September 2020

OREGON STATE TREASURY

Inside the Vault

Local Government Edition

Market Update

After a relatively calm August, the first week of September brought volatility back to financial markets. Equities saw a sharp three-day sell-off led by big-name tech stocks, while oil took a quick -8% header after Labor Day weekend. The bond market was not immune to the turbulence: instability in longer maturity Treasurys started a few weeks earlier following several large-sized auctions. Meanwhile, the macroeconomic picture showed accelerating recovery with a drop in unemployment from 10.2% to 8.4%. However, this good news was accompanied with a sharp escalation in trade tensions between the U.S. and China.

The pullback in equities follows a shallow breadth market run that began since the March lows, with the Nasdaq composite hitting a low on March 23, 2020, and then going on a 75% rally to September 2. The tech heavy index gave up 10% over the next three trading days. Many commentators have noted the rich valuations of U.S. equities, with the price-earnings ratio of the S&P 500 hitting 28 on September 1—a value not seen since 2002.

On August 4, the yield on the 10-year Treasury hit a summer low of 0.50, a level only exceeded by the intraday low of 0.39 on March 9. Since then, rates took a choppy ride up some 18 basis points as the yield curve steepened. The Federal Reserve's anchoring of the lower end resulted in the 6-month to 10-year spread increasing by a similar 18 points over the month. The market is getting hit with massive waves of new U.S. paper, often over $100 billion per day with a recent high on September 8 of $249 billion. Buyer's fatigue is resulting in inconsistent auction results. Corporate bonds and structure product were broadly placid over the month, with spreads mostly steady to the sovereign curve.

After the recent pick-up in inflation expectation, break-evens (the difference between the nominal yield on Treasurys and the yield on inflation indexed bonds) drifted lower over the month. Most early

(Continued on page 2)

Interest Rates

Average Annualized Yield

August	1.00%

Interest Rates

August 1–31	1.00%

Upcoming Holiday

The pool will be closed on Monday, October 12, for Columbus Day. EON will be available but the system will not allow transactions to settle on the holiday.

(Continued from page 1)

indicators of inflation were continuing to power higher. Industrial commodities (copper, iron, timber) all moved higher over the reporting period. In addition, agriculture commodities (grains and livestock) have come off recent lows. The only major commodities bucking the trend are precious metals and oil. Gold is back under $2,000 per ounce, and crude took the aforementioned tumble. In these later two cases, there is market talk of lower overseas demand causing the price declines.

The surprise 2% drop in unemployment would normally spur inflation concerns off wage pressure, but significant slack remains in the labor market. The drop to 8.4% is roughly half of the peak from the COVID-19 economic shutdown. Wages for August were up 4.7% year-over-year, but these figures are misleading given that lower wage jobs were most severely impacted by the shutdown. Last month saw one of the largest pops in low-income job growth, but jobs numbers for this cohort are still 10% to 12% under pre-pandemic levels. Headline labor force participation figures are stagnating around 61%, off by approximately 2% from last year. Adding to the murkiness of the labor picture, permanent layoffs are surging 18% month-over-month against slowing temporary layoffs of -34% month-over-month.

Meanwhile, the Fed continues to expand its balance sheet through Treasury and corporate bond purchases. These actions are anchoring the front-end of the yield curve and hindering lift in corporate spreads. The

(Continued on page 3)

EON Security Enhancements Coming in October

Treasury is continuously focused on protecting public funds and our customers' financial data. As part of these efforts, and in recognition of next month being National Cybersecurity Awareness Month, we are excited to announce three EON security enhancements that will start rolling out to the Local Government Investment Pool in late October.

The first enhancement, multi-factor authentication (MFA), is an industry leading practice for verifying a user's identity. Once enabled, EON users will be prompted to enter a one-time numeric passcode immediately after entering your user name and password. Users can choose to receive the passcode by e-mail, phone call, or text message. Once you have selected the delivery method, you will receive the passcode and then enter it in EON to complete your login. To prepare for MFA, log in to EON today and verify your contact information by clicking on "Profile Update" at the top of the page.

The second enhancement, the account activity notification center, alerts EON users to key account activities including certain transactions and changes to both ACH/wire instructions and user permissions. Users will receive e-mail notifications based on individual account permissions and subscription preferences.

The third enhancement, updated password complexity requirements, will require users to use passwords that meet current industry best practices. If a user's existing password does not meet the new requirements, the user will be prompted to create a new password when logging in. As the user types the new password, EON will list the requirements and indicate which are met or unmet. A user's new password must meet all requirements before EON will accept the new password.

