Investment Highlights

Oregon Local Government Intermediate Fund

Oregon Local Government Intermediate Fund

	Portfolio	Index**
2Q20 Performance*	2.65%	1.77%

As of 30 Jun 20
**Performance is gross of fees*
*** Bloomberg Barclays 1-5 Year US Government/Credit Bond Index*

Performance Review

During the second quarter of 2020 the portfolio outperformed its benchmark, the Bloomberg Barclays 1-5 Year US Government/Credit Bond Index, by 88 basis points (bps) on a gross basis.

The second quarter of 2020 stood in sharp contrast to the first as global risk sentiment rebounded significantly. Although cases of COVID-19 continued to rise globally, the death rate for those infected trended lower over the quarter and there was room for cautious optimism around the development of both a vaccine and therapeutic treatments. The greatest contributor to performance during the quarter was emerging markets exposure, contributing 28 bps, as spreads tightened and currencies generally strengthened versus the US dollar. High-yield exposure was the second largest contributor as bond spreads tightened. There were no notable detractors over the quarter.

Investment Outlook

The recession endured by the US, which started in March, is striking in that it was effectively the first government-mandated recession in US history. The upside of this fact is that precisely because the recession was mandated by government edicts, it can be quickly reversed when those edicts are removed. While COVID-19 case incidences have returned to peak levels recently, only about six weeks into a reopening of the US economy, we believe that widespread shutdowns will not be reintroduced.

At present, it is likely that Q2 GDP will register in the range of -30% to -35% (annualized), weaker than we expected in late-March. The bulk of these declines will occur in five extremely hard-hit service sectors: health care, restaurants, accommodations, passenger travel and recreational activities. However, there will also be notably sharp declines in construction, motor vehicle production and other goods-production sectors.

We think it's likely there will be essentially a complete recovery by the end of Q3 in sectors such as construction, manufacturing and non-leisure services, while accommodations and passenger travel will lag. However, health care and restaurants are far and away the largest contributors to GDP. Neither of these sectors is likely to return to pre-COVID activity levels, but both had already begun to bounce in May—and even partial rebounds there will power an extremely strong-sounding Q3 GDP number. Signals from vehicle and new-home sectors were also encouraging.

With some social distancing strictures likely to be in place for quite a while, we believe the process of complete recovery from the COVID crisis will take time, but possibly not the two to 10 years that various analysts think will be necessary.

For more information on Western Asset, visit westernasset.com.

© Western Asset Management Company, LLC 2020. This publication is the property of Western Asset and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission.

Past results are not indicative of future investment results. This publication is for informational purposes only and reflects the current opinions of Western Asset. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160. Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore. Western Asset Management Company Ltd is a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan. Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA"). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK and EEA countries as defined by the FCA or MiFID II rules.