



City Of London Corporation

Monthly Investment Analysis Review

February 2019

Monthly Economic Summary

General Economy

February kicked off with the Manufacturing PMI activity survey, which fell to 52.8 in January, from 54.2 the previous month. Construction PMI dropped to 50.6, falling from the December reading of 52.8; delays to client decision-making on new projects in response to Brexit uncertainty was cited as a key source of anxiety at the start 2019. The new reading was the lowest since the weather-affected March 2018 survey. Services PMI rounded the figures off with a low score of 50.1 in January, with the extent of the fall more than reversing the modest bounce seen in December (51.2). This left the Composite figure at 50.3 from 51.5. If this level is maintained, it would be consistent with GDP growth stagnating in Q1.

The UK's total trade balance for December widened to £3.23bn. Meanwhile, the trade balance for goods, not services, was little changed at £12.10bn, from £12.40bn previously. GDP for Q4 fell to 1.3% y/y from 1.6% previously, the sharp slowdown was evidenced further by the q/q figure falling to 0.2% from 0.6% in Q3.

British inflation fell to a two-year low, dipping below the Bank of England's target of 2% and offering some relief to consumers and households ahead of Brexit. A new government cap on household bills kicked in, helping to limit consumer prices increases at an annual rate of 1.8% in January as opposed to 2.1% in December.

The UK's very low level of unemployment remained unchanged in December at 4%. The number of people in work rose by 167,000 in the three months to December, pushing up annual employment growth from 1.0% in November to 1.4%. However, wage growth was weaker than anticipated; annual growth in average weekly earnings slipped from 3.3% to 2.8%. That was the weakest since June and was due to both bonuses and regular pay growth easing. With GDP growth slowing, but employment growth picking up, annual productivity growth fell further from +0.4% Q3 to -0.1% in Q4. Combined with strong pay growth, that may push up inflation in the medium term.

Meanwhile, British retail sales rebounded strongly in January as clothing discounts attracted shoppers. Compared with one year ago retail sales were 4.2% higher in January, beating forecasts pointing to a figure of 3.4%. Retail sales volume also rose by 1.0% on the month in January. This data confirmed that spending may have recovered partially from a slowdown towards the end of 2018 after splashing out during the hot summer and the World Cup. If a no deal Brexit is avoided consumers should be in a good position to ramp up spending in the second half of the year, especially if wage growth continues to exceed the pace of inflation.

The January borrowing figures came in very strong, flattered by previous tax changes. The government registered a surplus of £14.9bn in January, up from £9.3bn in the same month last year and marked the largest January surplus on record. Analysts suggested that the strength of receipts could indicate that GDP growth was not as weak as suggested in some surveys and also indicate that the Chancellor should be able to beat the OBR borrowing forecast for the financial year.

The Confederation of British Industry (CBI) data for the month was mixed – its Distributive Trades survey (retail focussed) stayed flat at 0 for February, whilst Industrial Trends (manufacturing focussed) rose from -1 to 6. Elsewhere, mortgage approvals for January rose markedly to 66,766, while the GFK Consumer Confidence reading rose to -13, up from -15, which had been its lowest level in more than five years.

In the US, December's Nonfarm Payrolls came in at 304,000, materially above forecasts of 170,000. Average hourly earnings came in at 3.2%, a very slight drop from a previous figure of 3.3%. The unemployment rate ticked up slightly to 4%. There was no Federal Reserve policy meeting in February. The advance reading of Q4 growth (annualised) was delayed until the close of the month due to the previous government shutdown. In the event, it came in at 2.6%, down from 3.4% in Q3. This provided further evidence of a slowdown in the pace of US economic activity, justifying the tempering of market expectations of future rate hikes by the Federal Reserve.

In the Eurozone, unemployment fell slightly to 7.8% in January. Meanwhile, GDP growth came in at 1.2% y/y for Q4, a drop from Q3's 1.6% figure, and the q/q figure for Q4 remained at 0.2%, in line with forecasts.

Housing

According to Nationwide's index, house prices only rose 0.4% y/y in February, compared to a previous figure of 0.1%, as Brexit uncertainty continues to slow activity. The m/m figure was -0.1%, also evidencing a slowdown. Halifax's 3 month y/y figure for the month of January was 0.8%, down from 1.3%, whilst their m/m figure showed a significant fall of -2.9%.

Currency

Sterling began February at \$1.31 and €1.14 against the dollar and euro respectively, and finished the month at \$1.33 and €1.17.

Forecast

Link Asset Services suggest that the next interest rate rise will be in the third quarter of 2019, followed by further hikes in Q2 2020 and Q1 2021, reaching 2.00% in Q1 2022. Capital Economics also expect the next rate rise will be in Q3 2019, followed by further regular rises, reaching 1.75% in Q4 2020.

