



**OREGON
STATE
TREASURY**



Inside the Vault

Local Government Edition

Market Update

We continue to see large, sometimes dramatic effects related to COVID-19 on the market. Second quarter GDP numbers published at the end of July showed a massive 33% decline in real aggregate output. This drop is the largest ever recorded, with only 1921's 28.6% decline even comparable. Adding in the first quarter decline, the pandemic has netted a \$2.3 trillion loss in nominal production, which takes the economy back a full two years. Moreover, core PCE (the Federal Reserve's preferred inflation measure) came in at a depressing -1.1% year over year.

A recovery will depend on continued monetary support, fiscal stimulus, and some signs that the pandemic is nearing an end. The summer spike in U.S. cases undermines much of the progress made in May and early June. Hope remains for the discovery of a vaccine, with several trading sessions dominated by the announcement of a pharmaceutical company's success on early trials.

July marked the end of the congressional stimulus program, and as of this writing a next round is still being debated. The loss of the \$600 per week federal unemployment benefits and end to the moratorium on evictions are major concerns. Jobs numbers from the first week of August were better than expected. Jobless claims beat expectations with a loss of 1.2 million versus an expected loss of 1.4 million. Nonfarm payroll numbers also beat expectations with a gain of 1.7 million versus an expected gain of 1.5 million (though much less than June's gain of 4.8 million). The unemployment rate fell from 11.1% to 10.2%. The steady improvement of the labor market is not enough to offset the growing policy risks from the stalemate in Congress, which are only compounded by other issues such as increased trade tensions with China.

Markets have contracted pure rally myopia, with July producing a broad-based, correlated rally across almost all asset classes. On

(Continued on page 2)

Upcoming Holiday

The pool will be closed on Monday, September 7, for Labor Day. EON will be available but the system will not allow transactions to settle on the holiday.

Interest Rates

Average Annualized Yield

June	1.30%
July	1.2129%

Interest Rates

June 1–July 22	1.30%
July 23–31	1.00%

(Continued from page 1)

August 6, the Nasdaq broke 11,000 for the first time, while the S&P 500 was just 1% from the all-time high of 3,386 set on February 19 earlier this year. The breadth of the stock rebound is limited, with big tech leading the way, and several indicators suggest some investors are not fully convinced the worst is in the rearview mirror. For example, the VIX Index (or fear gauge) remains stuck in the 20s as fund managers pay up to double the historical premium to hedge a sudden reversal. Further, gold broke above \$2,000 per ounce for the first time, a move that may imply caution and doubt about the risk asset rallies. About the only major assets that got cheaper during July were the U.S. dollar and some soft commodities.

Bonds were certainly not left out of the rally. The Treasury yield curve got flatter and lower over the reporting period. The U.S. Treasury 10-year note closed on August 6 at a record low yield of 0.537%, while the difference between 2-year and 10-year notes declined 10 basis points to 41.9 basis points (driven by price increases on the longer securities). The short end of the government market has been anchored to the Fed's commitment to buy \$80 billion of bonds per month. The market didn't even tremble after the U.S. Treasury announced plans to aggressively upsize auctions of 10-, 20- and 30-year securities during the third quarter.

Corporate bonds continued to perform well in this environment, especially lower rated issuers where some yield remains. Investment grade bond spreads continue to narrow: the corporate investment grade component of the Bloomberg Barclays Aggregate Index declined 13 basis points, the Bloomberg Barclays 1-3 Year Corporate Index compressed by 13 basis points, and high-yield corporates saw a 106 basis points decline.

Against the weak data on current inflation, expectations for inflation continue to edge higher. Break-even rates (the difference between nominal and inflation protected government securities) on the 5-year increased by 24 basis points, while the 10-year was up by 22 basis points. The growth in fiscal spending (\$2+ trillion on the CARES Act stimulus program and at least \$1 trillion in the next stimulus package), combined with the

(Continued on page 3)

PERS IAP Participants Have New "Member Choice" Option

People who participate in the Public Employees Retirement System Individual Account Program, or IAP, may now choose to invest their IAP balance in a different target-date fund that better reflects their savings goals. The change was made possible by Senate Bill 1049, passed in 2019, and the enrollment window for making a change will be held by PERS in September 2020 for the 2021 calendar year.



