



OREGON
STATE
TREASURY



Inside the Vault

Local Government Edition

Market Update

The market recovery continued in May as investors looked to the reopening of the economy and continuing support from the Federal Reserve. The May employment report, released on June 5, pleasantly surprised many with non-farm payrolls showing a gain of 2.5 million jobs versus a loss of more than 20 million jobs in April (the market expected a further loss of 7.5 million jobs in May). The unexpected numbers decreased the unemployment rate from 14.7% to 13.3% (versus an expected level of 19.0%).

This extraordinary positive labor report confirmed the risk-on trade in both the fixed income and equity markets. The front-end of the Treasury curve continues to trade at or near record low yields due to intervention by the Fed, with May 7 marking an all-time low of 0.141% yield on the two-year Treasury note. Rates have since sold off some and, at the time of writing, are at 0.197%. The measures taken by the Fed have resulted in a “range-bound trade” for shorter maturity U.S. bonds. In the week prior to the employment report, longer dated Treasuries had sold off, with the 30-year bond moving from 1.41% to 1.66% after the jobs data (the yield was just 1% on March 9). The once-inverted yield curve had also steepened significantly, with the two- to 10-year spread rising from 48 basis points to 72 basis points.

One might surmise that, given the rosy economic picture portrayed by the jobs numbers, Treasury yields would likely continue to rise and the curve would steepen further. However, in the four trading sessions after June 5, the 30-year Treasury bond has *declined* to 1.43% and the two- to 10-year curve has *flattened* to 46 basis points. Equity markets led the May recovery, with the S&P 500 beginning the month at 2,830 and closing out the first week of June at 3,185, an 11% increase that had put the index just 6% shy of the February 19 high of 3,386.

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LGIP Investor Meeting

This year’s Local Government Investment Pool investor meeting will be a virtual event. While we are still working out the details, we are planning to hold the meeting in September or October.
Look for more information later this summer.

Interest Rates

Average Annualized Yield	
May	1.4887%
Interest Rates	
May 1–13	1.75%
May 14–31	1.30%

Municipal Disclosure Practices and the Pandemic

Issuers of municipal securities must continue to consider the impacts of the pandemic on their disclosure practices. On July 9, at 11:00 a.m. Pacific, *The Bond Buyer* will host a free webinar to discuss critical questions currently faced by issuers and how the current crisis may impact future disclosure efforts, including what the industry should expect to see from market regulators. Gain valuable insight by hearing from a panel of disclosure experts representing all major market stakeholders. [Click here](#) to learn more and to register.



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Broader fixed income markets also rallied. Corporate bonds, as measured by the Bloomberg Barclays investment grade corporate bond index, narrowed to a spread of +174 basis points versus Treasuries, tightening by 28 basis points in May after peaking at +373 basis points in March. Also of note, since many Oregon Short Term Fund (OSTF) corporate bond holdings are represented, the 1–3 Year investment grade corporate bond index narrowed to a spread of +103 basis points, tightening by 48 basis points during the month after having peaked at +390 basis points in March.

Skepticism of the recovery in markets is understandable given the concerns of a second spike in COVID-19 infections as the economy reopens. Since May 1, the number of confirmed cases in the U.S. has increased by more than 1.1 million to a total of 2,421,762 cases with very worrisome increases in several counties and states in the past few weeks. So, despite the positive labor report, this development, and the accompanying uncertainty it implies, continues to be a focus of the markets and led to the June 11 decline in the major stock markets (Dow Jones down 1,861 points or -6.9%, S&P 500 down 188 points or -5.9%).