Bank Rate										
	Now	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%	1.75%	1.75%	-

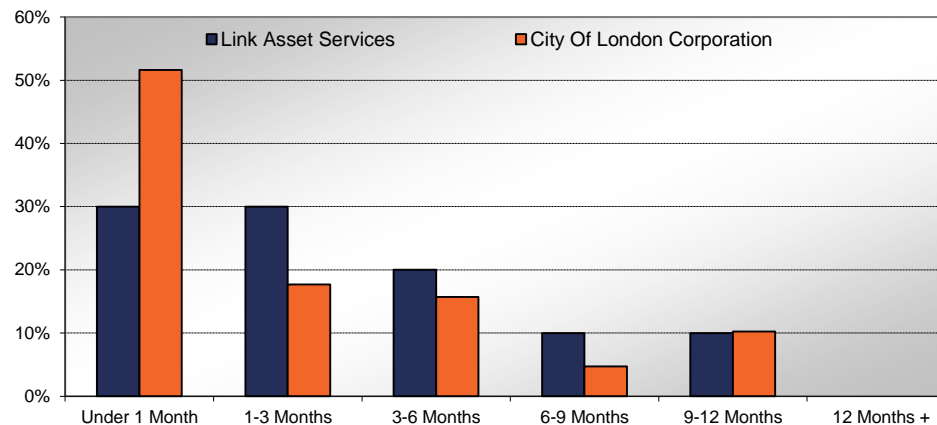
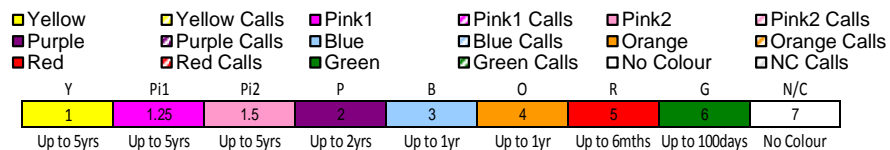
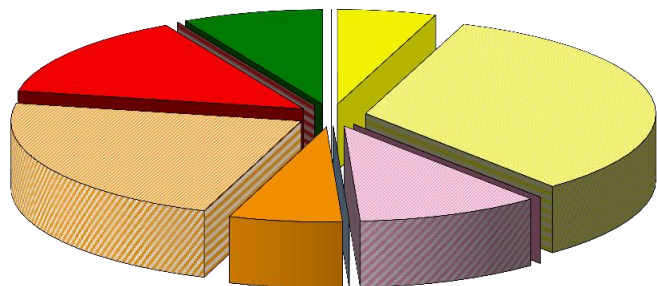
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Fitch Long Term Rating	Lowest Long Term Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	1.16%		USDBF	AAA	AAA	0.000%
MMF Aberdeen Standard Investments	50,000,000	0.79%		MMF	AAA	AAA	0.000%
MMF CCLA	10,000,000	0.79%		MMF	AAA	AAA	0.000%
MMF Deutsche	35,200,000	0.76%		MMF	AAA	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.86%		USDBF	AAA	AAA	0.000%
MMF Federated Investors (UK)	53,700,000	0.78%		MMF	AAA	AAA	0.000%
MMF Invesco	63,600,000	0.75%		MMF	AAA	AAA	0.000%
Lloyds Bank Plc (RFB)	21,100,000	0.65%		Call	A+	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.54%		USDBF	AAA	AAA	0.000%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	AA	0.002%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	A	0.004%
Lloyds Bank Plc (RFB)	22,600,000	0.75%		Call32	A+	A+	0.005%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	A-	BBB+	0.021%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	A-	0.008%
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A+	A	0.009%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	A-	0.011%
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	20/05/2019	A	A	0.012%
Santander UK Plc	20,000,000	0.90%		Call95	A+	A	0.014%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	08/06/2018	10/06/2019	A+	A+	0.015%
Goldman Sachs International Bank	20,000,000	1.12%	02/07/2018	02/07/2019	A	A	0.018%
Lloyds Bank Plc (RFB)	15,000,000	1.00%	13/07/2018	15/07/2019	A+	A+	0.020%
Santander UK Plc	30,000,000	1.00%		Call180	A+	A	0.027%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	AA-	0.015%
Goldman Sachs International Bank	20,000,000	1.32%	02/11/2018	07/11/2019	A	A	0.037%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	AA	0.020%
Santander UK Plc	50,000,000	1.15%		Call365	A+	A	0.054%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date			
L&G UTM CLIENT ACC (UTM)	50,000,000	1.38%					
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	1.38%					
Total Investments	£736,200,000	0.96%					
Total Investments - excluding Funds	£636,200,000	0.90%					0.011%
Total Investments - Funds Only	£100,000,000	1.38%					

