



City of London Corporation

Monthly Investment Analysis Review

May 2021

Monthly Economic Summary

General Economy

By rising to 66.1 in May from 60.9 in April, the Flash (i.e. provisional) UK Manufacturing PMI signalled that the sector grew at a record-breaking pace this month. Output, new orders and employment components all rose, whilst purchasing costs recorded their fastest increase since the series began in 1992. The Flash Services PMI, meanwhile, rose to 61.8 in May from 61.0 in April, signalling the fastest pace of expansion in service sector activity since October 2013. As a result, the Flash Composite PMI (which incorporates both sectors), rose to 62.0 in May from 60.7 in April, itself a record high since the index was first compiled in January 1998. The construction PMI, meanwhile, which is released one month behind, eased to 61.6 in April from 61.7 in March. Total new work increased for the 11th consecutive month and at the fastest rate for just over six-and-a-half years, while the pace of job creation was the steepest since December 2015.

GDP data for March showed that, ahead of the unwinding of the third national lockdown, the UK economy grew by 2.1% m/m compared to February's upwardly revised 0.7% m/m gain. Despite this improvement, output still contracted by 1.5% during the first quarter of 2021 thanks to January's contraction. At quarter end, the economy was still 6.1% below that seen just ahead of the pandemic, in Q1 2020. Trade data, meanwhile, revealed that an 8% jump in imports caused the UK's trade deficit to rise to £2.1 billion in March compared to a downwardly revised £0.9 billion in February.

The UK's unemployment rate fell to 4.8% in the three months to March, compared to 4.9% in the previous period and marginally below forecasts of 5%. Within the data, it was notable that employment in fact rose by 84,000 in the three months to March – posting its first gain since March 2020. Vacancies also rose by 36,000 during the period, although they remain 15% below their pre-pandemic level. More timely claimant count data for April also suggested that the number of people who claimed unemployment benefits during the month fell by 15,100 to 2.6 million. Finally, average weekly earnings (including bonuses) rose by 4% y/y in the three months to March compared to a 4.5% y/y rise previously. However, when excluding “compositional effects”, caused by the loss of low paid jobs during the pandemic, economists estimate that pay growth was nearer 2.5%.

UK inflation, as measured by the Consumer Price Index, rose to 1.5% y/y in April from 0.7% y/y in March and marginally above market forecasts of 1.4%. The biggest upward contributions came from rising fuel price inflation and energy prices as Ofgem's price caps returned to their pre-pandemic levels. On a monthly basis, consumer prices matched forecasts by rising 0.6% in April, compared to a 0.3% increase in March. With the annual rate still well below the Monetary Policy Committee's 2% target, the Committee voted to maintain Bank Rate at 0.1% and leave their quantitative easing strategy unchanged during their May meeting.

Retail sales, meanwhile, surged 42.4% y/y in April compared to a 7.2% y/y rise in March, significantly above expectations of a 36.8% gain. This abnormally high figure was due to the impact of the first national lockdown depressing sales in April 2020, thus setting an abnormally low base for comparative purposes. On a monthly basis, sales rose 9.2% during April following a 5.1% rise in March, largely the result of a 69.4% m/m leap in clothing and footwear sales following the re-opening of non-essential stores during the month. Reflecting increased optimism amid continued vaccination rollouts, the GfK Consumer Confidence index also posted a gain of 6 points during May to reach -9, exceeding expectations of a rise to -12.

The UK's public sector net borrowing (excluding public sector banks) reached £31.7 billion in April, although this was £15.6 billion less than in April last year. Nevertheless, it still represented the second highest April borrowing since monthly records began in 1993. Public sector net borrowing in the financial year-to-March, meanwhile, was estimated to have been £300.3 billion, £246.1 billion more than in the previous year and the highest nominal public sector borrowing in any financial year since records began in 1947.

In the US, non-farm payrolls rose by 266,000 in April, which was significantly less than both expectations of a rise of 978,000 and March's downwardly revised 770,000 gain. The "miss" was more put down to a lack of available workers, rather than a lack of available jobs. Despite this, the unemployment rate rose to 6.1% from 6% in March as more workers re-entered the labour market and began looking for work. The US economy, meanwhile, expanded at an annualised 6.4% (1.6% q/q) rate in Q1 2021, slightly less than market expectations of 6.5%, and following a 4.3% (1.08% q/q) expansion in the previous quarter. Against this backdrop, price growth (as measured by the Federal Reserve's preferred core Personal Consumption Expenditure deflator) accelerated to 3.1% y/y in April compared to 1.9% in March. This represented the highest inflation rate since the 1990s and well above the Fed's 2% target. Fed officials however, continued to reiterate that such price pressures, caused by fiscal stimulus, supply constraints and rising commodity prices, are expected to be transitory.

