



City of London Corporation

Monthly Investment Analysis Review

March 2021

General Economy

The UK Flash (i.e. provisional) manufacturing PMI increased to 57.9 in March from 55.1 in February. This signalled the strongest rate of factory output growth since November 2017, despite COVID-19 restrictions remaining in place. The Flash Services PMI, meanwhile, rose to 56.8 in March from 49.7 in February, signalling the first month of expansion in the services sector since October 2020. Together, these gains saw the Flash Composite PMI (which incorporates both sectors), rise to 56.6 in March compared to 49.8 in February, and above the no change 50 mark for the first time in three months. The construction PMI, meanwhile, which is released one month behind, rose to 53.3 in February from 49.2 in January, as project starts increased ahead of the impending end of the third national lockdown.

Monthly GDP data for January revealed that the reimposition of national lockdown measures on the economy at the end of December resulted in output contracting by 2.9% m/m, compared to December's 1.2% m/m expansion. Although this left GDP 9.2% lower than a year ago, the decline was better than the 4.9% contraction expected by the consensus and significantly better than the contractions witnessed during the first lockdown, which started in March last year, suggesting that the economy has become more resilient to lockdowns. Trade data, meanwhile, revealed that an 18.5% fall in imports outweighed a record 11.5% contraction in exports during January, ultimately causing the UK's trade deficit to fall to £1.6 billion in January from £6.2 billion in December. According to analysts, the stockpiling of goods ahead of Brexit and the impact of COVID-19 lockdowns in the UK and Europe contributed to the decline.

The UK's unemployment rate fell to 5% in the three months to January, compared to 5.1% in the previous period, registering its first decline since September 2019. To an extent, this result highlighted the effectiveness of the government's Job Retention Scheme (extended until September during the month), which is currently estimated to be supporting about 4 million jobs. However, it also reflects the combined impact of 147,000 job losses recorded during the period being offset by a 136,000 fall in the labour force, meaning that unemployment only rose by a net 11,000 during the three months. More timely data, however, suggests that the number of people claiming unemployment benefits in the UK increased by 86,600 to 2.7 million during February. Although average weekly earnings including bonuses surged 4.8% y/y in the three months to January, this partly reflects the loss of low paid jobs during the pandemic. Excluding this effect, earnings were estimated to have risen at a 3.2% y/y rate.

UK inflation, as measured by the Consumer Price Index, surprisingly eased to 0.4% y/y in February from 0.7% y/y in January, below market forecasts of a rise to 0.8% y/y. The smaller than expected result was largely due to a 5.7% fall in clothing and footwear prices, which represented the largest annual decline since November 2009. On a monthly basis, consumer prices rose by 0.1% in February, compared to a 0.2% fall in January and market forecasts of a 0.4% drop. With the annual rate still well below the Monetary Policy Committee's 2% target, the Committee voted unanimously to keep Bank Rate at 0.1% and left its bond-buying programme unchanged during its March meeting.

Retail sales, meanwhile, matched market forecasts by rising 2.1% m/m in February, rebounding strongly from the 8.2% contraction recorded in January. As a result, sales remained 3.7% lower than a year earlier, although this represented an improvement on the 5.9% y/y contraction posted in January. The GfK Consumer Confidence index also registered an improvement, rising 7 points to -16 in March, ahead of market forecasts of -20. This was the highest reading since March last year, as prospects for economic recovery

improved amid vaccination rollouts.

Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK's public sector net borrowing (excluding public sector banks) reached £19.1 billion in February, £17.6 billion more than during the same month last year. Borrowing in the first 11 months of this financial year, meanwhile, is estimated to have been £278.8 billion, £228.2 billion more than in the same period last year and the highest public sector borrowing in any April to February period since records began in 1993. The fiscal burden is likely to remain high in the near term, given that the Chancellor provided further support amounting to approximately £70bn in this year's Spring Budget.

Aided by an easing of COVID restrictions and an acceleration of vaccinations, the US economy added 379,000 jobs in February, outperforming market expectations of a 182,000 rise. This enabled the unemployment rate to ease to 6.2% in February from 6.3% in January. The third and final estimate of GDP, meanwhile, confirmed that the US economy expanded by an annualised 4.3% rate during Q4 2020. Future growth prospects also received a boost following the signing into law of President Biden's \$1.9 trillion stimulus package. Against this backdrop, prices (as measured by the Federal Reserve's preferred core Personal Consumption Expenditure deflator), rose 1.6% y/y in February compared to expectations of 1.7% y/y and the Federal Reserve's 2% average target. With inflation still below target, the Federal Reserve maintained their ultra-accommodative monetary policy stance during its March meeting, signalling that the Federal Funds Rate is unlikely to rise before 2023.

