



Investment Committee

Date: MONDAY, 12 FEBRUARY 2024
Time: 11.00 am
Venue: COMMITTEE ROOMS, GUILDHALL

7. TREASURY MANAGEMENT UPDATE AS AT 31 DECEMBER 2023

Appendix 2 - Monthly Investment Analysis Review

For Discussion
(Pages 3 - 12)

Ian Thomas CBE
Town Clerk and Chief Executive

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City Of London Corporation

Client Designated MMF, SDBF and USDBF Rates

Monthly Investment Analysis Review

December 2023

Monthly Economic Summary

General Economy

The UK Manufacturing PMI fell to 46.2 in December, down from 47.2 in the prior month and missing market expectations of 47.5. The latest reading pointed to a reduction in manufacturing output for the tenth consecutive month and at a notably faster pace than in November. Production sustained its decline due to reports of reduced demand both at home and abroad amidst challenging economic conditions, as well as destocking activities and tighter inventory policies at plants. Conversely, the UK Services PMI rose to 53.7 in December of from 50.9 in the previous month, above expectations of 51, marking the second consecutive expansion in the UK's services sector and outperforming the contractions in Eurozone members. Consequently, the Composite PMI rose to 51.7 in December, up from 50.7 in the previous month and surpassing the market consensus of 50.9. Meanwhile, the UK Construction PMI edged down to 45.5 in November, barely shifting from October's value of 45.6 and falling short of market expectations set at 46.3. This latest reading marks the second-lowest point since May 2020.

The UK economy shrank 0.3% m/m in October, reversing the growth from the previous two months, and worse than market forecasts of a flat reading. The services sector shrank 0.2% and was the largest contributor to the fall. Meanwhile, output in consumer-facing services fell by 0.1%. Also, production declined 0.8% driven by widespread drops in manufacturing output, namely computer, electronic and optical products, and machinery and equipment while construction output went down 0.5% partly due to the poor weather. Considering the three months to October, UK GDP stalled. Elsewhere, the UK's trade deficit widened to £4.480 billion in October, the largest in five months, as imports jumped 4.6% to a four-month high and exports rebounded 0.6% from an over one-year low.

The UK registered an increase of 50,000 jobs in the three months to September, slightly lower than a downwardly revised 52,000 gain in the previous reading. Meanwhile, average weekly earnings, including bonuses in the UK increased 7.2% y/y in the three months to October, the lowest in five months and below market forecasts of a 7.4% rise. The adjusted "experimental" unemployment rate in the UK remained unchanged at 4.2% in the three months leading up to October. The adjusted "experimental" employment rate stood at 75.7%, and the economic inactivity rate remained unchanged at 20.9%.

Regarding inflation, the annual consumer price measure in the UK declined to 3.9% in November, the lowest since September 2021, from 4.6% in October and well below forecasts of 4.4%. The largest downward contribution came from transport, mainly downward effects from motor fuels and, to a lesser extent, second-hand cars, maintenance and repairs, and air fares. Other downward pressure came from prices for recreation and culture, namely computer games and admission fees to theatres and live music events; and food and non-alcoholic beverages, mostly bread and cereals. Prices also rose less for alcoholic beverages and tobacco, clothing and footwear and health and continued to fall for housing and utilities. On the other hand, inflation was steady for communication, education and restaurants and hotels. Annual core inflation also declined, with its 5.1% reading the lowest since January 2022.

In the retail sector, November witnessed a 1.3% m/m increase in sales, a stark contrast to October's stagnant growth and beating market forecasts of a 0.4% rise. It was the strongest growth in retail activity since January. Additionally, the GfK Consumer Confidence indicator rose to -22 in December from -24 in November as Britons became less pessimistic about their future financial situation amid easing inflationary pressures. Analysts noted that wages have begun to rise faster than inflation while mortgage rates eased from their summer peak. Elsewhere, Public sector net debt excluding public sector banks was £2,671.4 billion at the end of November and was provisionally estimated at around 97.5% of the UK's annual gross domestic product (GDP); this is 1.8 percentage points higher than in November 2022 and remains at levels last seen in the early 1960s.

