



City of London Corporation

Monthly Investment Analysis Review

December 2020

Monthly Economic Summary

General Economy

The UK Flash (i.e. provisional) Manufacturing PMI rose to 57.3 in December from 55.6 in November, pointing to the strongest growth in the manufacturing sector since November 2017 as businesses brought forward orders to guard against potential disruption caused by the end of the Brexit transition period. The Flash Services PMI, meanwhile, rose to 49.9 in December from 47.6 in November but, by remaining below 50, still signalled a second consecutive month of decline in the sector. Ultimately, the manufacturing sector's growth enabled the Flash Composite PMI (which incorporates both sectors), to rise to 50.7 in December from 49.0 in November. Although the rise was less than market expectations of 51.3, it did suggest that private sector output rose during the month. The construction PMI, meanwhile, which is released one month behind, rose to 54.7 in November from 53.1 in October, supported by sharp increases in house building.

Monthly GDP data for October confirmed that the economy grew by 0.4% m/m, less than half the pace of that seen in September's 0.9% increase. The slower pace of growth reflected the gradual re-imposition of nationwide restrictions as COVID-19 cases began to climb once again. The reading suggested that growth was already slowing prior to the subsequent introduction of the second lockdown in November. However, quarterly GDP data confirmed that the economy expanded by a record 16% in the three months to September, compared to a preliminary estimate of 15.5%, largely reflecting the easing of lockdown restrictions earlier in the quarter. Nevertheless, this growth still left the UK economy 8.6% smaller than it was in last year's third quarter. Trade data, meanwhile, revealed that the UK's trade surplus fell from £0.61bn in September to a deficit of £1.74 billion in October, as exports declined by 3.6% on the month while imports rose by 1.2%.

The UK's unemployment rate rose to 4.9% in the three months to October, compared to 4.8% in the previous period and against market expectations of a rise to 5.1%. This represented the highest jobless rate since the three months to August 2016, as employers shed workers as the government's scheme shifted more of the support onus on firms for furloughed employees. Although the scheme was extended at month's end, redundancies still reaching a record 370,000, 56,000 higher than the previous record in the three months to September. More timely data showed that, after falling in each of the previous two months, the number of people claiming unemployment benefits in November rose by 64,300 to 2.7 million, 1.4 million higher than in March. Nevertheless, the continued return of staff from furlough for much of the period saw average weekly earnings (excluding bonuses) rise by 2.8% y/y in the three months to October - the largest rise since February.

UK inflation, as measured by the Consumer Price Index, dropped to 0.3% y/y in November from 0.7% y/y in October and lower than market expectations of a fall to 0.6% y/y. The greater than expected fall was largely attributable to increased discounting during Black Friday sales at month-end. This discounting also contributed to consumer prices falling by 0.1% m/m in November after a flat reading in October, compared to expectations of a 0.1% rise. Despite CPI inflation falling further away from the Bank of England's 2% target, the Monetary Policy Committee unanimously voted to maintain policy rates and its quantitative easing programme at its December meeting. The prospect of a subsequent "emergency" meeting in January to announce additional stimulus, which the market postulated might occur in the event of a "no-deal" Brexit, eventually dissipated once the UK signed a free trade agreement with the EU just prior to month end.

Retail sales, meanwhile, fell 3.8% m/m in November, falling short of market forecasts of a 2.8% contraction and October's 1.3% gain. This marked the first month of falling sales since April, reflecting the imposition of the second national lockdown which forced non-essential retail stores to close. Despite this, however, retail sales remain 2.4% y/y higher and above their pre-pandemic levels. Consumer confidence, meanwhile, rose to -26 in December from -33 in November, as the launch of the UK's COVID-19 vaccination programme boosted sentiment.

Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK reported a public sector budget deficit (excluding public sector banks) of £31.6 billion in November, £26.0 billion more than in November 2019 and the third-highest monthly deficit since records began in 1993. Borrowing in the first eight months of this financial year is estimated to have been £240.9 billion, a record in any April to November period. Borrowing looks set to remain elevated following the announcement of further support for the economy this month.

