



# City Of London Corporation

## Monthly Investment Analysis Review

December 2019

## Monthly Economic Summary

**General Economy**

December's economic data began with the November Markit/CIPS Manufacturing PMI survey falling to 48.9, from 49.6 the previous month. The survey's details showed that British manufacturers cut jobs in November at the fastest rate since 2012, as pressures from Brexit and a global trade slowdown caused the sector's longest decline since the financial crisis. The Construction PMI, meanwhile, rose by 1.1 points to 45.3 - still indicating contraction - as companies yet again noted subdued client demand due to political uncertainty. The Services PMI decreased to 49.3 from October's figure of 50.0, leaving the Composite figure also at 49.3 – a decrease from 50.0 in October, indicating a contraction in the UK's economy last month. The UK trade deficit widened sharply to £5.19bn in October 2019, the biggest since April, from a revised £1.92bn in the previous month. Imports jumped by 6.2%, while exports rose at a much softer 0.8%. GDP data, meanwhile, showed that the UK economy stagnated in the three months to October 2019, falling from the 0.3% q/q growth recorded in the previous period. Year-on-year GDP growth fell slightly to 0.7% in October, from 0.9% y/y in September.

The UK's unemployment rate remained at 3.8% in the three months to October, as the number of people employed rose by 24,000 to 32.8m. Average earnings including bonuses rose by an annual 3.2% rate, slowing from the 3.7% gain recorded in the three months to September. Average earnings excluding bonuses growth slowed less sharply to 3.5% y/y in the three months to October, from 3.6% y/y in the previous period.

CPI was unchanged at 1.5% y/y in November, slightly above market expectations of 1.4% but well below the Bank of England's 2% target. This was the lowest inflation rate since November 2016, but the BoE forecasts suggest that inflation could fall to as low as 1.25% in early 2020 due to caps on energy and water prices. The core CPI rate (which strips out the more volatile components), was 1.7% in November, unchanged from the previous month.

November's retail sales fell by 0.6% m/m after reporting no growth in October, which missed market expectations of a 0.3% m/m increase. This marked the 4<sup>th</sup> consecutive month of no growth in trade, the longest run since 1996. Year-on-year retail sales growth slowed to 1.0% in November, from the 3.1% gain recorded in the previous period.

The Confederation of British Industry's monthly retail sales balance rose 3 points from a month earlier to 0 in December, the highest level since April, but below market expectations of +3. The latest reading still signalled flat sales overall, with the volume of orders placed on suppliers falling for the 8<sup>th</sup> consecutive month. The GfK Consumer Confidence index, meanwhile, rose to -11 in December, from the previous month's reading of -14.

Against this backdrop, the Bank of England voted by a 7-2 majority to hold interest rates at 0.75% during their December Meeting. The two dissenting members voted to cut interest rates to 0.5%. Outside of economic and market events the general election on the 12<sup>th</sup> December saw the Conservatives gain a 78 seat majority. This result provided a late boost to domestic financial markets as the large majority was expected to ease through the Withdrawal Agreement Bill, thus remove some near-term Brexit uncertainty.

In the US, non-farm payrolls rose by 266,000 in November, following an upwardly revised increase of 156,000 in October, easily beating market expectations of 180,000. This was the largest advance in payrolls since January, with notable job gains occurring in health care and in professional and technical services. Employment also increased in manufacturing, reflecting the return of workers from a strike at General Motors. US average hourly earnings for all employees registered a 0.2% m/m gain in November, following an upwardly revised 0.4% rise in October, which was slightly below market expectations of a 0.3% gain. The unemployment rate fell to 3.5% in November from 3.6% in October, which missed market expectations for the rate to remain unchanged.

US CPI increased to 2.1% y/y in November from 1.8% in October, which was marginally above consensus forecasts of a 2.0% rise. This was the highest rate since November 2018, as food inflation was little-changed while energy prices dropped at a much slower pace. The core inflation rate, which excludes volatile items such as food and energy, was unchanged at 2.3 percent, in line with market forecasts. The US economy grew at a 2.1% annualised rate in the third quarter, following the 2% expansion recorded in the second quarter. The increase in real GDP in the third quarter reflected positive contributions from consumption, government spending and residential spending that were partly offset by negative contributions from non-residential fixed investment and private inventory investment.