The US economy added 199,000 jobs in November, surpassing the 150,000 added in October and exceeding market expectations of a 180,000 gain. Nonetheless, it marked the second consecutive month with job additions below the average monthly gain of 240,000 observed over the past year, signalling a slowdown in the labour market. The final GDP reading showed the US economy expanded at an annualised rate of 4.9% in the third quarter of 2023, slightly below the 5.2% seen in the second estimate, but matching the 4.9% initially reported. It still marks the strongest growth since Q4 2021. Furthermore, the annual inflation rate in the US slowed to 3.1% in November, the lowest reading in five months, from 3.2% in October and in line with market forecasts.

The annual inflation rate in the Euro Area decreased to 2.4% y/y in November, the lowest since July 2021, from 2.9% in October and in line with the preliminary release. However, inflation is likely to pick up in the near-term on account of an upward base effect for the cost of energy, ECB President Lagarde said during the regular press conference after the latest ECB monetary policy decision of the year where rates were left unchanged, as expected. In 2024, the central bank expects inflation to decline slower because of further upward base effects and the phasing-out of past fiscal measures aimed at limiting the repercussions of the energy price shock. GDP in the Euro Area contracted by 0.1% in Q3 2023, marking a reversal from a downwardly revised 0.1% growth in the preceding three-month period.

Housing

The Nationwide House Price Index in the United Kingdom dropped by 1.8% year-on-year in December 2023, easing from a 2.0% fall in the previous month and compared with market expectations of a 1.4% decrease. Similarly, the Halifax House Price Index declined by 1.0% year-on-year in November 2023, following a revised 3.1% drop in October. Home prices are expected to continue declining in the upcoming months, as economic uncertainty, the broader cost of living, overall employment rates, and affordability are likely to continue hurting demand.

Currency

Sterling slightly depreciated against the Euro and Dollar over the month.

December	Start	End	High	Low
GBP/USD	\$1.2633	\$1.2625	\$1.2788	\$1.2526
GBP/EUR	€1.1659	€1.1536	€1.1681	€1.1499

Forecast

Link Group and Capital Economics still hold that the interest rate will peak at 5.25% in this cycle.

Bank Rate	NOW	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Link Group	5.25%	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.00%	3.00%	3.00%	3.00%	3.00%
Capital Economics	5.25%	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	-	-	-	-