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.88**

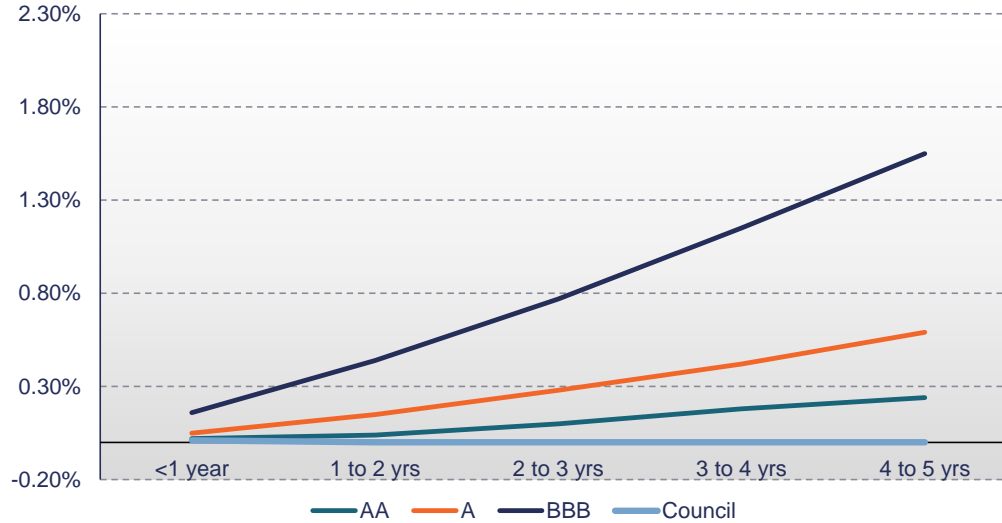
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	38.90%	£247,500,000	85.86%	£212,500,000	33.40%	0.83%	20	65	141	463
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	10.22%	£65,000,000	100.00%	£65,000,000	10.22%	0.61%	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	28.87%	£183,700,000	78.23%	£143,700,000	22.59%	0.96%	175	233	145	412
Red	14.15%	£90,000,000	0.00%	£0	0.00%	1.16%	118	370	118	370
Green	7.86%	£50,000,000	0.00%	£0	0.00%	0.92%	58	363	58	363
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£636,200,000	66.21%	£421,200,000	66.21%	0.90%	79	174	113	391

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Investment Risk and Rating Exposure

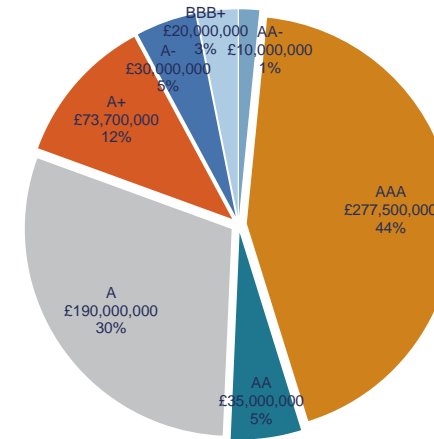
Investment Risk Vs. Rating Categories



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	0.011%	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
04/02/2019	1665	Bank of Montreal	Canada	The Support Rating was downgraded to '5' from '2'.
04/02/2019	1665	Bank of Nova Scotia	Canada	The Support Rating was downgraded to '5' from '2'.
04/02/2019	1665	Canadian Imperial Bank of Commerce	Canada	The Support Rating was downgraded to '5' from '2'.
04/02/2019	1665	National Bank of Canada	Canada	The Support Rating was downgraded to '5' from '2'.
04/02/2019	1665	Royal Bank of Canada	Canada	The Support Rating was downgraded to '5' from '2'.
04/02/2019	1665	Toronto-Dominion Bank	Canada	The Support Rating was downgraded to '5' from '2'.
08/02/2019	1666	ING Bank N.V.	Netherlands	The Long Term Rating was upgraded to 'AA-' from 'A+' and placed on Stable Outlook. The Short Term Rating was upgraded to 'F1+' from 'F1'.
15/02/2019	1667	National Australia Bank Ltd.	Australia	The Outlook on the Long Term Rating was changed to Negative from Stable and all ratings were affirmed.
21/02/2019	1668	United Kingdom Sovereign	United Kingdom	The Sovereign Rating was placed on Negative Watch and removed from Negative Outlook.
22/02/2019	1670	Norddeutsche Landesbank Girozentrale	Germany	The Viability Rating was downgraded to 'f' from 'bb' and removed from Negative Watch.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
22/02/2019	1669	Citibank N.A.	United States	The Long Term Rating was upgraded to 'Aa3' from 'A1', removed from Positive Watch and placed on Stable Outlook. The Short Term Rating was affirmed.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
		N/A		No rating action to report in February.

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