IAP members are automatically placed in a target-date fund that aligns with their birth year/anticipated retirement date. The target-date structure gradually reduces investment risk as participants age. Younger workers take on more investment risk in exchange for higher, long-term growth potential. Older workers are protected from adverse market volatility as they approach and enter retirement.

With Member Choice, IAP members may choose to invest their balance in a target-date fund that is more reflective of their risk tolerance than one based only on their age. More details about the change and what it means are available on our [website](#). For PERS members who want to change their target-date fund, PERS will have instructions and even more details [here](#).

(Continued from page 2)

expansion of the Fed’s balance sheet, is enough to shake dovish sentiments and thus perhaps one of the reasons that the price of gold was trading above \$2,000 for a single troy ounce at the end of the month.

After the Fed’s interventions in the first half of the year, very few asset managers have been willing to fight the trend set by the Fed. Longer to medium term though, the market is starting to hedge the impact of this unprecedented stimulus.

On July 23, the OSTF paid rate was lowered to 1.0% from 1.3%, but we are pleased that the rate remains greater than what the market is currently offering within the 1-day to 3-year U.S. Treasury/Agency, ABS, investment grade, and municipal universe. As mentioned in previous issues, as securities with higher book yields mature (i.e., the yield-to-maturity based on cost), reinvestment under current market conditions will put downward pressure on the paid rate. While we are in the dog days of summer (historically a period when market activity dramatically slows), know that staff remains ever focused on providing liquidity, preserving principal, and keeping in mind the mantra that “every basis point counts.”

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 July 2020

	7/1/20	7/31/20	Delta	
S&P 500	3,115.86	3,271.12	+5.0%	S&P 500 intraday low at 3,127 on 7/14
30-Year Treasury	1.426%	1.195%	-23.1 bps	30-Year Bond intraday low at 1.174% on 7/31
10-Year Treasury	0.677%	0.530%	-14.7 bps	10-Year Note intraday low at 0.519% on 7/31
2-Year Treasury	0.166%	0.109%	-5.7 bps	2-Year Note intraday low at 0.107% on 7/31
3-Month Bills	0.139%	0.091%	-4.8 bps	3-Month Bill intraday low at 0.055% on 7/31

*Treasury yields represent closing bid side levels

LGIP: Audit Confirmation Requests

Auditors needing confirmation of Local Government Investment Pool account balances must submit requests in writing to PFM Client Services. Requests must include or be accompanied by a release signed by a participant’s authorized contact (the contact must be registered in the records of the pool and have permission to view/ access pool account information). Requests/releases can be submitted through EON, faxed to 888.535.0120, or mailed to:

Oregon LGIP
PO Box 11760
Harrisburg, PA 17108-1760

For help with submitting an audit confirmation request, contact PFM Client Services at 855.OST.LGIP.





Thank You for Getting the Job Done!

As State Treasurer, I am proud of the work that public employees are doing to help Oregonians during the ongoing pandemic. Now more than ever, people are relying on our dedication, our perseverance, and our innovation in responding to this unprecedented challenge. Public employees care deeply for the communities we support—thank you for showing up each day and getting the job done for Oregon. Stay safe.

Tobias Read
State Treasurer

LGIP Customer Service Team

PFM Client Services is available by phone to answer questions, perform account maintenance, and process transactions. Support is available from 7:00 a.m. to 4:00 p.m. Pacific, Monday through Friday, at 855.OST.LGIP.