In the US, the imposition of COVID-19 restrictions saw the economy add 245,000 jobs in November, significantly below a downwardly revised 610,000 jobs in October and some way less than market forecasts of 469,000. Nevertheless, the gain was sufficient to nudge the US unemployment rate down to 6.7% in November from 6.9% in October, lower than forecasts of 6.8%. Prices (as measured by the Fed's preferred core Personal Consumption Expenditure deflator), rose just 1.1% y/y in November compared to expectations of 1.3% y/y and the Federal Reserve's 2% average target. Given the state of the economy, it was no surprise to see the Federal Reserve maintain their current ultra-accommodative monetary policy stance during December's meeting. Congress, meanwhile, finally approved an \$892bn aid package to support future growth.

The final estimate of Eurozone GDP revealed that the bloc's economy expanded by 12.5% q/q during Q3, rebounding from the record 11.8% q/q slump in Q2. However, the rise in December's Flash Composite PMI to just 49.8 from 45.3 in November – remaining below the expansion level of 50 – suggests that the bloc contracted again during Q4, as measures to counter rising coronavirus cases were reintroduced. With prices across the bloc falling by 0.3% y/y in November against this backdrop, the European Central Bank maintained interest rates at current levels. However, as expected, it increased the size and duration of its

Housing

Both the Halifax and Nationwide house price indices continued to rise, the former by 1.2% m/m during November and the latter by 0.8% m/m during December – which were both up from the respective 0.3% m/m and 0.9% m/m rises witnessed during their prior months. On an annual basis, the indices have risen 7.6% y/y and 7.3% y/y respectively. Behavioural shifts as a result of COVID-19 may provide support for housing market activity, while the stamp duty holiday is expected to continue to provide a near term boost by bringing purchases forward.

Currency

The commencement of distribution of COVID-19 vaccines in the UK (which dimmed the allure of the US Dollar as a safe haven), as well as the agreement of a post-Brexit UK-EU trade deal and further loosening of Eurozone monetary policy resulted in Sterling improving against both the Dollar and the Euro this month.

October	Start	End	High	Low
GBP/USD	\$1.3363	\$1.3670	\$1.3670	\$1.3211
GBP/EUR	€1.1106	€1.1172	€1.1172	€1.0907

Forecast

Both Link Group and Capital Economics have made no change to their interest rate forecasts. Bank Rate is forecast to remain

Bank Rate	Now	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Link Group	0.10%	0.10%	0.10%	0.10%	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%	0.10%	0.10%	0.10%	-	-	-	-	-	-

