



City Of London Corporation

Monthly Investment Analysis Review

September 2020

## Monthly Economic Summary

**General Economy**

The UK Flash (i.e. provisional) Manufacturing PMI fell to 54.3 in September from August's final release of 55.2, as both output and new business growth slowed from August's recent peak. Similarly, the Flash Services PMI eased to 55.1 in September from 58.8 in August, signifying the slowest growth in the sector for three months. In turn, these releases led to the Flash Composite PMI (which incorporates both sectors), falling to 55.7 in September from 59.1 in August. Meanwhile, the construction PMI, which is released one month behind the others, fell to 54.6 in August from 58.1 in July, as a lack of new contracts to replace completed contracts acted as a brake on the speed of expansion. In spite of the recent reduction in activity levels, all sectors remained comfortably in "expansion" territory – i.e. a reading in excess of 50 – as the economy continued to recover.

The final reading of second quarter GDP confirmed that the UK contracted by 19.8% q/q and 21.5% y/y, which were both marginally lower than preliminary estimates (of 20.4% and 21.7% respectively). However, more timely monthly GDP data for July confirmed that the economy grew by 6.6% m/m compared to June, registering its third consecutive month of growth since April's 20.4% m/m contraction. During this time the UK economy has grown by 18.6%, although it remains 11.7% smaller than in February, prior to the outbreak of the pandemic. Elsewhere, data showed that imports rose 7.5% m/m in July, outpacing a 3.5% rise in exports, causing the UK's trade surplus to narrow to £1.1 billion from a downwardly revised £3.9 billion in June.

Although the economy grew during July, the unemployment rate rose to 4.1% in the three months to July from 3.9% in the three months to June, as the number of people in work fell by 12,000. Since this data related to the period before the furlough scheme started to be unwound in August however, arguably of greater significance was the fact that the number of people claiming unemployment benefits rose by 73,700 in August, little changed from July's 69,900 rise – perhaps suggesting that the overwhelming majority of the estimated 3 million workers that have come off furlough since June have, to date, gone back to their jobs rather than into unemployment or inactivity. This may, in turn, explain July's upturn in average earnings (including bonuses), which contracted just 1% y/y in the three months to July compared to a 1.2% y/y fall in the three months to June - as many of those workers would have gone from receiving 80% of their salaries on the furlough to 100% upon returning to work.

UK inflation, as measured by the Consumer Price Index, fell to just 0.2% y/y in August compared to 1% in July, but was slightly higher than market expectations of a flat reading. This was the lowest reading since December 2015, driven largely by big price falls from restaurants and cafes due to the Eat Out to Help Out Scheme which was live throughout the month. This scheme had also had a positive impact on service sector activity in August and its conclusion can account for the last part of the fall in the PMI in September. As a result, consumer prices fell by 0.4% m/m in August, recording their biggest drop since January 2019. Similarly, the core inflation rate – which strips out the more volatile components like energy, food and alcoholic beverages – fell to 0.9% y/y in August, down from 1.8% in July, recording its lowest reading since June 2015. With inflation so far below target, it was no surprise to see the Monetary Policy Committee leave monetary policy unchanged during its September meeting - although the market did note that the Committee had been briefed on how a negative Bank Rate might be implemented effectively. As detailed in our forecast below, Link Group continues to expect Bank Rate to remain at 0.1%.

Buoyed partly by the impact of the Eat Out to Help Out scheme, retail sales rose by 0.8% m/m in August, slightly outperforming

market expectations of a 0.7% rise. Retail sales are now 4% higher than their pre-pandemic level in February and up 2.8% y/y. The GfK Consumer Confidence Index, meanwhile, rose to -25 in September from -27 in August, but remains considerably lower than the -7 reading in February, prior to the pandemic. Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK reported a record public sector current budget deficit (excluding public sector banks) of £32.0 billion in August, compared July's £13.6 billion deficit. August's deficit compares to a deficit of just £3.1 billion a year earlier. Excluding public sector-owned banks, borrowing was a record £35.9 billion, roughly seven times more than in August 2019.