Jeremy King is a Key Account Manager in PFM's Client Services Group. Jeremy serves as a client advocate providing a "high-touch, high-value" experience, whatever the client's additional needs may be. Additionally, his responsibilities are to coordinate the efforts of the customer service team in everyday functions. These functions include interacting on a daily basis with Oregon participants, serving their needs, answering any questions they may have, on-boarding new relationships, maintaining existing relationships, and client administration. Jeremy graduated

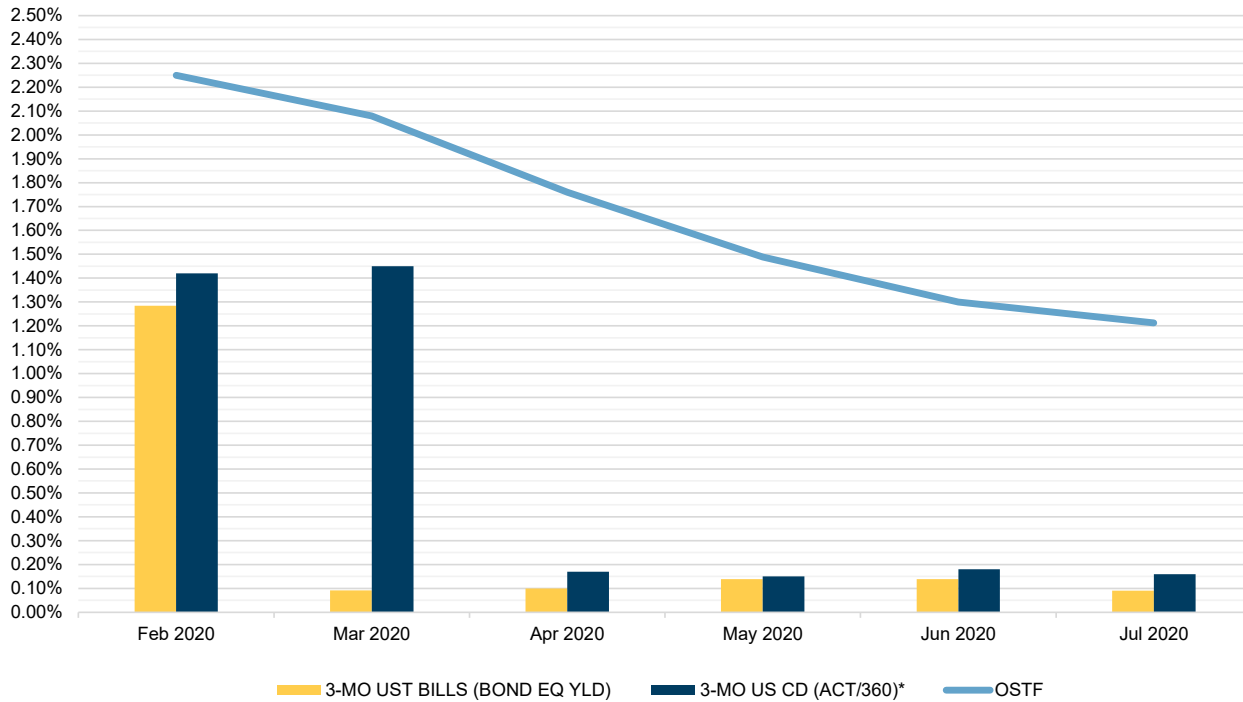
from Pennsylvania State University and he spends his free time at the beach, enjoys kayaking, and is involved in pet rescue and fostering.

Rachael Miller is a Client Consultant in PFM's Client Services Group. Rachael focuses on providing superior client service by answering client requests regarding account activity, updating personnel and account specific information, and training new colleagues. She has formed and maintained positive relationships with clients, making their experience working with PFM a positive one. Rachael is a graduate of Millersville University and enjoys spending time with her family and friends, running, cooking, and traveling.



DeWayne Fields is a Client Service Representative in PFM's Client Services Group. DeWayne is committed to providing exceptional client service through clear communication, accuracy, and understanding. By creating and maintaining effective relationships with clients, he is able to recognize customer needs, assist and answer questions in a timely manner, and provide proactive follow up. DeWayne is a graduate of Messiah College and enjoys spending time with his musically talented family.