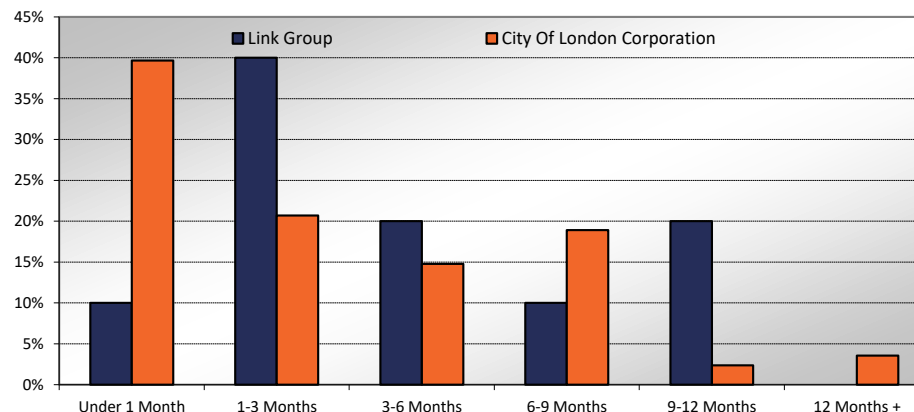
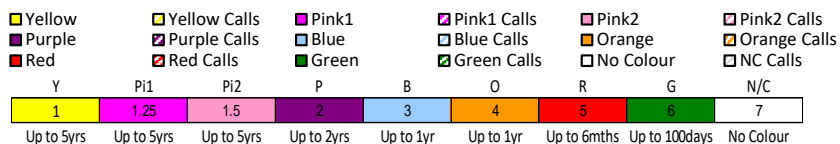
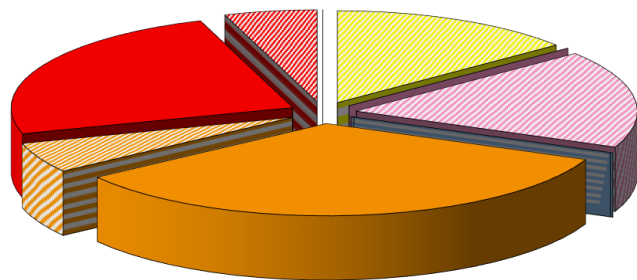
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	20,000,000	5.29%		MMF	AAAm	
MMF CCLA	26,000,000	5.30%		MMF	AAAm	
MMF Deutsche	24,200,000	5.33%		MMF	AAAm	
MMF Federated Investors (UK)	25,000,000	5.38%		MMF	AAAm	
MMF Invesco	25,000,000	5.40%		MMF	AAAm	
USDBF Aberdeen Standard Investments	53,664,920	5.04%		USDBF	AAAF	
USDBF Federated Sterling Cash Plus Fund	26,905,770	4.82%		USDBF	AAAF	
USDBF Payden Sterling Reserve Fund	64,558,317	5.64%		USDBF	AAAF	
Lloyds Bank Plc (RFB)	20,000,000	5.38%	07/11/2023	10/01/2024	A+	0.001%
DBS Bank Ltd	20,000,000	5.47%	12/10/2023	12/01/2024	AA-	0.001%
DBS Bank Ltd	10,000,000	6.02%	13/07/2023	15/01/2024	AA-	0.001%
National Australia Bank Ltd	20,000,000	4.98%	17/04/2023	17/01/2024	A+	0.002%
Barclays Bank Plc (NRFB)	25,000,000	4.81%	01/02/2023	01/02/2024	A+	0.004%
Barclays Bank Plc (NRFB)	20,000,000	4.75%	16/02/2023	16/02/2024	A+	0.006%
DBS Bank Ltd	25,000,000	5.50%	30/10/2023	29/02/2024	AA-	0.004%
United Overseas Bank Ltd	20,000,000	5.63%	09/10/2023	11/03/2024	AA-	0.004%
DBS Bank Ltd	15,000,000	5.45%	15/11/2023	15/03/2024	AA-	0.005%
National Australia Bank Ltd	30,000,000	6.16%	18/07/2023	18/03/2024	A+	0.010%
Goldman Sachs International Bank	20,000,000	5.61%	22/09/2023	22/03/2024	A+	0.010%
Cooperative Rabobank U.A.	20,000,000	6.14%	29/06/2023	28/03/2024	A+	0.011%
Santander UK PLC	45,000,000	5.80%		Call95	A	0.012%
NatWest Markets Plc (NRFB)	20,000,000	5.67%	12/10/2023	13/05/2024	A	0.017%
Toronto Dominion Bank	20,000,000	5.27%	15/05/2023	15/05/2024	AA-	0.008%
Toronto Dominion Bank	20,000,000	5.72%	24/05/2023	24/05/2024	AA-	0.009%
Toronto Dominion Bank	20,000,000	6.53%	28/06/2023	26/06/2024	AA-	0.011%
Australia and New Zealand Banking Group Ltd	45,000,000	5.43%		Call185	A+	0.023%
Toronto Dominion Bank	20,000,000	6.57%	18/07/2023	17/07/2024	AA-	0.012%
Goldman Sachs International Bank	15,000,000	6.15%	15/08/2023	15/08/2024	A+	0.028%
Goldman Sachs International Bank	15,000,000	6.15%	15/08/2023	15/08/2024	A+	0.028%
Australia and New Zealand Banking Group Ltd	20,000,000	5.61%	17/11/2023	19/08/2024	A+	0.029%
Goldman Sachs International Bank	20,000,000	6.15%	04/09/2023	04/09/2024	A+	0.031%
Australia and New Zealand Banking Group Ltd	25,000,000	5.78%	05/09/2023	05/09/2024	A+	0.031%
Santander UK PLC	20,000,000	5.90%	16/10/2023	16/10/2024	A	0.036%
NatWest Markets Plc (NRFB)	30,000,000	6.00%	07/08/2023	07/08/2026	A	0.195%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G	80,139,970	8.00%				
ROYAL LONDON	79,611,149	8.37%				
Total Investments	£1,005,080,127	5.99%				
Total Investments - excluding Funds	£845,329,008	5.58%				0.023%
Total Investments - Funds Only	£159,751,119	8.19%				

