shows that only a quarter of local governments offer such programs, while 68% of employees would participate in a program if one was offered.

NAST will host a webinar about the grant and application on Thursday, May 28, at noon Pacific. Click here to register.

Guidance on COVID-19 Voluntary Disclosure Reporting

On May 4, the U.S. Securities and Exchange Commission (SEC) released a public statement titled "The Importance of Disclosure for our Municipal Markets." The statement provides guidance to issuers of municipal securities regarding voluntary disclosure of COVID-19–related financial and economic impacts. This statement follows one directed at corporate issuers that the SEC released on April 8.

Orrick reviewed the SEC's statement for municipal issuers in a public finance alert published on May 13 titled "SEC Urges Disclosure of COVID-19 Impact in the Municipal Market." Issuers can find additional resources, including a weekly summary report, on the Municipal Securities Rulemaking Board's COVID-19 web page. Understanding disclosure recommendations and possible liabilities will help districts during these challenging times.

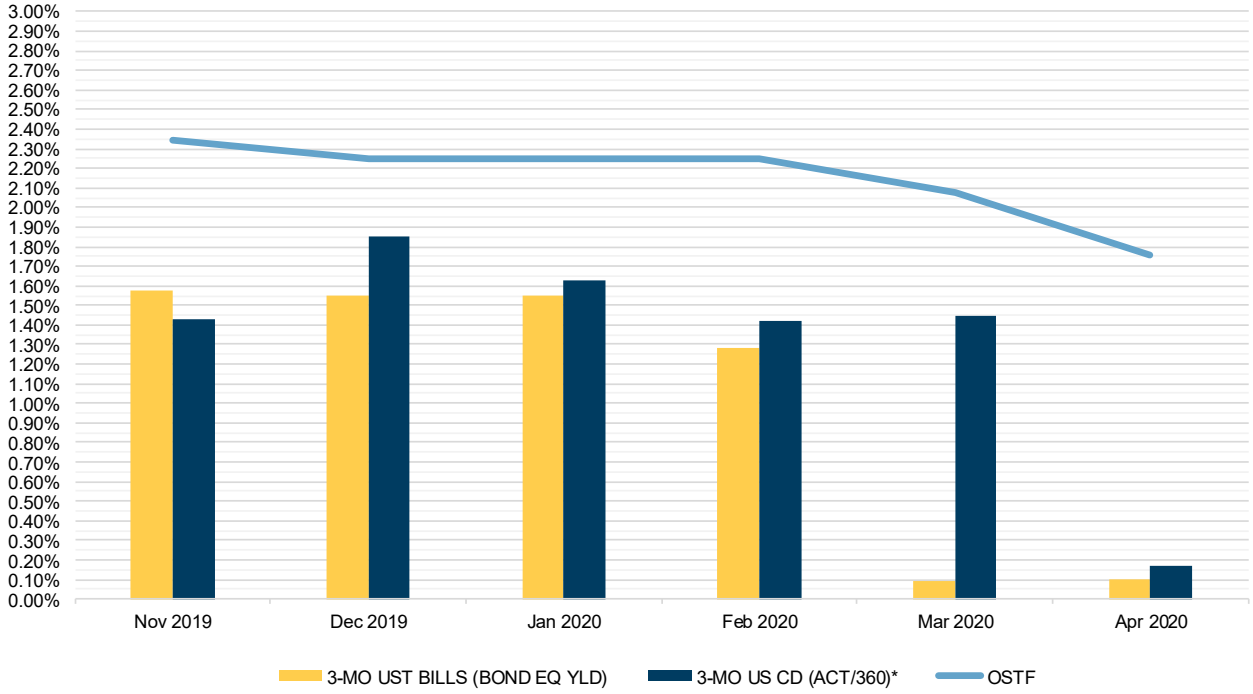
LGIP Redemptions: Wire Transfer vs. ACH

Participants have two options when redeeming (withdrawing) funds. Understanding the differences between wire transfer and ACH will help you best meet your business needs.

Wire Transfer	ACH
Can settle as soon as same day	Can settle as soon as next business day
Same day wire transfers cannot exceed $1.5 million (no dollar limit for future-dated wire transfer)	No dollar limit
$10.00 fee per transaction	$0.05 fee per transaction

If you need to redeem funds immediately, wire transfer is the only option available (please note that same day wire redemptions cannot exceed $1.5 million). If you do not need funds the same day, ACH may be the best option given its lower cost. Both types of transactions can be scheduled up to almost a year in advance. Contact PFM Client Services at 855.OST.LGIP or csgwestregion@pfm.com if you have questions about which redemption option best meets your needs.

Oregon Short Term Fund Analysis



	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020
TOTAL OSTF AVG DOLLARS INVESTED (MM)	23,771	23,870	23,769	23,799	22,809	22,717
STATE GOV PORTION (MM)	13,339	13,105	13,968	14,121	13,300	13,153
LOCAL GOV PORTION (MM)	10,432	10,765	9,801	9,678	9,509	9,564
OSTF ANNUAL YIELD (ACT/ACT)	2.34	2.25	2.25	2.25	2.08	1.76
3-MO UST BILLS (BOND EQ YLD)	1.58	1.55	1.55	1.28	0.09	0.10
3-MO US CD (ACT/360)*	1.43	1.85	1.63	1.42	1.45	0.17

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

	4/30/2020	1 Month	3 Months	12 Months		4/30/2020	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.04	0.01	1.41	2.33	Bloomberg Barclays 1-3 Year Corporate YTW*	1.47	2.38	1.81	2.74
30-Day Agy Nt Disc**	0.03	0.08	1.49	2.37	Bloomberg Barclays 1-3 Year Corporate OAS*	1.51	2.61	0.43	0.53
90-Day Agy Nt Disc**	0.07	0.02	1.54	2.40	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.89	1.85	1.86	1.88
180-Day Agy Nt Disc**	0.11	0.05	1.49	2.36					
360-Day Agy Nt Disc**	0.11	0.23	1.55	2.31	7-Day Muni VRDN Yield**	0.22	4.71	0.94	2.30
					O/N GGC Repo Yield**	0.11	(0.03)	1.57	2.43
30-Day Treasury Bill**	0.02	(0.00)	1.47	2.37					
60-Day Treasury Bill**	0.05	0.03	1.50	2.38	Secured Overnight Funding Rate (SOFR)**	0.04	0.01	1.53	2.76
90-Day Treasury Bill**	0.06	0.05	1.50	2.38					
6-Month Treasury Yield**	0.11	0.15	1.56	2.45	US 10 Year Inflation Break-Even**	1.07	0.93	1.64	1.95
1-Year Treasury Yield**	0.17	0.16	1.50	2.38					
2-Year Treasury Yield**	0.20	0.25	1.42	2.27	1-Day CP (A1/P1)**	0.04	0.13	1.52	2.41
3-Year Treasury Yield**	0.25	0.30	1.39	2.24	7-Day CP (A1/P1)**	0.04	0.30	1.54	2.42
					30-Day CP (A1/P1)**	0.12	1.21	1.59	2.47
1-Month LIBOR**	0.33	0.99	1.65	2.48					
3-Month LIBOR**	0.56	1.45	1.78	2.58	30-Day CD (A1/P1)**	0.21	1.11	1.64	2.48
6-Month LIBOR**	0.76	1.18	1.78	2.62	90-Day CD (A1/P1)**	0.48	1.36	1.71	2.56
12-Month LIBOR**	0.86	1.00	1.85	2.72	6-Month CD (A1/P1)**	0.62	1.28	1.72	2.59
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	0.68	1.00	1.97	2.71

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