



City Of London Corporation

Monthly Investment Analysis Review

July 2019

Monthly Economic Summary

General Economy

July's economic data began with the June Markit/CIPS Manufacturing PMI figure falling to 48.0 from 49.2 the previous month. The production component contracted at the fastest pace since October 2012 and new orders dropped to a seven-year low, amid ongoing Brexit uncertainty and economic slowdown. The construction PMI, meanwhile, fell by 5.5 points to 43.1, as new orders for UK construction companies reached a ten-year low. Rounding off a gloomy set of activity surveys for June, the Services PMI retracted the previous month's gain, falling to 50.2 from 51.0, leaving the Composite figure at 49.7, indicating the economy had slightly contracted.

The UK trade deficit narrowed to £2.32bn in May 2019, falling from an upwardly revised £3.72bn the previous month. Exports rose 2.4% to £54.38bn, while imports declined 0.2% to £56.71bn. This was the smallest trade deficit since last September, as exports were boosted by fuels and machinery equipment. Meanwhile, data showed that the UK's economy grew 0.3% on average in the three months to May, slowing from an upwardly revised 0.4% expansion in the previous period. Both services and production sectors grew by 0.3% which contributed positively to the growth, while the construction sector stagnated.

Unemployment maintained its 3.8% rate in the three months to May, its lowest level since 1974, as the number of unemployed dropped by 51,000 to 1.29 million. Further data showed that the nominal employment figure increased by 28,000 to a record high of 32.75 million. The labour market's resilience (despite Brexit related uncertainty) was evident in wage growth data, which saw average earnings excluding bonuses rise 3.6% y/y from 3.4%, the fastest growth since 2008. Earnings including bonuses rose by 3.4% y/y from an upwardly revised 3.2%.

CPI inflation, on an annual basis, was in line with the Bank of England's 2% target in June. This was unchanged from the previous period and matched market expectations as the monthly rate dropped to 0.0% from 0.3% in May. The Core CPI figure (which strips out the more volatile components) increased to 1.8% from 1.7% in May.

Retail sales increased sharply by 1% m/m in June after a revised fall of -0.6% the previous month, with non-food stores providing the largest contribution to the growth (+1.7% in June). Year-on-year, retail sales rose by 3.8%, up from 2.2% in May. This has reversed the apparent declining trend witnessed in recent months.

British banks approved 66,440 mortgages for new house purchases in June 2019, up from the 65,647 revised figure reported for the previous month. In addition, approvals of loans secured on dwellings for remortgaging rose to 46,976 from 46,816 in May, while loans for other purposes registered a small decline, dropping to 14,717 from 14,740.

The Confederation for British Industry's monthly retail sales balance was -16, increasing from -42 a month earlier. Despite the improvement, this was the third consecutive month of negative retail sales, the longest period of decline since 2011. Although the index rose courtesy of a gain in grocery sales, this was not nearly enough to offset the decline in other sectors. Meanwhile, the GfK consumer confidence index also rose, to -11 this month from -13 in June.

The public finance figures showed a deficit of -£6.50bn in June, a surprisingly large difference compared to the figure for May of -£3.822bn. Excluding state-controlled banks, the deficit came in at £7.1bn, compared to £3.32bn a year ago and the highest

June borrowing since 2015. Debt went up by £27.0 billion from a year earlier to £1.82 trillion, equivalent to 83.1 percent of gross domestic product.

In the US, Nonfarm Payrolls increased by 224,000 in June following on from just 72,000 in the previous month, which suggests the labour market only faced a temporary blip in the previous period. Notable job gains occurred in professional and business services, adding 51,000 jobs in total. Average hourly earnings for all employees increased by 0.2% m/m and 3.1% y/y. The unemployment rate rose to 3.7% from a 49 year low of 3.6% in the previous month, which was not expected by the market.