The Euro Area unemployment rate fell to 7.5% in October, matching market expectations, from an upwardly revised 7.6% in the previous month. This is the lowest rate recorded in the Euro Area since July 2018. The number of unemployed persons in the Euro Area decreased to 12.334 million in October from 12.365 million in September. Across the European Union as a whole, the unemployment rate was unchanged at 6.3% in October, where it has remained for the last six months.

### Housing

Buoyed by a 1% monthly gain, Halifax reported that house prices rose by 2.1% y/y in November, which was well above October's 0.9% y/y gain and the consensus forecast of a 1% y/y rise.

### Currency

Sterling exhibited significant volatility against both the US Dollar and Euro last month, mainly due to the outcome of the general election. Having garnered a Conservative majority, the PM can fulfil his plan to take the UK out of the EU on the 31st January 2020. As a result, the pound rose from \$1.29 to \$1.326 and from €1.172 to €1.182

### Forecast

The General Election win for the Conservatives has taken away some Brexit uncertainty, and as a result, both Link Asset Services and Capital Economics have left their forecasts unchanged.

Bank Rate	Now	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%

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## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Fitch Long Term Rating	Historic Risk of Default
USDBF Payden Sterling Reserve Fund	55,000,000	1.42%		USDBF	AAA	AAA	0.000%
USDBF Aberdeen Standard Investments	5,000,000	0.99%		USDBF	AAA	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.89%		USDBF	AAA	AAA	0.000%
MMF CCLA	10,000,000	0.72%		MMF	AAA	AAA	0.000%
MMF Aberdeen Standard Investments	83,800,000	0.73%		MMF	AAA	AAA	0.000%
MMF Deutsche	51,900,000	0.70%		MMF	AAA	AAA	0.000%
MMF Federated Investors (UK)	74,800,000	0.73%		MMF	AAA	AAA	0.000%
MMF Invesco	98,200,000	0.76%		MMF	AAA	AAA	0.000%
Australia and New Zealand Banking Group Ltd	11,400,000	1.07%	02/04/2019	02/01/2020	AA-	AA-	0.000%
Yorkshire Building Society	20,000,000	1.15%	26/04/2019	27/01/2020	A-	A-	0.004%
Australia and New Zealand Banking Group Ltd	11,900,000	0.91%	29/07/2019	29/01/2020	AA-	AA-	0.002%
Lloyds Bank Plc (RFB)	22,600,000	0.90%		Call32	A+	A+	0.005%
Nationwide Building Society	25,000,000	0.85%	10/09/2019	10/02/2020	A	A	0.006%
Leeds Building Society	11,600,000	0.81%	14/08/2019	14/02/2020	A-	A-	0.006%
Coventry Building Society	20,000,000	1.00%	16/05/2019	17/02/2020	A-	A-	0.007%
National Westminster Bank Plc (RFB)	20,000,000	0.80%	15/11/2019	17/02/2020	A	A+	0.007%
Nationwide Building Society	9,000,000	0.75%	20/08/2019	20/02/2020	A	A	0.007%
Nationwide Building Society	25,000,000	0.88%	10/09/2019	10/03/2020	A	A	0.010%
Santander UK Plc	20,000,000	0.90%		Call95	A	A+	0.014%
Skipton Building Society	20,000,000	0.95%	25/07/2019	27/04/2020	BBB+	A-	0.049%
Lloyds Bank Plc (RFB)	10,000,000	1.25%	12/06/2019	20/05/2020	A+	A+	0.020%
National Westminster Bank Plc (RFB)	20,000,000	0.88%	15/11/2019	29/05/2020	A	A+	0.022%
Leeds Building Society	8,400,000	0.92%	12/12/2019	12/06/2020	A-	A-	0.024%
Rushmoor Borough Council	10,000,000	0.90%	18/12/2019	18/06/2020	AA	AA	0.011%
Santander UK Plc	30,000,000	1.00%		Call180	A	A+	0.026%
Australia and New Zealand Banking Group Ltd	20,000,000	1.05%		Call185	AA-	AA-	0.012%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A	A	0.027%
Goldman Sachs International Bank	20,000,000	0.99%		Call185	A	A	0.027%
Goldman Sachs International Bank	20,000,000	0.98%		Call185	A	A	0.027%
Australia and New Zealand Banking Group Ltd	12,000,000	1.02%	29/07/2019	29/07/2020	AA-	AA-	0.014%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/08/2019	06/08/2020	A+	A+	0.032%
National Westminster Bank Plc (RFB)	10,000,000	0.95%	01/11/2019	28/08/2020	A	A+	0.035%
Plymouth City Council	10,000,000	0.95%	23/12/2019	23/09/2020	AA	AA	0.018%
Goldman Sachs International Bank	20,000,000	1.09%		Call270	A	A	0.039%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/10/2019	29/10/2020	A	A+	0.044%
Lloyds Bank Plc (RFB)	10,000,000	1.10%	01/11/2019	02/11/2020	A+	A+	0.044%
Lloyds Bank Plc (RFB)	15,900,000	1.10%	04/11/2019	04/11/2020	A+	A+	0.045%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/11/2019	06/11/2020	A+	A+	0.045%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/11/2019	27/11/2020	A+	A+	0.048%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/12/2019	29/12/2020	A+	A+	0.053%