In the US, the economy added another 1.4 million jobs in August, which was slightly below both market expectations and the downwardly revised 1.7 million jobs added in July. Nevertheless, the unemployment rate fell further as a result, to 8.4% from July's 10.2% rate, and below market expectations of 9.8% rate. With prices (as measured by the Fed's preferred core Personal Consumption Expenditure deflator) having fallen by 0.8% in Q2, it was no surprise to see the Federal Reserve maintain their current monetary policy stance during September's meeting. In so doing however, they also noted that the Federal Funds Rate target range is expected to remain between 0-0.25% until labour market conditions are consistent with their assessment of maximum employment and that inflation is above 2% and on track to moderately exceed it for some time.

In Europe, the final estimate for GDP confirmed that the Eurozone economy shrank by 11.8% q/q in Q2, compared to a 3.6% contraction in the previous quarter, and slightly lower than initial estimates of a 12.1% contraction. While better than the initial estimates, two consecutive periods of contraction meant that the bloc's economy was now in recession. In addition, this figure meant that, for the second quarter in a row, the bloc has suffered its steepest ever contraction. With the final estimate of Eurozone inflation showing that prices fell by 0.2% y/y in August, the ECB decided again to leave both policy rates and its coronavirus stimulus programme unchanged during its September meeting.

## Housing

Both the Halifax and Nationwide house price indices rose during August, by 1.6% m/m and 2% m/m respectively. As such, prices are now 5.2% and 3.7% higher than a year ago respectively, their recent gains partly driven by the stamp duty holiday announced by the Chancellor earlier this year.

## Currency

The prospect of a no deal Brexit undermined Sterling this month, which fell against both the Dollar and the Euro.

September	Start	End	High	Low
GBP/USD	\$1.1241	\$1.1025	\$1.1241	\$1.0805
GBP/EUR	€ 1.34	€ 1.29	€ 1.34	€ 1.27

## Forecast

Both Link Group and Capital Economics have maintained their interest rate forecasts amid the coronavirus outbreak. Bank Rate is