In contrast, the Eurozone economy contracted by 1.8% y/y during Q1, following a 4.9% slump during Q4, as several countries across the region reimposed social distancing and lockdown measures. This left output 5.5% lower than prior to the pandemic. Meanwhile, core inflation was confirmed at just 0.7% y/y in April compared to the Flash estimate of 0.9%.

Housing

Reflecting the continuation of the stamp duty holiday and the desire to re-evaluate living space requirements, the Halifax and Nationwide house price indices both posted robust gains in April. The former saw monthly increases of 1.4% and an annual improvement of 8.2%. This compared to a 2.1% monthly rise and a 7.1% annual gain for the latter.

Currency

The prospect of lockdown ending in June helped Sterling gain ground against both the Dollar and the Euro this month.

May	Start	End	High	Low
GBP/USD	\$1.3928	\$1.4215	\$1.4215	\$1.3885
GBP/EUR	€1.1535	€1.1626	€1.1674	€1.1513

Forecast

Link Group changed its Bank Rate forecast this month to incorporate a Bank Rate rise to 0.25% in 2023.

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%	0.25%	0.25%	0.25%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	

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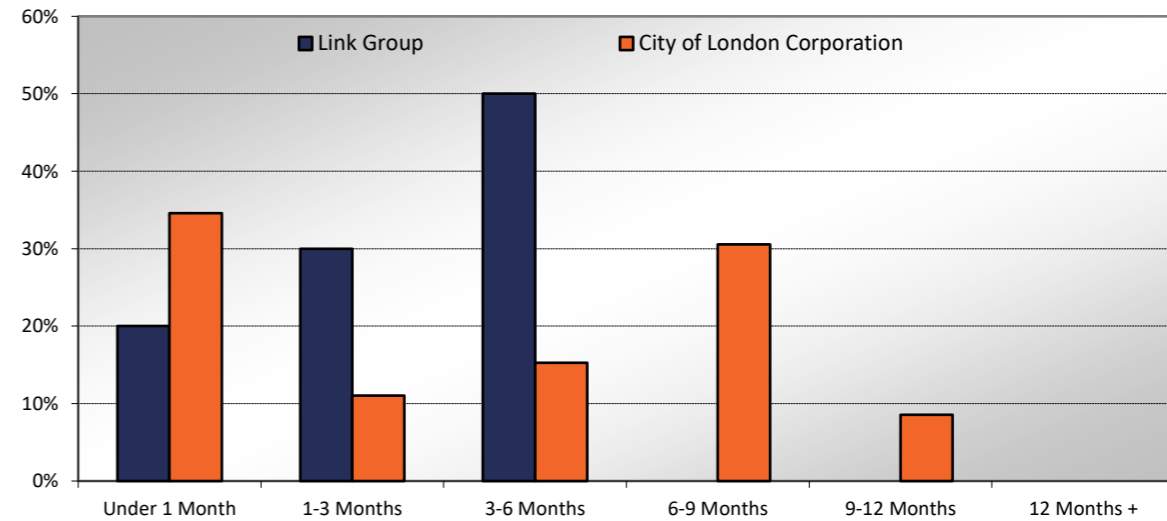
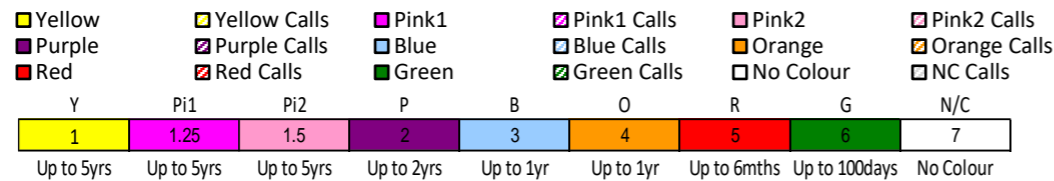
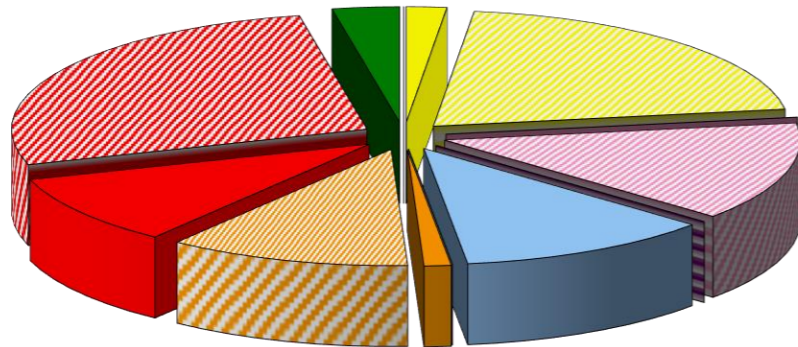
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	47,200,000	0.01%		MMF	AAAm	
MMF CCLA	40,100,000	0.04%		MMF	AAAm	
MMF Deutsche	33,000,000	0.02%		MMF	AAAm	
MMF Federated Investors (UK)	13,400,000	0.01%		MMF	AAAm	
MMF Invesco	36,500,000	0.02%		MMF	AAAm	
USDBF Aberdeen Standard Investments	25,391,226	0.51%		USDBF	AAAf	
USDBF Federated Sterling Cash Plus Fund	25,351,099	0.14%		USDBF	AAAf	
USDBF Payden Sterling Reserve Fund	61,900,043	1.32%		USDBF	AAAf	
Leeds Building Society	20,000,000	0.10%	29/03/2021	02/07/2021	A-	0.004%
