



City of London Corporation

Monthly Investment Analysis Review

October 2019

Monthly Economic Summary

General Economy

October's economic data began with the September Markit/CIPS Manufacturing PMI figure rising to 48.3, from 47.4 the previous month. The latest reading pointed to a contraction in the manufacturing sector as output and new orders fell amid ongoing global trade tensions, slower world economic growth and Brexit uncertainty. The Construction PMI, meanwhile, fell by 1.7 points to 43.3. The latest reading remained close to the ten-year low seen in June, as domestic political uncertainty and the economic slowdown continued to weigh on demand. Rounding out the set of activity surveys for September, the Services PMI fell to 49.5 from August's figure of 50.6, leaving the Composite figure at 49.3, a decrease from 50.2 in August indicating a contraction in the UK's economy last month.

The UK posted a trade deficit of £1.55 billion in August compared to a revised £1.68 billion deficit in the prior month. Imports rose 0.6% while exports grew at a 0.9% rate. Meanwhile, GDP data showed that the UK economy expanded slightly in the three months to August at 0.3%, improving on the 0.1% figure in the three months to July. Year-on-year GDP growth eased to 1.1% in August, from 1.3% in the previous month.

The UK's unemployment rate edged up to 3.9% in the three months to August, slightly higher than the figure in July of 3.8%. Unemployment rose by 22,000 to 1.3 million and employment fell the most in over four years by 56,000 to 32.7 million. Average earnings excluding bonuses rose by 3.8% in the three months to August, after an upwardly revised 3.9% increase in the previous period, which slightly exceeded market expectations of 3.7%.

On an annual basis, CPI inflation remained at 1.7% y/y in September, slightly below market expectations of 1.8% and the Bank of England's 2% target. This was the lowest inflation rate since December 2016, amid a slowdown in cost of transport, as fuel prices dropped the most since August 2016. The Core CPI figure (which strips out the more volatile components), increased to 1.7% in September from August's 1.5%, which was the lowest rate recorded since November 2016.

As expected, no growth was recorded in retail sales during September, following an upwardly revised 0.3% fall in August and matched market expectations. Most significantly, sales dropped for fuel (-2%) and non-store retailing (-1.6%), whilst sales of household goods (2%), textile, clothing & footwear (1%) and food (0.6%) all rose. Year-on-year retail sales growth increased to 3.1% in September, up from 2.6% in August.

The number of mortgages approved for house purchases in the UK rose to 65,919 in September, from a revised figure of 65,681 in August and above market expectations of 65,000. In addition, the number of approved loans secured on dwellings for remortgaging rose to 49,268 from 48,656 in August, while the number of loans for other purposes declined to 14,318 from 14,623. Net mortgage lending rose marginally to £3.85 billion in September from August's £3.7 billion.

The Confederation of British Industry's monthly retail sales balance rose 6 points from a month earlier to -10 in October, beating market expectations of -20. However, the latest reading pointed to the sixth consecutive month of decline in retail sales volume, the longest since the financial crisis amid ongoing digital disruption, layered on top of cost pressures from a weak pound. The GfK Consumer Confidence index fell by 2 points from -12 in September to -14 in October, compared to the market forecast of -13, as all five sub-indices recorded declines as Brexit uncertainty continued to weigh on sentiment.

In the US, nonfarm payrolls increased by an upwardly revised figure of 136,000 in September, following an upwardly revised increase of 168,000 in August, which was less than the 145,000 expected by the market. Notable job gains were recorded in healthcare, social assistance and financial activities. US average hourly earnings for all employees showed no change in month on month terms and were up just 2.9% y/y, the lowest increase since July 2018. The unemployment rate fell to 3.5% in September from 3.7% in August, matching a level it last saw in December 1969.