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.44**

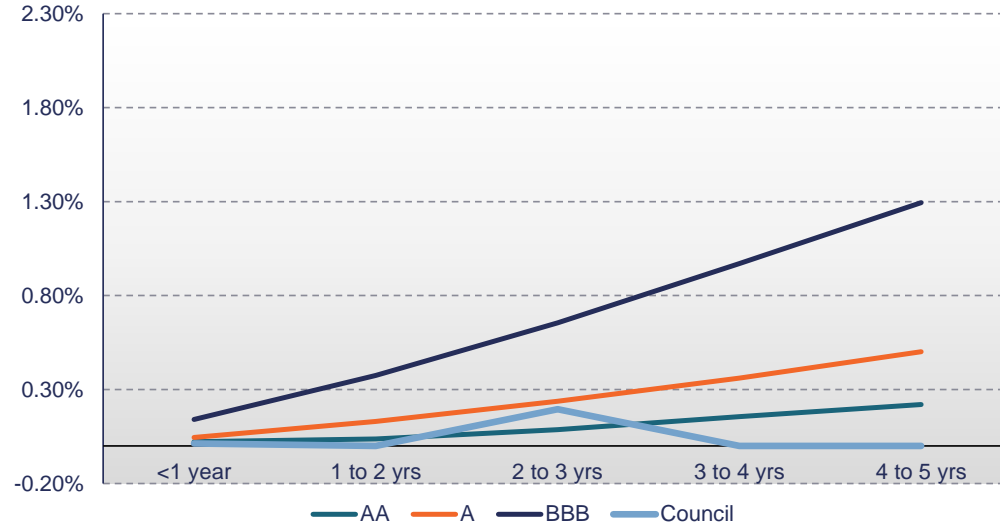
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	14.22%	£120,200,000	100.00%	£120,200,000	14.22%	5.34%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	17.17%	£145,129,008	100.00%	£145,129,008	17.17%	5.27%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	39.04%	£330,000,000	13.64%	£45,000,000	5.32%	5.73%	125	249	115	259
Red	29.57%	£250,000,000	18.00%	£45,000,000	5.32%	5.66%	227	354	255	410
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£845,329,008	42.03%	£355,329,008	42.03%	5.58%	116	202	174	322

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Investment Risk and Rating Exposure

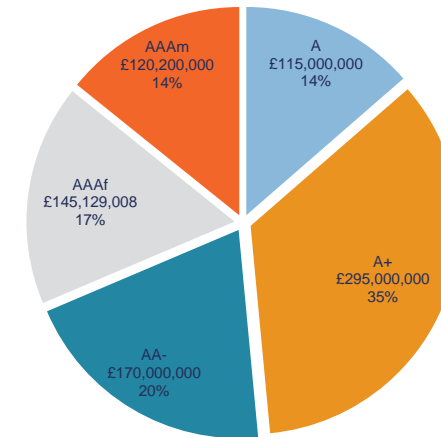
Investment Risk Vs. Rating Categories



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%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.01%	0.00%	0.20%	0.00%	0.00%

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
MOODY'S

Date	Update Number	Institution	Country	Rating Action

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Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
08/12/2023	1996	Deutsche Bank AG	Germany	The Long Term Rating was upgraded to A+ from A.

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