Bank Rate	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-

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## Current Investment List

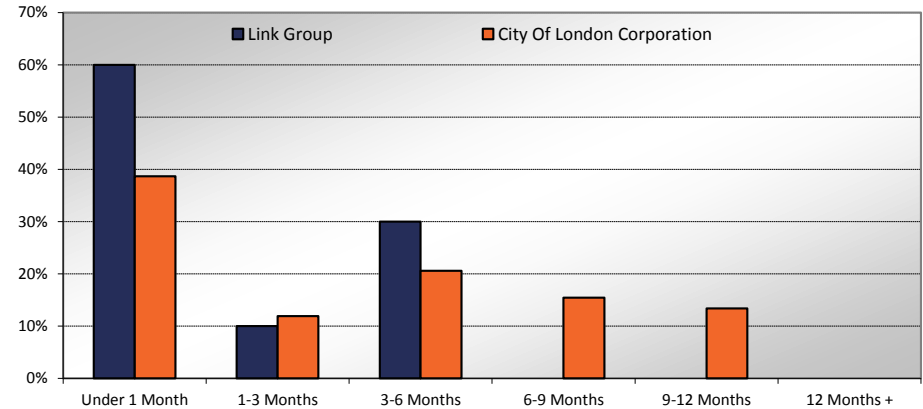
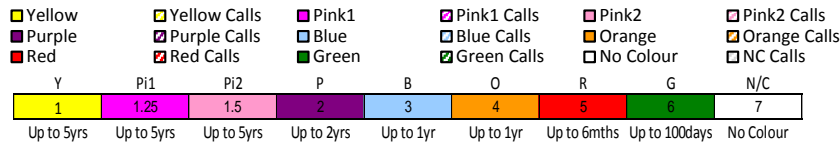
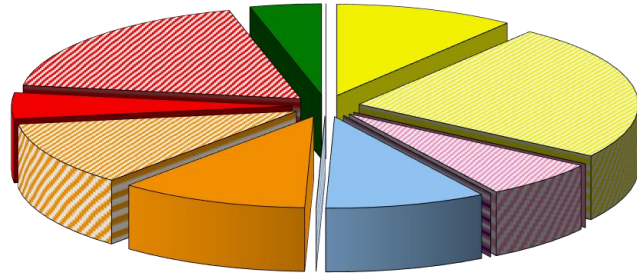
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	92,500,000	0.08%		MMF	AAA	0.000%
MMF CCLA	10,000,000	0.12%		MMF	AAA	0.000%
MMF Deutsche	8,400,000	0.05%		MMF	AAA	0.000%
MMF Federated Investors (UK)	28,000,000	0.06%		MMF	AAA	0.000%
MMF Invesco	95,800,000	0.09%		MMF	AAA	0.000%
USDBF Aberdeen Standard Investments	5,000,000	0.79%		USDBF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.55%		USDBF	AAA	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	1.16%		USDBF	AAA	0.000%
Goldman Sachs International Bank	20,000,000	1.04%	02/01/2020	02/10/2020	A+	0.000%
National Westminster Bank Plc (RFB)	20,000,000	0.93%	06/01/2020	06/10/2020	A	0.001%
Fife Council	6,000,000	0.95%	29/01/2020	29/10/2020	AA-	0.002%
Barclays Bank Plc (NRFB)	25,000,000	1.01%	29/10/2019	29/10/2020	A	0.004%
London Borough of Waltham Forest	5,000,000	0.85%	30/04/2020	30/10/2020	AA-	0.002%
Lloyds Bank Plc (RFB)	10,000,000	1.10%	01/11/2019	02/11/2020	A+	0.005%
Lloyds Bank Plc (RFB)	15,900,000	1.10%	04/11/2019	04/11/2020	A+	0.005%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	06/11/2019	06/11/2020	A+	0.005%
London Borough of Southwark	15,000,000	0.85%	11/05/2020	11/11/2020	AA-	0.003%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/11/2019	27/11/2020	A+	0.008%
Lloyds Bank Plc (RFB)	20,000,000	1.10%	27/12/2019	29/12/2020	A+	0.013%
Skipton Building Society	15,000,000	0.13%	18/08/2020	31/12/2020	BBB+	0.038%
Santander UK Plc	20,000,000	0.50%		Call95	A	0.014%
Lloyds Bank Plc (RFB)	40,000,000	0.20%		Call95	A+	0.014%
Lloyds Bank Plc (RFB)	10,000,000	1.10%	02/01/2020	04/01/2021	A+	0.014%
Australia and New Zealand Banking Group Ltd	10,000,000	0.98%	06/01/2020	06/01/2021	A+	0.014%
Leeds Building Society	20,000,000	0.30%	14/07/2020	14/01/2021	A-	0.015%
Northumberland County Council	5,000,000	1.00%	27/02/2020	25/02/2021	AA-	0.010%
Birmingham City Council	15,000,000	1.20%	28/02/2020	26/02/2021	AA-	0.010%
Stockport Metropolitan Borough Council	15,000,000	1.05%	28/02/2020	26/02/2021	AA-	0.010%
Birmingham City Council	10,000,000	1.20%	02/03/2020	01/03/2021	AA-	0.010%
Manchester City Council	25,000,000	1.20%	26/03/2020	25/03/2021	AA-	0.012%
Santander UK Plc	30,000,000	0.60%		Call180	A	0.026%
Australia and New Zealand Banking Group Ltd	70,000,000	0.40%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	0.99%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	1.00%		Call185	A+	0.027%
Goldman Sachs International Bank	20,000,000	0.96%		Call270	A+	0.039%
National Westminster Bank Plc (RFB)	20,000,000	0.42%	03/07/2020	05/07/2021	A	0.040%
National Westminster Bank Plc (RFB)	25,000,000	0.27%	07/08/2020	09/08/2021	A	0.045%
National Westminster Bank Plc (RFB)	25,000,000	0.26%	14/08/2020	13/08/2021	A	0.046%
Skipton Building Society	5,000,000	0.35%	09/09/2020	08/09/2021	BBB+	0.144%

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Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
London Borough of Waltham Forest	5,000,000	0.33%	30/09/2020	29/09/2021	AA-	0.024%
Santander UK Plc	50,000,000	0.75%		Call365	A	0.053%
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>		
ROYAL LONDON	75,000,000	2.40%				
L&G	75,000,000	2.51%				
<b>Total Investments</b>	<b>£1,121,600,000</b>	<b>0.85%</b>				
<b>Total Investments - excluding Funds</b>	<b>£971,600,000</b>	<b>0.60%</b>				<b>0.016%</b>
<b>Total Investments - Funds Only</b>	<b>£150,000,000</b>	<b>2.46%</b>				