National Westminster Bank Plc (RFB)	20,000,000	0.42%	03/07/2020	05/07/2021	A	0.005%
National Westminster Bank Plc (RFB)	25,000,000	0.27%	07/08/2020	09/08/2021	A	0.009%
National Westminster Bank Plc (RFB)	25,000,000	0.26%	14/08/2020	13/08/2021	A	0.010%
Lloyds Bank Plc (RFB)	40,000,000	0.05%		Call95	A+	0.012%
Santander UK Plc	20,000,000	0.40%		Call95	A	0.012%
Skipton Building Society	5,000,000	0.35%	09/09/2020	08/09/2021	BBB+	0.039%
National Westminster Bank Plc (RFB)	25,000,000	0.14%	26/03/2021	27/09/2021	A	0.015%
London Borough of Waltham Forest	5,000,000	0.33%	30/09/2020	29/09/2021	AA-	0.008%
Santander UK Plc	30,000,000	0.58%		Call180	A	0.023%
Australia and New Zealand Banking Group Ltd	90,000,000	0.40%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.24%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.23%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.23%		Call185	A+	0.024%
Goldman Sachs International Bank	20,000,000	0.13%	08/12/2020	08/12/2021	A+	0.025%
Lloyds Bank Plc (RFB)	20,000,000	0.10%	16/12/2020	16/12/2021	A+	0.026%
Lloyds Bank Plc (RFB)	20,000,000	0.10%	29/12/2020	29/12/2021	A+	0.027%
Australia and New Zealand Banking Group Ltd	10,000,000	0.12%	08/02/2021	08/02/2022	A+	0.033%
Stockport Metropolitan Borough Council	10,000,000	0.10%	26/02/2021	25/02/2022	AA-	0.017%
Goldman Sachs International Bank	20,000,000	0.53%		Call270	A+	0.035%
Barclays Bank Plc (NRFB)	20,000,000	0.19%	26/03/2021	28/03/2022	A	0.039%
Santander UK Plc	50,000,000	0.68%		Call365	A	0.047%
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date		
L&G	80,980,285	4.24%				
ROYAL LONDON	80,244,825	3.58%				
Total Investments	£979,067,479	0.92%				
Total Investments - excluding Funds	£817,842,368	0.33%				0.023%
Total Investments - Funds Only	£161,225,110	3.91%				

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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Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 3.29