As mentioned in last month's issue, the OSTF paid rate was lowered from 1.75% to 1.30% on May 14. The low-rate environment will likely persist and reinvestment of maturities and/or incoming cash will continue to put gradual, downward pressure on the paid rate though staff remain focused on sector allocation and security selection as every basis point is meaningful. 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 May 2020

	5/1/20	5/29/20	Delta	
S&P 500	2,830	3,044	+7.3%	S&P 500 intraday low at 2,766 on 5/14
30-Year Treasury	1.251%	1.669%	+41.8 bps	30-Year Bonds intraday low at 1.251% on 5/1
10-Year Treasury	0.616%	0.897%	+28.1 bps	10-Year Notes intraday low at 0.616% on 5/1
2-Year Treasury	0.192%	0.166%	+2.6 bps	2-Year Notes intraday low at 0.141% on 5/7
3-Month Bills	0.114%	0.153%	-3.9 bps	3-Month Bill intraday low at 0.107% on 5/4

*Treasury yields represent closing bid side levels

LGIP: Words to Know

Here are some key terms to know when working with the Local Government Investment Pool:

EON is PFM's proprietary web-based system to view accounts and perform transactions.

Contacts are people who need access (by phone, in writing, and/or through EON) to pool accounts or pool statements. Contacts may include both staff within your organization and people outside of your organization (such as staff at other local governments who manage funds on behalf of your organization, debt service paying agents, or certain state agencies). Contacts must be registered using the LGIP Contact Registration form and be granted permissions using the LGIP Permissions form. Until permissions are granted, a Contact has *no* access or abilities.

Purchases or deposits are all credits to a pool account, including those initiated by an account's owner and its authorized agents, those initiated by another pool participant and its authorized agents, those initiated by approved third-party entities (*e.g.*, state agencies), and those initiated by Treasury and its authorized agents (*e.g.*, dividends).

Redemptions or withdrawals are all debits from a pool account, including those initiated by an account's owner and its authorized agents, and those initiated by Treasury and its authorized agents (*e.g.*, fees).

Transfers are transfers between pool accounts owned by the *same* participant.

Participant to Participant Transfers (P2P) are transfers between pool accounts owned by *different* participants.

Debt Payments are redemptions or withdrawals *from* a pool account to a debt service paying agent via ACH and/or wire.

State Payments are redemptions or withdrawals *from* a pool account to a state agency via ACH.

Dividends represent interest paid on a pool account.



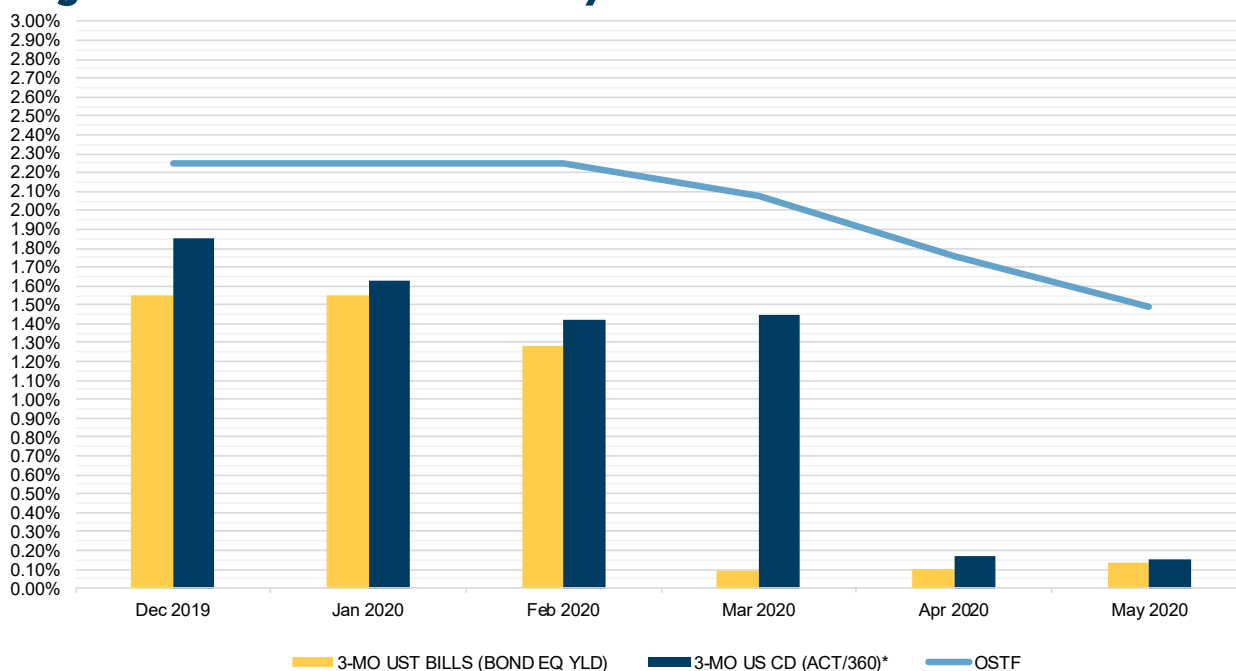
Development Finance Training Opportunity

