Investment Highlights

Oregon Local Government Intermediate Fund

WESTERN ASSET

Oregon Local Government Intermediate Fund

	Portfolio (gross)	Portfolio (net)	Index*
1Q23 Performance	1.93%	1.91%	1.82%

As of 31 Mar 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

During the first quarter of 2023 the portfolio outperformed its benchmark, the Bloomberg 1-5 Year US Government/Credit Bond Index, by 11 basis points (bps) on a gross basis.

During the first quarter of 2023, bond yields fell and risk assets were mixed as investors shifted from a narrative of a "higher for longer" fed funds rate to significantly repricing the Federal Reserve's (Fed) interest rate trajectory later in the quarter, on the back of banking sector concerns. Credit spreads were mixed while the S&P 500 rose.

Investment Outlook

Western Asset believes the effects of Fed rate hikes to date are accumulating. While January economic data in the US looked better, much of that apparent improvement is the result of seasonal distortion reflecting mild winter weather that should fade as seasonal adjustment factors morph with the spring season. The moderation in inflation has also been interrupted in recent months, but we believe the declining pattern there will re-emerge shortly, and that real-world declines in housing costs will soon be reflected in official inflation data. Western Asset thinks month-to-month inflation will be within the Fed's target ranges before the middle of 2023.

While year-over-year (YoY) measures won't show this improvement as quickly, the "perception lags" arising from looking at YoY measures are well understood by any trained economist, and we believe the Fed will be astute enough to make this deduction as well. Both the US construction and manufacturing sectors have been in recession for a number of months. Growth is continuing in service sectors, but even there, a clearly decelerating trend is in place, not just in consumer services spending data, but also in services payroll data, where declining workweeks buttress slowing job growth to produce an uneven but unmistakable deceleration in total hours worked in service sectors. We take these trends as clear evidence that either Fed rate hikes are taking their toll or that economic growth is slowing on its own, and, again, the full effects of Fed hikes to date have yet to be felt.

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