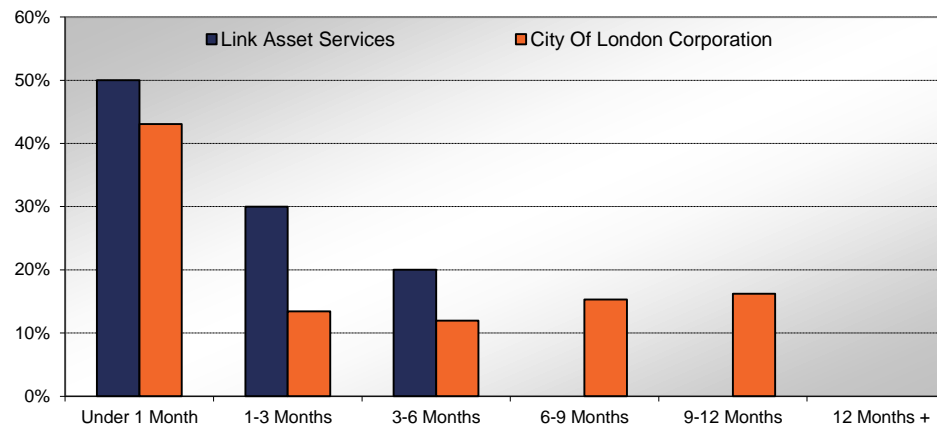
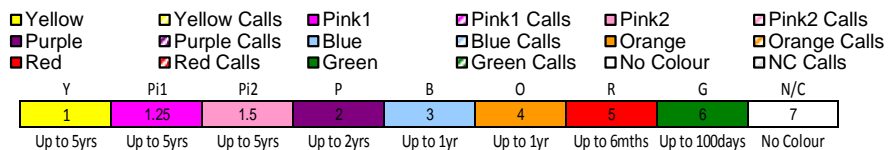
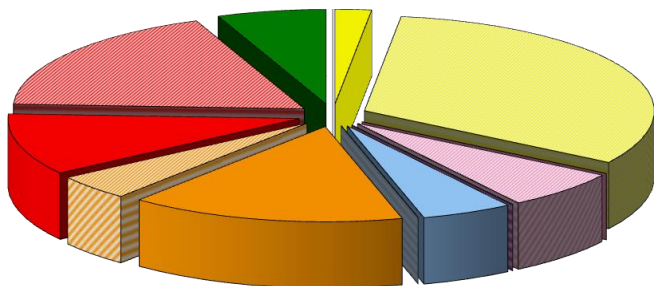
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### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Fitch Long Term Rating	Historic Risk of Default
Santander UK Plc	50,000,000	1.15%		Call365	A	A+	0.053%
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>			
LGIM	75,000,000	4.91%					
ROYAL LONDON	75,000,000	4.37%					
<b>Total Investments</b>	<b>£1,141,500,000</b>	<b>1.42%</b>					
<b>Total Investments - excluding Funds</b>	<b>£991,500,000</b>	<b>0.94%</b>					<b>0.016%</b>
<b>Total Investments - Funds Only</b>	<b>£150,000,000</b>	<b>4.64%</b>					

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## Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.17**