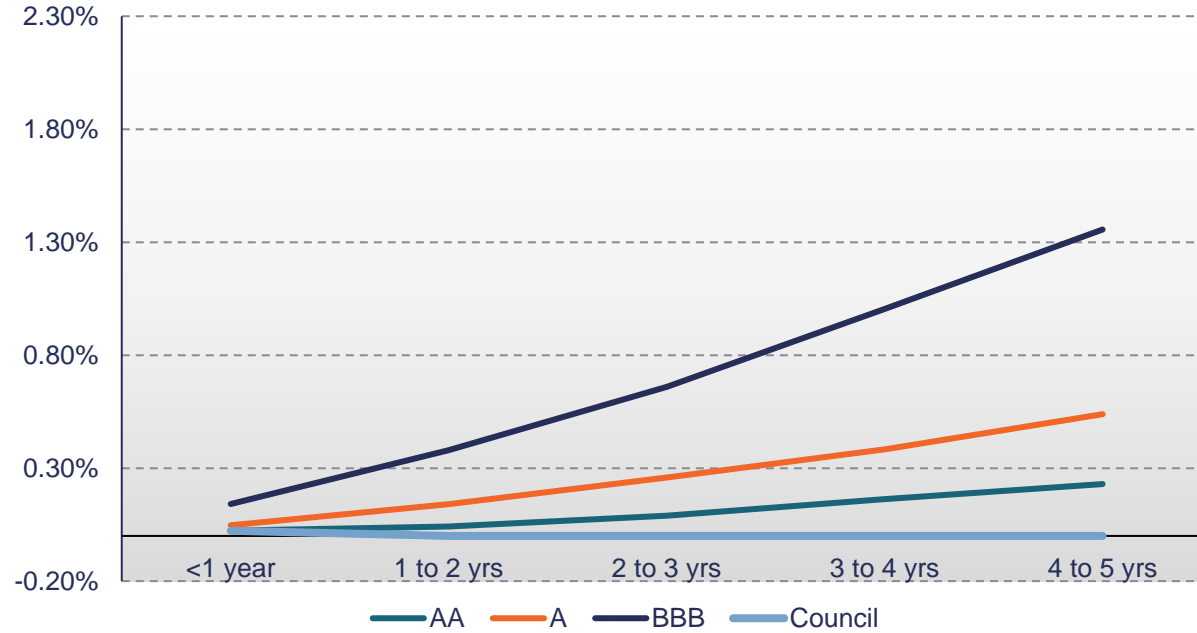
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	22.64%	£185,200,000	91.90%	£170,200,000	20.81%	0.03%	18	29	220	364
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	13.77%	£112,642,368	100.00%	£112,642,368	13.77%	0.87%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	11.62%	£95,000,000	0.00%	£0	0.00%	0.26%	77	318	77	318
Orange	12.23%	£100,000,000	90.00%	£90,000,000	11.00%	0.37%	192	203	253	365
Red	36.68%	£300,000,000	73.33%	£220,000,000	26.90%	0.32%	213	250	226	366
Green	3.06%	£25,000,000	0.00%	£0	0.00%	0.15%	46	149	46	149
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£817,842,368	72.49%	£592,842,368	72.49%	0.33%	116	165	144	321

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Investment Risk and Rating Exposure

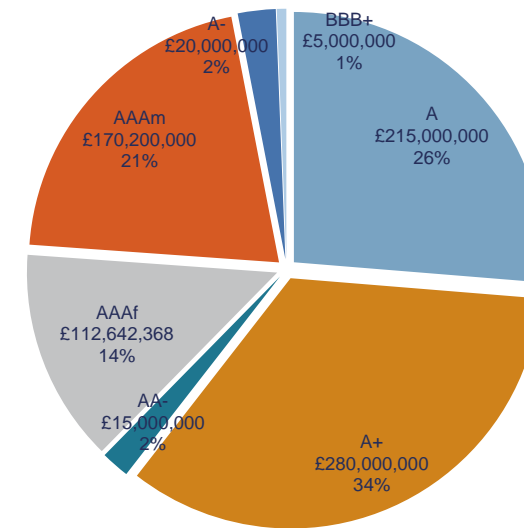
Investment Risk Vs. Rating Categories



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	0.02%	0.00%	0.00%	0.00%	0.00%

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
13/05/2021	1805	Citibank N.A.	United States	The Outlook on the Long Term Rating was changed to Stable from Negative.
19/05/2021	1806	Macquarie Bank Ltd	Australia	The Outlook on the Long Term Rating was changed to Stable from Negative.
27/05/2021	1809	Close Brothers Ltd	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
				There were no rating changes to report.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
13/05/2021	1804	Santander Financial Services Plc (NRFB)	United Kingdom	'A2' Long Term Rating and 'A-2' Short Term Rating were assigned to this entity. At the same time, a Negative Outlook was assigned to the Long Term Rating.
24/05/2021	1807	JP Morgan Chase Bank N.A.	United States	The Outlook on the Long Term Rating was changed to Positive from Stable.
24/05/2021	1808	Bank of America N.A.	United States	The Outlook on the Long Term Rating was changed to Positive from Stable.

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