US CPI was unchanged at 1.7% y/y in September, marginally below consensus forecasts of a 1.8% y/y rise, as a pickup in food inflation was offset by a further decline in energy prices. Excluding the more volatile items, such as food and energy prices, core inflation remained at 2.4% y/y in September, unchanged from the previous month and in line with market expectations. According to the advance estimate the US economy grew at a 1.9% annualised rate in the third quarter, down from the 2% expansion recorded in the second quarter.

The Euro Area unemployment rate remained at 7.5% in September, slightly above market expectations of 7.4%. Still, this is the lowest rate recorded since July 2008. The number of unemployed persons in the Euro Area increased to 12.241 million in September from 12.207 million in August. Across the European Union as a whole, the unemployment rate was unchanged at 6.3% in September, where it has remained for the last five months.

Housing

Nationwide reported that house prices rose by 0.4% y/y in October, up from the 0.2% gain recorded in September. In monthly terms, house prices rose 0.2% in October, reversing the 0.2% decline recorded in September. According to Halifax, house prices rose 1.1% y/y in the three months to September. On the month, house prices declined by 0.4%.

Currency

Over the month of October, the pound moved significantly against the dollar, increasing from \$1.227 to \$1.296. Likewise against the Euro, the pound started the month at €1.124 and increased up to €1.162. The pound's gains during the month were largely attributable to the UK and EU agreeing a new Withdrawal Agreement, which was perceived as reducing the likelihood of the UK leaving the EU without a deal in place.

Forecast

The EU granted the UK a further extension to Article 50 until the end of January while a general election will be held on 12th December. Assuming that a trade deal is reached with the EU next year, we continue to expect a modest interest rate rise. Capital Economics expect an interest rate cut in Q2 2020 amidst a delay to Brexit.

Bank Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.75%	0.75%	0.75%	0.50%	0.50%	0.50%	-