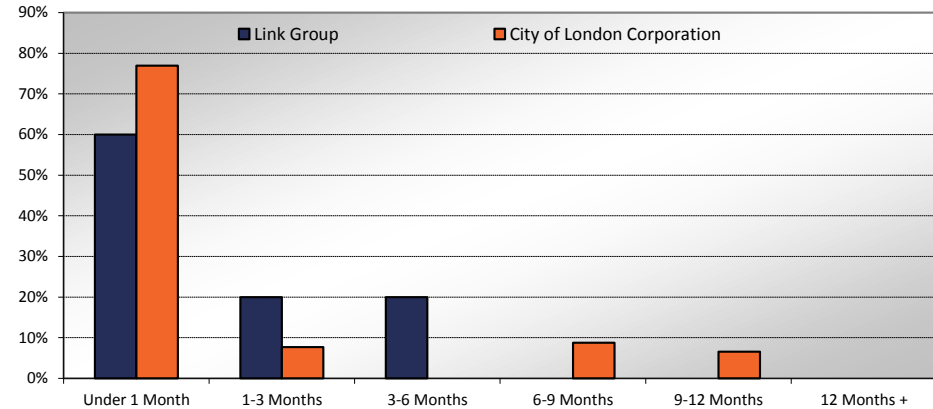
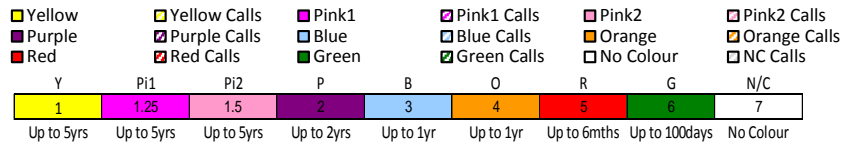
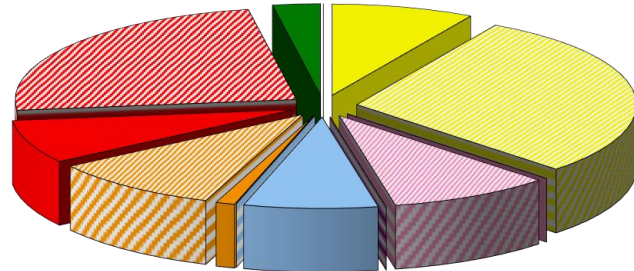
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
USDBF Aberdeen Standard Investments	5,000,000	0.63%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	55,000,000	1.18%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	25,000,000	0.39%		USDBF	AAAf	
Santander UK Plc	50,000,000	0.68%		Call	A	0.000%
Santander UK Plc	30,000,000	0.58%		Call	A	0.000%
Santander UK Plc	20,000,000	0.40%		Call	A	0.000%
Australia and New Zealand Banking Group Ltd	90,000,000	0.40%		Call	A+	0.000%
Goldman Sachs International Bank	20,000,000	0.53%		Call	A+	0.000%
Goldman Sachs International Bank	20,000,000	0.44%		Call	A+	0.000%
Goldman Sachs International Bank	20,000,000	0.43%		Call	A+	0.000%
Goldman Sachs International Bank	20,000,000	0.43%		Call	A+	0.000%
MMF Aberdeen Standard Investments	72,400,000	0.01%		MMF	AAAm	
MMF CCLA	54,800,000	0.05%		MMF	AAAm	
MMF Deutsche	7,600,000	0.01%		MMF	AAAm	
MMF Federated Investors (UK)	47,900,000	0.01%		MMF	AAAm	
MMF Invesco	84,100,000	0.02%		MMF	AAAm	
Lloyds Bank Plc (RFB)	40,000,000	0.20%		Call	A+	0.000%
Lloyds Bank Plc (RFB)	10,000,000	1.10%	02/01/2020	04/01/2021	A+	0.001%
Australia and New Zealand Banking Group Ltd	10,000,000	0.98%	06/01/2020	06/01/2021	A+	0.001%
Leeds Building Society	20,000,000	0.30%	14/07/2020	14/01/2021	A-	0.002%
Northumberland County Council	5,000,000	1.00%	27/02/2020	25/02/2021	AA-	0.004%
Birmingham City Council	15,000,000	1.20%	28/02/2020	26/02/2021	AA-	0.004%
Stockport Metropolitan Borough Council	15,000,000	1.05%	28/02/2020	26/02/2021	AA-	0.004%
Birmingham City Council	10,000,000	1.20%	02/03/2020	01/03/2021	AA-	0.004%
Manchester City Council	25,000,000	1.20%	26/03/2020	25/03/2021	AA-	0.005%
National Westminster Bank Plc (RFB)	20,000,000	0.42%	03/07/2020	05/07/2021	A	0.025%
National Westminster Bank Plc (RFB)	25,000,000	0.27%	07/08/2020	09/08/2021	A	0.029%
National Westminster Bank Plc (RFB)	25,000,000	0.26%	14/08/2020	13/08/2021	A	0.030%
Skipton Building Society	5,000,000	0.35%	09/09/2020	08/09/2021	BBB+	0.102%
London Borough of Waltham Forest	5,000,000	0.33%	30/09/2020	29/09/2021	AA-	0.018%
Goldman Sachs International Bank	20,000,000	0.13%	08/12/2020	08/12/2021	A+	0.045%
Lloyds Bank Plc (RFB)	20,000,000	0.10%	16/12/2020	16/12/2021	A+	0.046%
Lloyds Bank Plc (RFB)	20,000,000	0.10%	29/12/2020	29/12/2021	A+	0.048%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G	75,000,000	3.85%				
ROYAL LONDON	75,000,000	3.54%				
Total Investments	£1,061,800,000	0.86%				
Total Investments - excluding Funds	£911,800,000	0.40%				0.010%
Total Investments - Funds Only	£150,000,000	3.70%				

