2Q 2023

Investment Highlights

Oregon Local Government Intermediate Fund

WESTERN ASSET

Oregon Local Government Intermediate Fund

	Portfolio (gross)	Portfolio (net)	Index*
2Q23 Performance	-0.28%	-0.30%	-0.62%

As of 30 Jun 23.
**Bloomberg 1-5 Year US Government/Credit Bond Index*
Past investment results are not indicative of future investment results. *Gross-of-fees returns are presented before management fees, but after all trading expenses. Net-of-Fees performance returns are an estimate of time-weighted rate of return. The effective fee, based on a fee schedule, is deducted from the monthly gross return.*

Performance Review

In the second quarter of 2023, the portfolio outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 34 basis points (bps) on a gross basis.

Over the second quarter of 2023, risk assets gained as concerns over a near-term economic hard landing eased. Government bond yield curves flattened significantly as front-end bond yields rose with global central banks reiterating their resolve to bring inflation back to target.

Investment Outlook

The effects of Federal Reserve (Fed) tightening on the US economy are accumulating, but these have not proceeded as fast as market expectations had banked on, and there are some crosscurrents emerging as well. On the demand side, business capital spending continues to decline mildly, and businesses have continued to cut back on inventories. Also, US exports have been generally declining since the fall of 2022. Consumer spending on goods continues to trend mildly lower, but at no faster a pace than we have seen generally over the past two years. Consumer services spending is slowing as well, but this has camouflaged somewhat the continued growth in health care spending, as consumers pursue treatments and procedures that were likely postponed during the pandemic.

The crosscurrents are a recent bounce in vehicle production and a stabilization in home sales and housing starts. Thanks to a semiconductor chip shortage, the post-pandemic recovery in motor vehicles lagged behind the rest of the economy. With that shortage now alleviated, carmakers are catching up on postponed production. Vehicle demand is only at pre-Covid levels, but inventories are substantially depleted, thanks to the preceding chip shortage. Vehicle production will provide a major boost to 2Q23 GDP growth, but we would expect production to flatten out thereafter. Similarly, we think claims of a housing shortage are misreading the signals from the new-home market, and that housing starts and residential construction are due to head downward again, especially for multifamily units.

Western Asset's view is that a resolution of these industry issues and continued deceleration elsewhere will eventually lead the Fed to a very long-term cessation of policy tightening and a turn to easing. However, the recent murkiness in the economic currents likely puts that Fed turn farther in the future than we had previously expected.

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