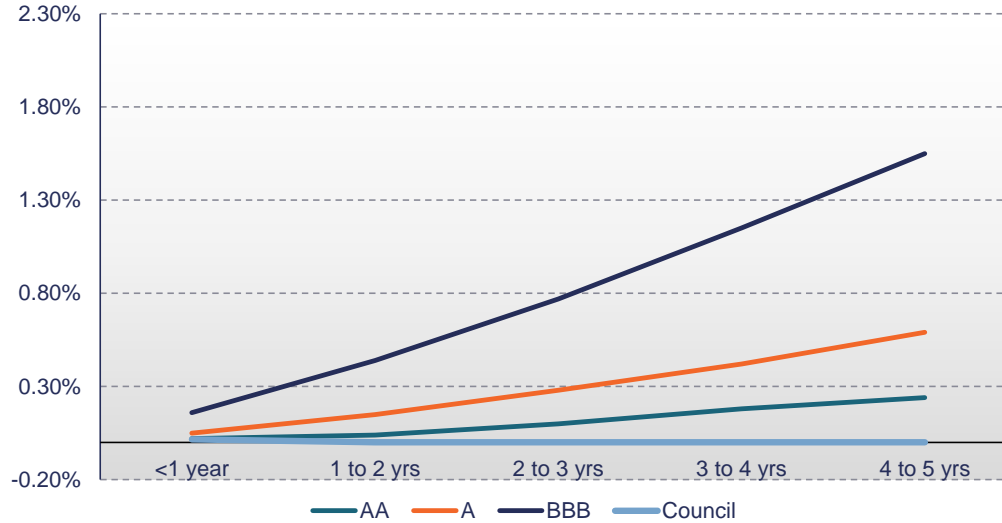
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	34.16%	£338,700,000	94.10%	£318,700,000	32.14%	0.75%	13	14	219	229
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.56%	£65,000,000	100.00%	£65,000,000	6.56%	1.35%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	5.04%	£50,000,000	0.00%	£0	0.00%	0.86%	127	176	127	176
Orange	19.55%	£193,800,000	21.98%	£42,600,000	4.30%	1.06%	213	291	243	344
Red	28.64%	£284,000,000	63.38%	£180,000,000	18.15%	0.99%	190	235	113	238
Green	6.05%	£60,000,000	0.00%	£0	0.00%	0.99%	80	246	80	246
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>TOTAL</b>	<b>100.00%</b>	<b>£991,500,000</b>	<b>61.15%</b>	<b>£606,300,000</b>	<b>61.15%</b>	<b>0.94%</b>	<b>112</b>	<b>153</b>	<b>166</b>	<b>272</b>

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## Investment Risk and Rating Exposure

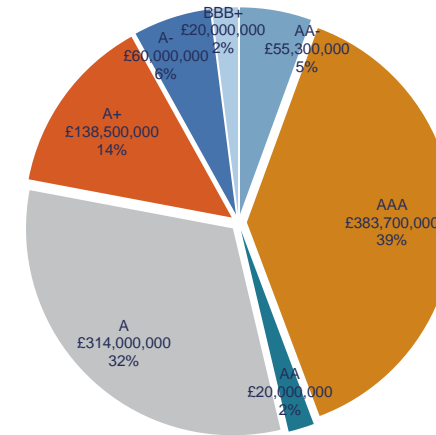
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.016%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



### Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

### Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

### Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

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### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
06/12/2019	1708	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-'.
06/12/2019	1709	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-'. At the same time the Viability Rating was downgraded to 'a' from 'a+'.
18/12/2019	1711	United Kingdom Sovereign	United Kingdom	The Sovereign Rating was removed from Negative Watch and placed on Negative Outlook.
20/12/2019	1714	Abbey National Treasury Services PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Barclays Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Barclays Bank UK PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Close Brothers Ltd	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Lloyds Bank Corporate Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Lloyds Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	NatWest Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Santander UK PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	National Westminster Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	The Royal Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.



## City Of London Corporation

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
20/12/2019	1715	Coventry Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Leeds Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Nationwide Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Principality Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Skipton Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Yorkshire Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.

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### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2019	1707	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Positive from Stable.
18/12/2019	1713	HSBC Bank Plc (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
11/12/2019	1710	Macquarie Bank Ltd.	Australia	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Outlook on the Long Term Rating was changed to Stable from Positive.
18/12/2019	1712	United Kingdom Sovereign	United Kingdom	The Outlook on the Sovereign Rating was changed to Stable from Negative.

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