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Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number =

2.94

WARoR = Weighted Average Rate of Return

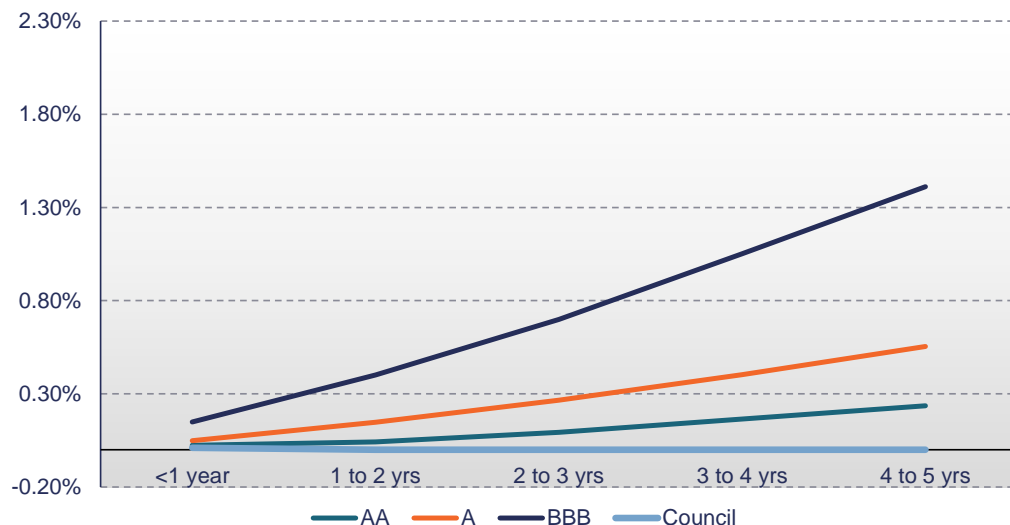
WAM = Weighted Average Time to Maturity

	% 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	37.49%	£341,800,000	78.06%	£266,800,000	29.26%	0.26%	18	80	81	364
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	9.32%	£85,000,000	100.00%	£85,000,000	9.32%	0.92%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	7.68%	£70,000,000	0.00%	£0	0.00%	0.31%	212	366	212	366
Orange	10.97%	£100,000,000	90.00%	£90,000,000	9.87%	0.46%	1	37	6	366
Red	31.81%	£290,000,000	75.86%	£220,000,000	24.13%	0.42%	73	88	302	365
Green	2.74%	£25,000,000	0.00%	£0	0.00%	0.31%	61	220	61	220
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£911,800,000	72.58%	£661,800,000	72.58%	0.40%	48	96	175	351

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Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories

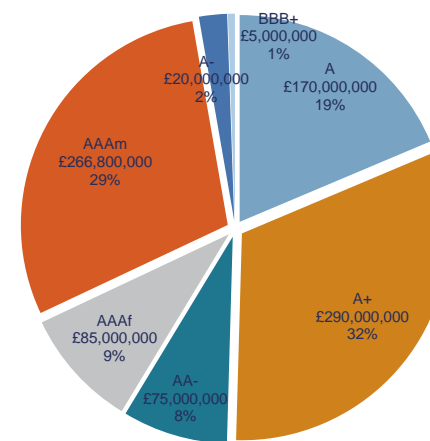


Historic Risk of Default

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%	0.24%
A	0.05%	0.15%	0.27%	0.40%	0.55%
BBB	0.15%	0.40%	0.70%	1.05%	1.41%
Council	0.010%	0.000%	0.000%	0.000%	0.000%

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.

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
				No rating changes to report.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
01/12/2020	1787	Credit Suisse AG	Switzerland	The Long Term Rating was upgraded to 'Aa3' from 'A1'. At the same time, the Outlook was changed to Stable from Positive.

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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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