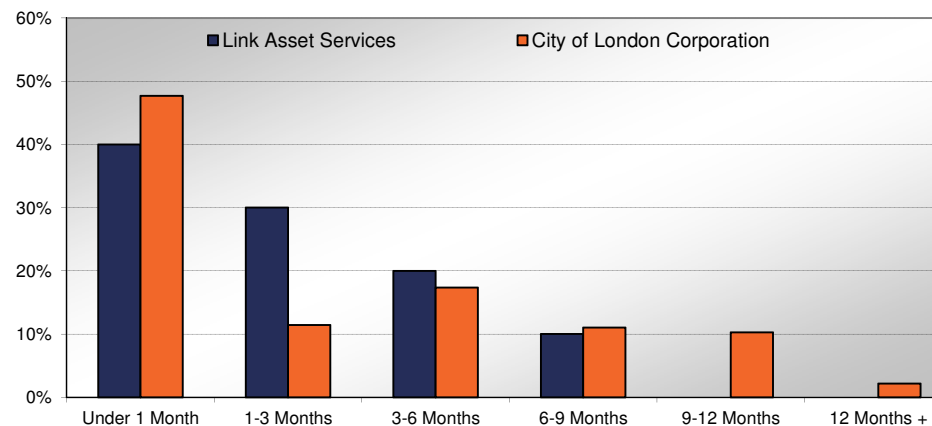
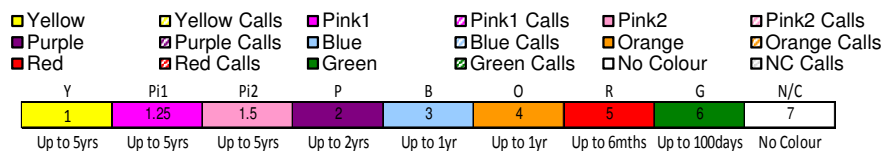
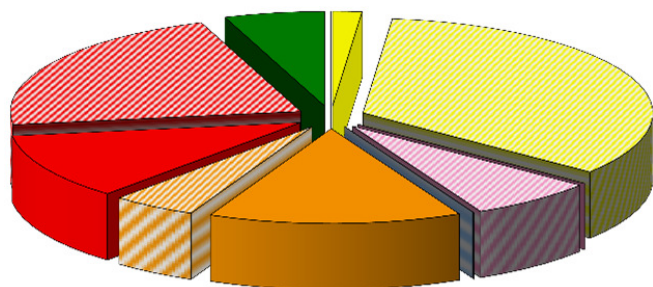
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Fitch Long Term Rating	Lowest Long Term Rating	Historic Risk of Default
Lloyds Bank Plc (RFB)	20,900,000	0.65%		Call	A+	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	1.17%		USDBF	AAA	AAA	0.000%
USDBF Aberdeen Standard Investments	5,000,000	0.78%		USDBF	AAA	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.86%		USDBF	AAA	AAA	0.000%
MMF CCLA	10,000,000	0.71%		MMF	AAA	AAA	0.000%
MMF Aberdeen Standard Investments	85,800,000	0.73%		MMF	AAA	AAA	0.000%
MMF Deutsche	58,200,000	0.71%		MMF	AAA	AAA	0.000%
MMF Federated Investors (UK)	71,100,000	0.77%		MMF	AAA	AAA	0.000%
MMF Invesco	89,900,000	0.74%		MMF	AAA	AAA	0.000%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	08/05/2019	08/11/2019	A+	A+	0.001%
Lloyds Bank Plc (RFB)	20,000,000	1.00%	21/05/2019	21/11/2019	A+	A+	0.003%
Lloyds Bank Plc (RFB)	22,600,000	0.95%		Call32	A+	A+	0.005%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	AA	0.003%
Australia and New Zealand Banking Group Ltd	9,700,000	0.93%	25/06/2019	23/12/2019	AA-	AA-	0.004%
Australia and New Zealand Banking Group Ltd	15,000,000	1.09%	27/03/2019	27/12/2019	AA-	AA-	0.004%
Australia and New Zealand Banking Group Ltd	11,400,000	1.07%	02/04/2019	02/01/2020	AA-	AA-	0.004%
Yorkshire Building Society	20,000,000	1.15%	26/04/2019	27/01/2020	A-	A-	0.013%
Australia and New Zealand Banking Group Ltd	11,900,000	0.91%	29/07/2019	29/01/2020	AA-	AA-	0.006%
Santander UK Plc	20,000,000	0.90%		Call95	A+	A	0.014%
Nationwide Building Society	25,000,000	0.85%	10/09/2019	10/02/2020	A	A	0.015%
Leeds Building Society	11,600,000	0.81%	14/08/2019	14/02/2020	A-	A-	0.015%
Coventry Building Society	20,000,000	1.00%	16/05/2019	17/02/2020	A-	A-	0.016%
Nationwide Building Society	9,000,000	0.75%	20/08/2019	20/02/2020	A	A	0.016%
Nationwide Building Society	25,000,000	0.88%	10/09/2019	10/03/2020	A	A	0.019%
Skipton Building Society	20,000,000	0.95%	25/07/2019	27/04/2020	A-	BBB+	0.075%
Santander UK Plc	30,000,000	1.00%		Call180	A+	A	0.026%
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%
Lloyds Bank Plc (RFB)	10,000,000	1.25%	12/06/2019	20/05/2020	A+	A+	0.029%
Goldman Sachs International Bank	20,000,000	1.09%		Call270	A	A	0.039%
Australia and New Zealand Banking Group Ltd	12,000,000	1.02%	29/07/2019	29/07/2020	AA-	AA-	0.018%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/08/2019	06/08/2020	A+	A+	0.040%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/10/2019	29/10/2020	A+	A	0.053%
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	4.14%					
ROYAL LONDON UT MGRS LTD DEALING A/C	75,000,000	3.62%					
Total Investments	£1,074,100,000	1.34%					
Total Investments - excluding Funds	£924,100,000	0.92%					0.015%
Total Investments - Funds Only	£150,000,000	3.88%					