The US economy grew by an annualised 2.1% in Q2 of 2019, beating market expectations of 1.8%, following a 3.1% expansion in the first quarter. Increased household consumption and government spending contributed, while a slump in exports made a negative contribution to growth. During their end-July meeting, the Federal Reserve decided to cut interest rates by 0.25%, lowering the target range for the Federal Fund Rate to 2.00-2.25%. This came amid subdued inflationary pressures and heightened concerns over ongoing trade tensions with China. Nevertheless, Chairman Powell took a more hawkish tone than markets had expected regarding future rate cuts, saying he "... did not view this as the beginning of a series of Fed rate cuts".

The Euro Area unemployment rate fell to 7.5% in June 2019 from an upwardly revised 7.6% in the previous month. This result was in line with market expectations. This is the lowest jobless rate since July 2008 as the number of unemployed has

Housing

The Nationwide's House Price Index increased by 0.3% year-on-year this month, after a 0.5% y/y rise in June and compared to market expectations of a 0.1 % gain. On a monthly basis Nationwide reported that house prices also rose 0.3%, up from 0.1% in the previous period. Halifax, meanwhile, reported that house prices rose 5.7% y/y in June, up from 5.2% y/y in May – although prices fell 0.3% on the month.

Currency

Over the month of July, the pound dropped significantly against both the dollar, from \$1.269 to \$1.215, and the euro from €1.12 to €1.09.

Forecast

Link Asset Services have cut our interest rate forecasts and now do not expect a base rate rise until Q4 2020.

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

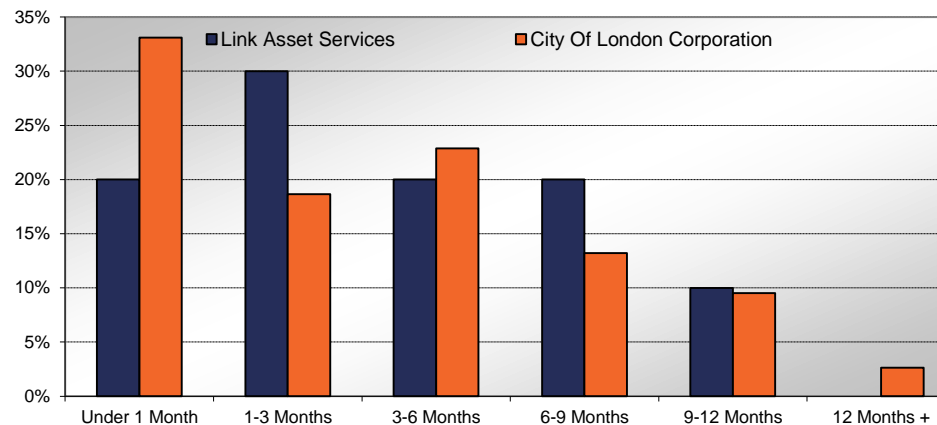
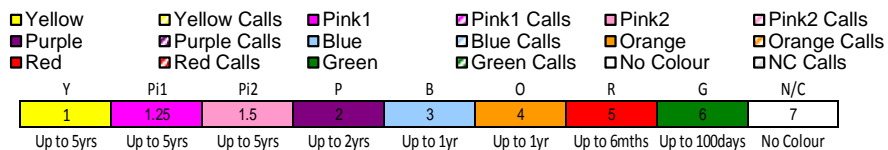
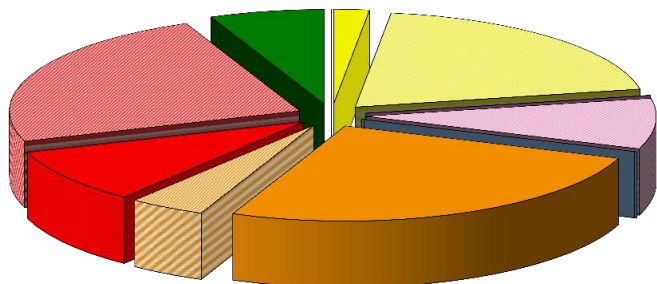
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Current Investment List