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.02**

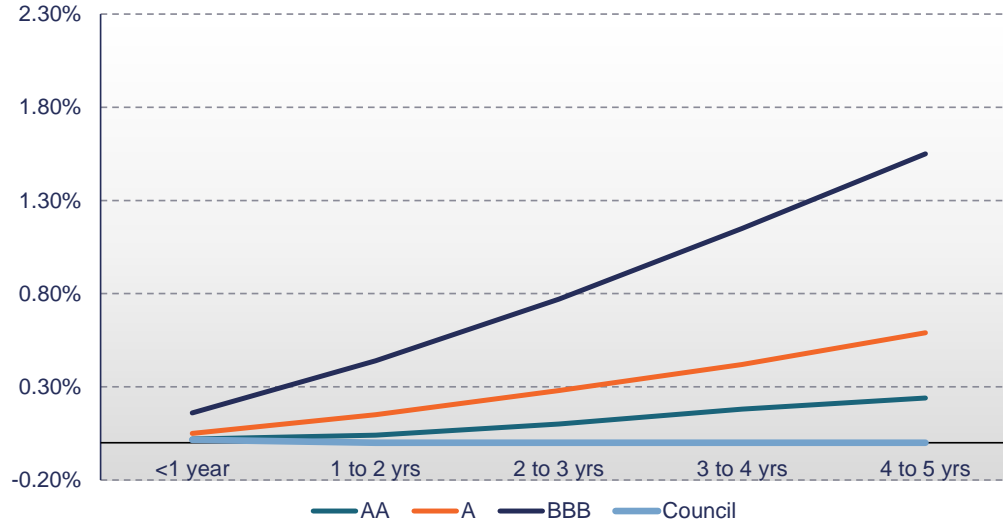
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	34.55%	£335,700,000	69.91%	£234,700,000	24.16%	0.37%	41	97	138	323
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	6.69%	£65,000,000	100.00%	£65,000,000	6.69%	1.08%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	9.26%	£90,000,000	0.00%	£0	0.00%	0.45%	238	346	238	346
Orange	22.22%	£215,900,000	50.95%	£110,000,000	11.32%	0.70%	108	257	62	367
Red	23.16%	£225,000,000	80.00%	£180,000,000	18.53%	0.85%	190	252	17	325
Green	4.12%	£40,000,000	0.00%	£0	0.00%	0.24%	130	188	130	188
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£971,600,000</b>	<b>60.69%</b>	<b>£589,700,000</b>	<b>60.69%</b>	<b>0.60%</b>	<b>110</b>	<b>189</b>	<b>125</b>	<b>327</b>

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## Investment Risk and Rating Exposure

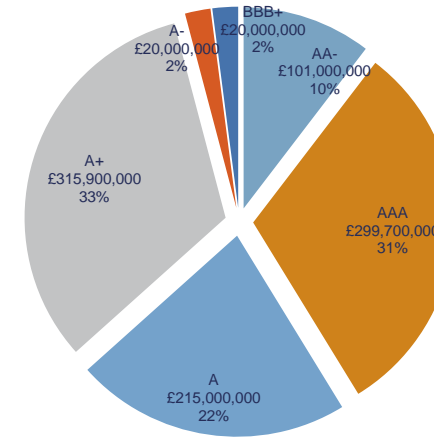
Investment Risk Vs. Rating Categories



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.

## City Of London Corporation

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
15/09/2020	1772	Cooperatieve Rabobank U.A.	Netherlands	The Long Term and Short Term ratings were downgraded to 'A+' from 'AA'- and 'F1' from 'F1+' respectively. At the same time, the Negative Watch on the Long Term, Short Term and Viability ratings were removed. The Long Term Rating was placed on Negative Outlook.
15/09/2020	1773	ABN AMRO Bank N.V.	Netherlands	The Long Term Rating was downgraded to 'A' from 'A+'.
16/09/2020	1774	ING Bank N.V.	Netherlands	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1775	Svenska Handelsbanken AB	Sweden	The Long Term and Viability Rating were removed from Negative Watch. At the same time, the Long Term Rating was placed on Negative Outlook.
18/09/2020	1776	Skandinaviska Enskilda Banken AB	Sweden	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1777	Nordea Bank Abp	Finland	The Long Term, Short Term and Viability ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	DBS Bank Ltd.	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	United Overseas Bank Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	Oversea-Chinese Banking Corporation Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.



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### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/09/2020	1771	Wells Fargo Bank, NA	United States	The Outlook on the Long Term Rating was changed to Negative from Stable.
21/092020	1778	West Bromwich Building Society	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

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## Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
				No rating changes to report.

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