The Council of Development Finance Agencies recently announced its Virtual Summer School. This two-week-long event will bring together the nation's top development finance experts to one virtual stage. Running August 3–13, participants will have access to seven different training courses covering bonds, public-private partnerships, federal programs, and more.

The event will provide an opportunity to learn about essential development finance tools while building your professional skills in financing economic development. Scholarships are available to assist with event costs. [Click here](#) to learn more and to register.



Oregon Short Term Fund Analysis



	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020
TOTAL OSTF AVG DOLLARS INVESTED (MM)	23,870	23,769	23,799	22,809	22,717	23,839
STATE GOV PORTION (MM)	13,105	13,968	14,121	13,300	13,153	14,420
LOCAL GOV PORTION (MM)	10,765	9,801	9,678	9,509	9,564	9,419
OSTF ANNUAL YIELD (ACT/ACT)	2.25	2.25	2.25	2.08	1.76	1.49
3-MO UST BILLS (BOND EQ YLD)	1.55	1.55	1.28	0.09	0.10	0.14
3-MO US CD (ACT/360)*	1.85	1.63	1.42	1.45	0.17	0.15

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 respectively) 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

	5/31/2020	1 Month	3 Months	12 Months		5/31/2020	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.01	0.03	1.50	2.26	Bloomberg Barclays 1-3 Year Corporate YTW*	1.05	1.49	1.46	2.54
30-Day Agency Note Discount**	0.05	0.05	1.43	2.29	Bloomberg Barclays 1-3 Year Corporate OAS*	1.03	1.52	0.62	0.64
90-Day Agency Note Discount**	0.12	0.09	1.29	2.31	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.92	1.95	1.86	1.88
180-Day Agency Note Discount**	0.13	0.10	1.16	2.25					
360-Day Agency Note Discount**	0.14	0.15	0.90	2.14	7-Day Muni VRDN Yield**	0.14	0.22	1.15	1.42
					O/N GGC Repo Yield**	0.09	0.11	1.65	2.53
30-Day Treasury Bill**	0.11	0.07	1.41	2.28					
60-Day Treasury Bill**	0.11	0.08	1.32	2.30	Secured Overnight Funding Rate (SOFR)**	0.06	0.03	1.60	2.49
90-Day Treasury Bill**	0.13	0.09	1.25	2.30					
6-Month Treasury Yield**	0.16	0.12	1.16	2.35	US 10 Year Inflation Break-Even**	1.14	1.07	1.43	1.74
1-Year Treasury Yield**	0.17	0.16	1.02	2.21					
2-Year Treasury Yield**	0.16	0.19	0.92	1.92	1-Day CP (A1/P1)**	0.06	0.04	1.57	2.35
3-Year Treasury Yield**	0.20	0.24	0.90	1.88	7-Day CP (A1/P1)**	0.06	0.05	1.58	2.37
					30-Day CP (A1/P1)**	0.11	0.13	1.89	2.42
1-Month LIBOR**	0.18	0.30	1.52	2.43					
3-Month LIBOR**	0.34	0.54	1.46	2.50	30-Day CD (A1/P1)**	0.16	0.11	1.55	2.44
6-Month LIBOR**	0.51	0.71	1.40	2.52	90-Day CD (A1/P1)**	0.28	0.43	1.48	2.51
12-Month LIBOR**	0.67	0.84	1.38	2.51	6-Month CD (A1/P1)**	0.38	0.57	1.36	2.51
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	0.75	0.69	1.42	2.58

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