The third and final estimate of GDP confirmed that the Eurozone economy shrank by 0.7% q/q in Q4 2020 compared to the previous estimate of a 0.6% fall. Core inflation, meanwhile, fell from 1.4% y/y in January to 0.9% y/y in February. With inflation still well below the ECB's 2% target, the central bank left interest rates unchanged at their record lows during its March meeting. However, the ECB announced that "bond purchases under the PEPP over the next quarter [would be] conducted at a significantly higher pace than during the first months of this year", as the central bank aimed to lower government bond yields and support Eurozone economic recovery.

Housing

House prices rose by 5.7% y/y during March according to the Nationwide house price index and 5.2% y/y in February according to the Halifax house price index. On a monthly basis however, prices fell by 0.2% and 0.1% respectively, likely reflecting a softening of demand ahead of the original end of the stamp duty holiday before the Chancellor announced its extension in the Budget.

Currency

Sterling improved against the Euro as the UK's vaccine rollout progressed as planned whilst parts Europe witnessed rising COVID 19 cases. However, the passage of President Biden's stimulus package boosted US growth prospects further, which contributed to Sterling easing against the Dollar.

March	Start	End	High	Low
GBP/USD	\$1.3938	\$1.3797	\$1.3991	\$1.3712
GBP/EUR	€1.1565	€1.1739	€1.1739	€1.1565

Forecast

Both Link Group and Capital Economics have made no change to their interest rate forecasts. Bank Rate is forecast to remain unchanged at 0.1% throughout 2021.