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	0.99%		USDBF	AAA	AAA	0.000%
MMF Aberdeen Standard Investments	29,500,000	0.74%		MMF	AAA	AAA	0.000%
MMF CCLA	10,000,000	0.74%		MMF	AAA	AAA	0.000%
MMF Deutsche	34,800,000	0.74%		MMF	AAA	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	1.11%		USDBF	AAA	AAA	0.000%
MMF Federated Investors (UK)	31,100,000	0.75%		MMF	AAA	AAA	0.000%
MMF Invesco	45,700,000	0.77%		MMF	AAA	AAA	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	1.19%		USDBF	AAA	AAA	0.000%
Lloyds Bank Plc (RFB)	9,400,000	0.65%		Call1	A+	A+	0.000%
Lloyds Bank Plc (RFB)	10,000,000	0.95%	28/03/2019	05/08/2019	A+	A+	0.001%
Lloyds Bank Plc (RFB)	15,000,000	0.95%	05/04/2019	05/08/2019	A+	A+	0.001%
Lloyds Bank Plc (RFB)	22,600,000	0.95%		Call32	A+	A+	0.005%
Leeds Building Society	8,400,000	0.89%	03/04/2019	03/09/2019	A-	A-	0.005%
Barclays Bank Plc (NRFB)	25,000,000	0.98%	04/04/2019	04/09/2019	A+	A	0.005%
Lloyds Bank Plc (RFB)	10,000,000	0.95%	12/06/2019	25/09/2019	A+	A+	0.008%
Lloyds Bank Plc (RFB)	10,000,000	1.00%	28/03/2019	30/09/2019	A+	A+	0.009%
Australia and New Zealand Banking Group Ltd	10,000,000	1.00%	02/04/2019	02/10/2019	AA-	AA-	0.004%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	AA-	0.005%
Australia and New Zealand Banking Group Ltd	20,000,000	1.01%	24/04/2019	24/10/2019	AA-	AA-	0.006%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/04/2019	29/10/2019	A+	A	0.013%
Santander UK Plc	20,000,000	0.90%		Call95	A+	A	0.014%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	08/05/2019	08/11/2019	A+	A+	0.014%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	21/05/2019	21/11/2019	A+	A+	0.016%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	AA	0.009%
Australia and New Zealand Banking Group Ltd	9,700,000	0.93%	25/06/2019	23/12/2019	AA-	AA-	0.010%
Australia and New Zealand Banking Group Ltd	15,000,000	1.09%	27/03/2019	27/12/2019	AA-	AA-	0.010%
Australia and New Zealand Banking Group Ltd	11,400,000	1.07%	02/04/2019	02/01/2020	AA-	AA-	0.010%
Santander UK Plc	30,000,000	1.00%		Call180	A+	A	0.026%
Yorkshire Building Society	20,000,000	1.15%	26/04/2019	27/01/2020	A-	A-	0.026%
Australia and New Zealand Banking Group Ltd	11,900,000	0.91%	29/07/2019	29/01/2020	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%
Coventry Building Society	20,000,000	1.00%	16/05/2019	17/02/2020	A-	A-	0.029%
Goldman Sachs International Bank	20,000,000	1.09%		Call270	A	A	0.039%
Skipton Building Society	20,000,000	0.95%	25/07/2019	27/04/2020	A-	BBB+	0.113%
Lloyds Bank Plc (RFB)	10,000,000	1.25%	12/06/2019	20/05/2020	A+	A+	0.042%
Australia and New Zealand Banking Group Ltd	12,000,000	1.02%	29/07/2019	29/07/2020	AA-	AA-	0.024%
Santander UK Plc	50,000,000	1.15%		Call365	A+	A	0.053%
Goldman Sachs International Bank	20,000,000	1.32%		Call370	A	A	0.054%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date			
L&G UTM CLIENT ACC (UTM)	75,000,000	4.00%					
ROYAL LONDON UT MGRS LTD DEALING A/C	75,000,000	3.46%					
Total Investments	£906,500,000	1.44%					
Total Investments - excluding Funds	£756,500,000	0.99%					0.017%
Total Investments - Funds Only	£150,000,000	3.73%					