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.19**

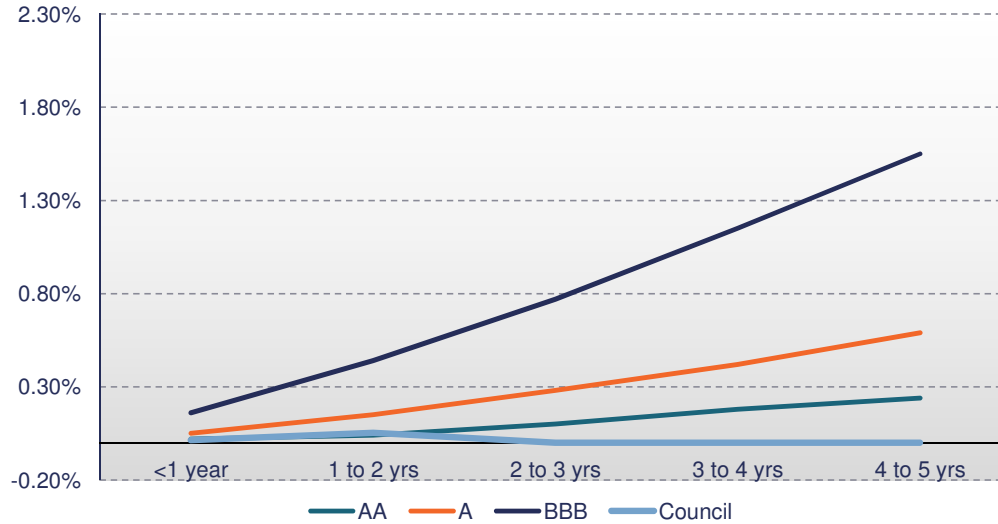
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	35.71%	£330,000,000	95.45%	£315,000,000	34.09%	0.76%	2	26	46	581
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	7.03%	£65,000,000	100.00%	£65,000,000	7.03%	1.12%	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	18.78%	£173,500,000	25.07%	£43,500,000	4.71%	0.98%	88	198	112	259
Red	32.90%	£304,000,000	65.79%	£200,000,000	21.64%	1.01%	222	244	174	238
Green	5.58%	£51,600,000	0.00%	£0	0.00%	1.00%	127	256	127	256
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
TOTAL	100.00%	£924,100,000	67.47%	£623,500,000	67.47%	0.92%	98	141	133	267

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Investment Risk and Rating Exposure

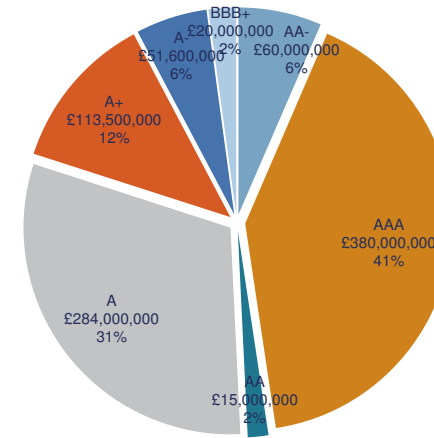
Investment Risk Vs. Rating Categories



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	0.014%	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
07/10/2019	1698	Commerzbank AG	Germany	The Outlook on the Long Term Rating of Commerzbank AG was changed to Negative from Stable.
28/10/2019	1701	ABN AMRO Bank N.V	Netherlands	The Outlook on the Long Term Rating of ABN AMRO Bank N.V was changed to Negative from Stable.
28/10/2019	1701	Cooperatieve Rabobank U.A.	Netherlands	The Outlook on the Long Term Rating of Cooperatieve Rabobank U.A. was changed to Negative from Stable.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
24/10/2019	1700	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	Germany	The Outlook on the Long Term Rating of DZ BANK AG Deutsche Zentral-Genossenschaftsbank was changed to Negative from Stable.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
23/10/2019	1699	Danske A/S	Denmark	The Outlook on the Long Term Rating of Danske A/S was changed to Stable from Negative.

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