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

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Current Investment List

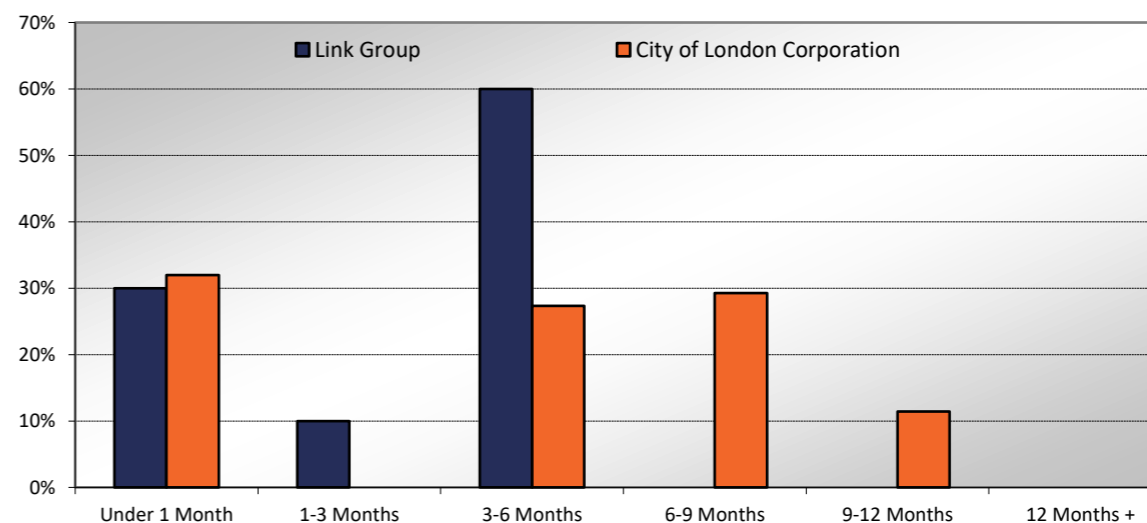
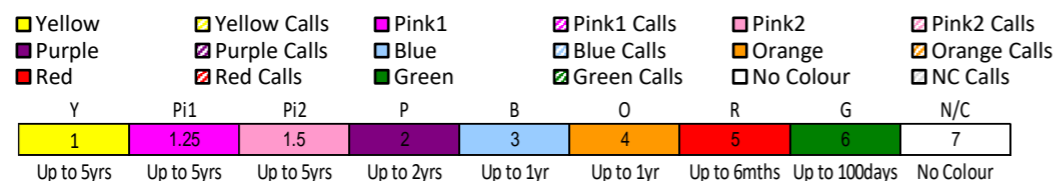
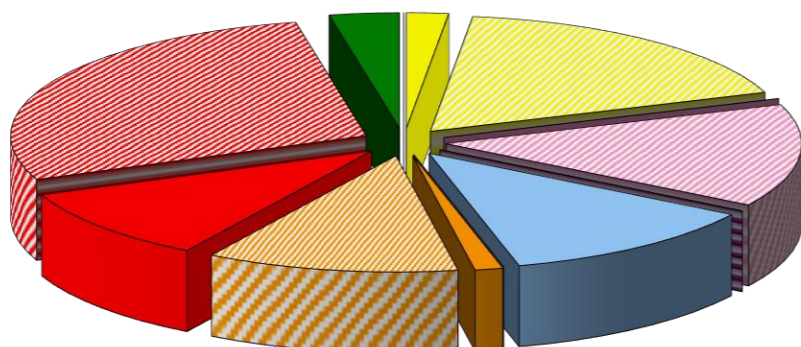
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
MMF Aberdeen Standard Investments	26,500,000	0.01%		MMF	AAAm		
MMF CCLA	44,000,000	0.04%		MMF	AAAm		
MMF Deutsche	8,800,000	0.01%		MMF	AAAm		
MMF Federated Investors (UK)	15,400,000	0.01%		MMF	AAAm		
MMF Invesco	43,800,000	0.02%		MMF	AAAm		
USDBF Aberdeen Standard Investments	25,388,945	1.15%		USDBF	AAAf		
USDBF Federated Sterling Cash Plus Fund	25,351,099	0.27%		USDBF	AAAf		
USDBF Payden Sterling Reserve Fund	61,864,284	2.75%		USDBF	AAAf		
Leeds Building Society	20,000,000	0.10%	29/03/2021	02/07/2021	A-	0.012%	2402
Santander UK Plc	20,000,000	0.40%		Call95	A	0.012%	2454
Lloyds Bank Plc (RFB)	40,000,000	0.05%		Call95	A+	0.012%	4908
National Westminster Bank Plc (RFB)	20,000,000	0.42%	03/07/2020	05/07/2021	A	0.012%	2480
National Westminster Bank Plc (RFB)	25,000,000	0.27%	07/08/2020	09/08/2021	A	0.017%	4230
National Westminster Bank Plc (RFB)	25,000,000	0.26%	14/08/2020	13/08/2021	A	0.017%	4359
Skipton Building Society	5,000,000	0.35%	09/09/2020	08/09/2021	BBB+	0.062%	3116
Santander UK Plc	30,000,000	0.58%		Call180	A	0.023%	6975
National Westminster Bank Plc (RFB)	25,000,000	0.14%	26/03/2021	27/09/2021	A	0.023%	5812
London Borough of Waltham Forest	5,000,000	0.33%	30/09/2020	29/09/2021	AA-	0.012%	0
Australia and New Zealand Banking Group Ltd	90,000,000	0.40%		Call185	A+	0.024%	21505
Goldman Sachs International Bank	20,000,000	0.24%		Call185	A+	0.024%	4779
Goldman Sachs International Bank	20,000,000	0.23%		Call185	A+	0.024%	4779
Goldman Sachs International Bank	20,000,000	0.23%		Call185	A+	0.024%	4779
Goldman Sachs International Bank	20,000,000	0.13%	08/12/2020	08/12/2021	A+	0.033%	6510
Lloyds Bank Plc (RFB)	20,000,000	0.10%	16/12/2020	16/12/2021	A+	0.034%	6716
Goldman Sachs International Bank	20,000,000	0.53%		Call270	A+	0.035%	6975
Lloyds Bank Plc (RFB)	20,000,000	0.10%	29/12/2020	29/12/2021	A+	0.035%	7052
Australia and New Zealand Banking Group Ltd	10,000,000	0.12%	08/02/2021	08/02/2022	A+	0.041%	4056
Stockport Metropolitan Borough Council	10,000,000	0.10%	26/02/2021	25/02/2022	AA-	0.021%	0
Barclays Bank Plc (NRFB)	20,000,000	0.19%	26/03/2021	28/03/2022	A	0.047%	9351
Santander UK Plc	50,000,000	0.68%		Call365	A	0.047%	23572
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date			
L&G	80,563,899	6.90%					
ROYAL LONDON	80,404,358	5.77%					
Total Investments	£947,072,586	1.47%					
Total Investments - excluding Funds	£786,104,328	0.48%				0.026%	£136,809
Total Investments - Funds Only	£160,968,257	6.34%					

Note: An historic risk of default and expected credit loss are only provided if a counterparty has a counterparty credit rating and are not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default and expected credit loss therefore measure the historic risk of default and expected credit loss attached only to those investments for which a counterparty has a counterparty credit rating and also do not include investments which are not rated.

The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2020 for Fitch, 1983-2020 for Moody's and 1981-2020 for S&P.