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.58**

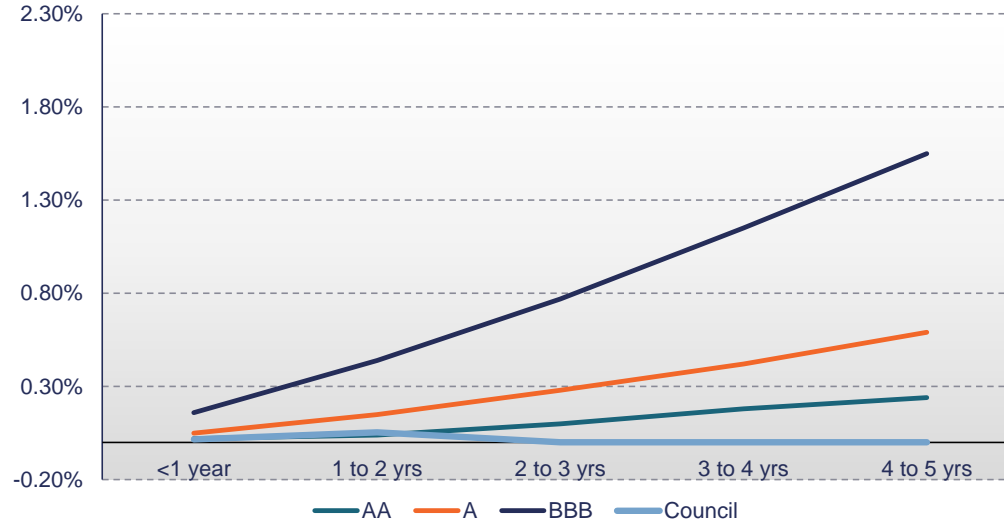
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	21.96%	£166,100,000	90.97%	£151,100,000	19.97%	0.80%	12	52	138	581
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	8.59%	£65,000,000	100.00%	£65,000,000	8.59%	1.17%	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	30.01%	£227,000,000	14.10%	£32,000,000	4.23%	0.99%	107	194	120	223
Red	33.05%	£250,000,000	72.00%	£180,000,000	23.79%	1.05%	212	239	102	199
Green	6.40%	£48,400,000	0.00%	£0	0.00%	1.02%	192	255	192	255
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£756,500,000	56.59%	£428,100,000	56.59%	0.99%	117	165	128	239

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Investment Risk and Rating Exposure

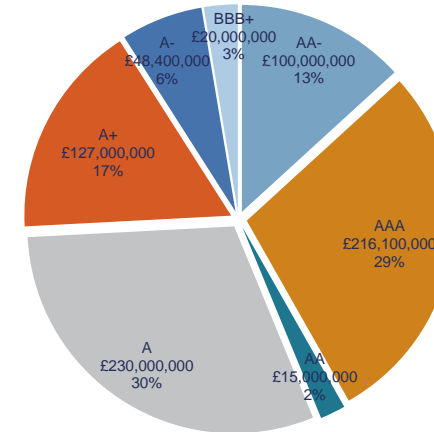
Investment Risk Vs. Rating Categories



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%	0.054%	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
17/07/2019	1690	Australia and New Zealand Banking Group Ltd.	Australia	The Outlook on the Long Term Rating was changed to Negative from Stable.
17/07/2019	1690	Westpac Banking Corp.	Australia	The Outlook on the Long Term Rating was changed to Negative from Stable.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
				No Rating Changes to Report.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
09/07/2019	1689	Australia and New Zealand Banking Group Ltd.	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.
09/07/2019	1689	Commonwealth Bank of Australia	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.
09/07/2019	1689	Macquarie Bank Ltd.	Australia	The Outlook on the Long Term Rating was changed to Positive from Evolving.
09/07/2019	1689	National Australia Bank Ltd.	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.

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