More information about these security enhancements will soon be available within EON, and we hope you join Treasury in recognizing the value of these security enhancements.

(Continued from page 2)

depressed yield in fixed income contributed to the summer rally in equities, but the overall impact of monetary policy continues to lose strength. Money velocity, or the ratio of money growth to economic output, collapsed over the summer by 41%, meaning the burden of future stimulus will lean on fiscal measures.

With the next round of spending stalled in Congress, and continued policy uncertainty running into the November election, a volatile market seems somewhat inevitable through the back half of the year. Furthermore, the U.S. and China trade dispute continues to escalate. The import purchasing mandates by China from the first round of trade negotiations will not be met and, over the past month, the Trump administration targeted sanctions on specific Chinese tech and agriculture companies. Moreover, last month saw the forced closure of two consulates from increasing political tit for tat. In a normal year, these events would cause massive swings in financial markets, but 2020 is far from normal. The long-term impact of the diplomatic deterioration between the world's two largest economies becomes yet another major issue that depends on the outcome of the November election.

In July, the OSTF paid rate was lowered from 1.3% to 1.0%, which remains over what the market is currently paying on OSTF's investable universe. As higher yielding securities reach maturity, reinvestment under current market conditions will continue to put downward pressure on the paid rate.

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 August 2020

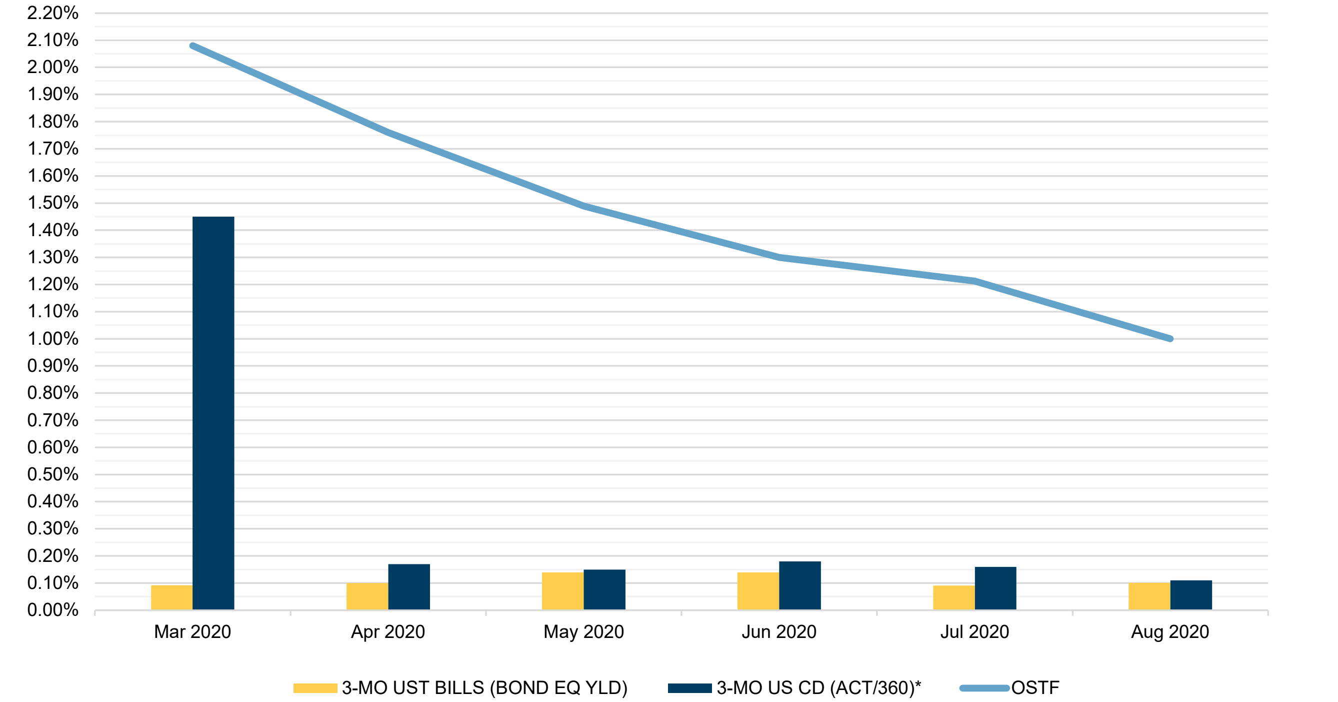
	8/1/20	8/31/20	Delta	
S&P 500	3,294.61	3,500.31	+6.2%	S&P 500 intraday low at 3,284 on 8/3
30-Year Treasury	1.233%	1.476%	+24.3 bps	30-Year Bond intraday low at 1.179% on 8/4
10-Year Treasury	0.556%	0.706%	+15.0 bps	10-Year Note intraday low at 0.502% on 8/6
2-Year Treasury	0.111%	0.132%	+2.1 bps	2-Year Note intraday low at 0.105% on 8/4
3-Month Bills	0.085%	0.101%	+1.6 bps	3-Month Bill intraday low at 0.066% on 8/7