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Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 3.38

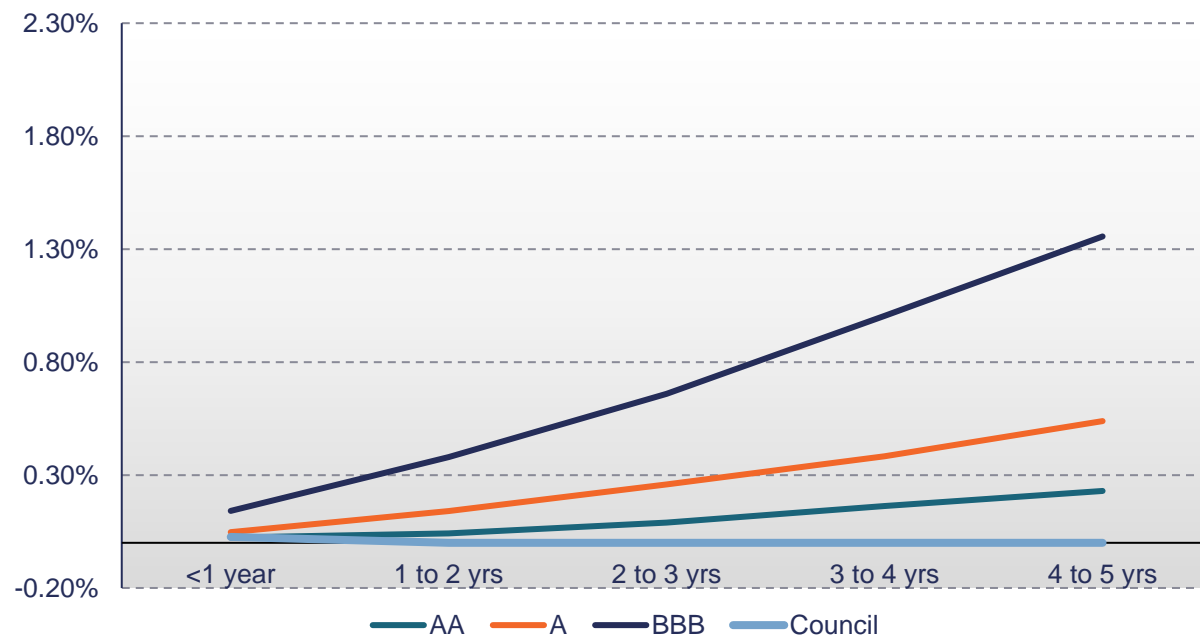
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	19.53%	£153,500,000	90.23%	£138,500,000	17.62%	0.04%	27	36	281	364
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	14.32%	£112,604,328	100.00%	£112,604,328	14.32%	1.83%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	12.08%	£95,000,000	0.00%	£0	0.00%	0.26%	138	318	138	318
Orange	12.72%	£100,000,000	90.00%	£90,000,000	11.45%	0.37%	198	203	314	365
Red	38.16%	£300,000,000	73.33%	£220,000,000	27.99%	0.32%	229	250	287	366
Green	3.18%	£25,000,000	0.00%	£0	0.00%	0.15%	107	149	107	149
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£786,104,328	71.38%	£561,104,328	71.38%	0.48%	138	171	205	321

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Investment Risk and Rating Exposure

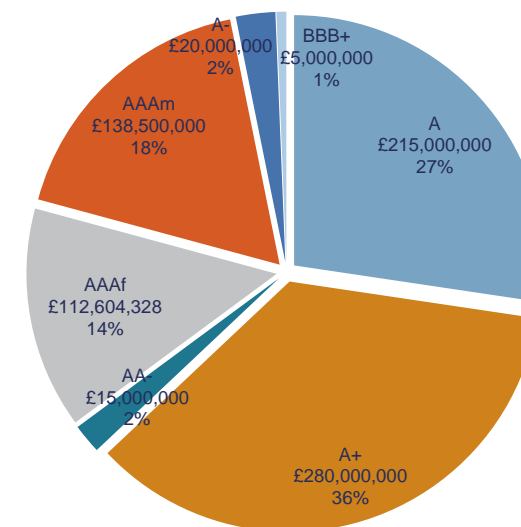
Investment Risk Vs. Rating Categories



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%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
Council	0.026%	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.

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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
03/03/2021	1795	UBS AG	Switzerland	The Outlook on the Long Term Rating was changed to Stable from Negative.
04/03/2021	1796	Commerzbank AG	Germany	All ratings were affirmed and simultaneously withdrawn.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
31/03/2021	1798	Credit Suisse AG	Switzerland	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
01/03/2021	1793	Nordea Bank Abp	Finland	The Outlook on the Long Term Rating was changed to Stable from Negative.
01/03/2021	1793	Deutsche Bank AG	Germany	The Outlook on the Long Term Rating was changed to Positive from Negative.
01/03/2021	1794	Barclays Bank PLC (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.
01/03/2021	1794	Barclays Bank UK PLC (RFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.
30/03/2021	1797	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Negative from Stable.

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