Oregon Short Term Fund Analysis



	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020
TOTAL OSTF AVG DOLLARS INVESTED (MM)	23,799	22,809	22,717	23,839	22,921	22,909
STATE GOV PORTION (MM)	14,121	13,300	13,153	14,420	14,307	14,583
LOCAL GOV PORTION (MM)	9,678	9,509	9,564	9,419	8,614	8,326
OSTF ANNUAL YIELD (ACT/ACT)	2.25	2.08	1.76	1.49	1.30	1.21
3-MO UST BILLS (BOND EQ YLD)	1.284	0.092	0.100	0.139	0.139	0.091
3-MO US CD (ACT/360)*	1.42	1.45	0.17	0.15	0.18	0.16

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

	7/31/2020	1 Month	3 Months	12 Months		7/31/2020	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.03	0.02	0.04	2.09	Bloomberg Barclays 1-3 Year Corporate YTW*	0.64	0.81	1.47	2.39
30-Day Agency Note Discount**	0.05	0.09	0.03	2.07	Bloomberg Barclays 1-3 Year Corporate OAS*	0.60	0.73	1.51	0.53
90-Day Agency Note Discount**	0.07	0.12	0.07	2.02	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.91	1.95	1.89	1.88
180-Day Agency Note Discount**	0.08	0.13	0.11	1.96					
360-Day Agency Note Discount**	0.08	0.14	0.11	1.94	7-Day Muni VRDN Yield**	0.16	0.09	0.22	1.40
					O/N GGC Repo Yield**	0.14	0.14	0.11	2.46
30-Day Treasury Bill**	0.08	0.09	0.02	1.85					
60-Day Treasury Bill**	0.08	0.10	0.05	1.98	Secured Overnight Funding Rate (SOFR)**	0.10	0.11	0.04	2.55
90-Day Treasury Bill**	0.08	0.11	0.06	2.00					
6-Month Treasury Yield**	0.10	0.16	0.11	2.07	US 10 Year Inflation Break-Even**	1.55	1.36	1.07	1.75
1-Year Treasury Yield**	0.11	0.15	0.17	1.99					
2-Year Treasury Yield**	0.11	0.16	0.20	1.87	1-Day CP (A1/P1)**	0.08	0.08	0.04	2.26
3-Year Treasury Yield**	0.12	0.19	0.25	1.83	7-Day CP (A1/P1)**	0.07	0.09	0.04	2.25
					30-Day CP (A1/P1)**	0.13	0.13	0.12	2.21
1-Month LIBOR**	0.15	0.17	0.33	2.22					
3-Month LIBOR**	0.25	0.30	0.56	2.27	30-Day CD (A1/P1)**	0.13	0.17	0.21	2.30
6-Month LIBOR**	0.31	0.38	0.76	2.21	90-Day CD (A1/P1)**	0.22	0.40	0.48	2.24
12-Month LIBOR**	0.45	0.53	0.86	2.19	6-Month CD (A1/P1)**	0.28	0.49	0.62	2.20
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	0.34	0.52	0.68	2.10

Director of Finance

Cora Parker
503.378.4633

Local Government Investment Pool

oregon.gov/lgip

Deputy Director of Finance

Mike Auman
503.378.2752

PFM Client Services

855.OST.LGIP
cswestregion@pfm.com

Treasury

800.452.0345
lgip@ost.state.or.us

Newsletter Questions

Kari McCaw
503.378.4633

Bryan Cruz González
503.378.3496

- ▲ EON Access
- ▲ Transactions
- ▲ Reporting
- ▲ Account/User Maintenance
- ▲ Eligibility

- ▲ Investment Management
- ▲ Statutory Requirements
- ▲ Service Provider Issues
- ▲ General Program Inquiries

Local-Gov-News Mailing List

[omls.oregon.gov/mailman/listinfo/
local-gov-news](http://omls.oregon.gov/mailman/listinfo/local-gov-news)

Oregon Short Term Fund Staff

503.431.7900



OREGON STATE TREASURY

350 Winter Street NE, Suite 100 ►► Salem, OR 97301-3896
oregon.gov/treasury