**Treasury yields represent closing bid side levels*

New Debt Management Director

This month we welcomed Jacqueline Knights as our next Director of Debt Management. Jacqueline arrives at Treasury with decades of experience in municipal finance and may be familiar to some of you through work she has done within Oregon during her career. Prior to joining Treasury, Jacqueline worked for the Williams Capital Group, Jackson Securities, Bear Stearns, and JP Morgan during which she worked on infrastructure, transportation, public utilities, and other municipal sectors. Jacqueline has a Master of Business Administration from Columbia and bachelor's degree in economics from the Wharton School of Business. Jacqueline is replacing Laura Lockwood-McCall who, after more than a decade of service to the State of Oregon, will be headed toward a well-earned retirement. Please help us both welcome Jacqueline and thank Laura for her service.

Oregon Short Term Fund Analysis



	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020
TOTAL OSTF AVG DOLLARS INVESTED (MM)	22,809	22,717	23,839	22,921	22,909	23,591
STATE GOV PORTION (MM)	13,300	13,153	14,420	14,307	14,583	15,019
LOCAL GOV PORTION (MM)	9,509	9,564	9,419	8,614	8,326	8,572
OSTF ANNUAL YIELD (ACT/ACT)	2.08	1.76	1.49	1.30	1.21	1.00
3-MO UST BILLS (BOND EQ YLD)	0.092	0.100	0.139	0.139	0.091	0.101
3-MO US CD (ACT/360)*	1.45	0.17	0.15	0.18	0.16	0.11

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

	8/31/2020	1 Month	3 Months	12 Months		8/31/2020	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	0.07	0.03	0.01	1.98	Bloomberg Barclays 1-3 Year Corporate YTW*	0.59	0.64	1.05	2.07
30-Day Agy Nt Disc**	0.08	0.05	0.05	1.98	Bloomberg Barclays 1-3 Year Corporate OAS*	0.52	0.60	1.03	0.58
90-Day Agy Nt Disc**	0.08	0.07	0.12	1.87	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.89	1.91	1.92	1.86
180-Day Agy Nt Disc**	0.08	0.08	0.13	1.67					
360-Day Agy Nt Disc**	0.08	0.08	0.14	1.70	7-Day Muni VRDN Yield**	0.09	0.16	0.14	1.35
					O/N GGC Repo Yield**	0.12	0.14	0.09	2.11
30-Day Treasury Bill**	0.07	0.08	0.11	2.05					
60-Day Treasury Bill**	0.08	0.08	0.11	1.96	Secured Overnight Funding Rate (SOFR)**	0.09	0.10	0.06	2.16
90-Day Treasury Bill**	0.08	0.08	0.13	1.91					
6-Month Treasury Yield**	0.11	0.10	0.16	1.87	US 10 Year Inflation Break-Even**	1.80	1.55	1.14	1.54
1-Year Treasury Yield**	0.12	0.11	0.17	1.77					
2-Year Treasury Yield**	0.13	0.11	0.16	1.51	1-Day CP (A1/P1)**	0.07	0.08	0.06	2.06
3-Year Treasury Yield**	0.15	0.12	0.20	1.43	7-Day CP (A1/P1)**	0.10	0.07	0.06	2.08
					30-Day CP (A1/P1)**	0.12	0.13	0.11	2.09
1-Month LIBOR**	0.16	0.15	0.18	2.09					
3-Month LIBOR**	0.24	0.25	0.34	2.14	30-Day CD (A1/P1)**	0.12	0.13	0.16	2.13
6-Month LIBOR**	0.31	0.31	0.51	2.04	90-Day CD (A1/P1)**	0.19	0.22	0.28	2.10
12-Month LIBOR**	0.45	0.45	0.67	1.97	6-Month CD (A1/P1)**	0.26	0.28	0.38	2.03
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	0.31	0.34	0.75	1.89

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

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

Treasury
800.452.0345
lgip@ost.state.or.us

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

Newsletter Questions
Kari McCaw
503.378.4633

Bryan Cruz González
503.378.3496

Local-Gov-News Mailing List
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