



City Of London Corporation

Monthly Investment Analysis Review

February 2018

Monthly Economic Summary

General Economy

The first economic release of February was the January manufacturing Purchasing Managers' Index (PMI) survey, which dropped to 55.3 from the December figure of 56.2. The headline figure was its lowest level since June 2017. The fall in the PMI suggested that manufacturing growth slowed slightly at the start of the year. However, the big picture is that the sector is still performing well by recent standards. Construction PMI also fell in January, to 50.2 from 52.2 the month before, and was much lower than the market expectation of 52. Nevertheless, any reading above 50 still indicates expansion. Therefore, the construction sector is still expanding but at a rather sluggish pace. Brexit-related uncertainty was suggested as being partly to blame, causing a slowdown in new office building work. Meanwhile, the services sector PMI followed in the footsteps of the manufacturing and construction sectors, falling to 53 from 54.2 in January, a 16-month low for the index. This was due to a softening in demand, also perhaps related to Brexit uncertainty. Overall, the surveys suggest that the economy has lost some of the momentum it gained in Q4. The composite PMI dropped to 53.2, from 54.7 in December, which, on the basis of past form, is still consistent with quarterly GDP growth of around 0.3%.

In the eyes of some analysts and investors, the Monetary Policy Committee (MPC) paved the way for a May rate hike with the release of the February Inflation Report. This suggested the MPC would become less dovish as the economy continues to beat expectations. Although the Committee voted unanimously to leave rates unchanged this month, they did anticipate that rates would be increasing sooner and at a greater rate than was previously thought. As a result, markets now believe there is a 70% chance of a hike in May. The MPC also revised up their forecasts for GDP growth, from 1.6% in 2018 and 1.7% in 2019 and 2020, to 1.8% across all three years. Additionally, the MPC indicated that it wanted to bring inflation back to target quicker than previously indicated, aiming to bring inflation back down to 2% within two years rather than three.

Consumer Price Index (CPI) Inflation held steady at 3% in January, in line with the MPC's projection in their February Inflation Report. The breakdown showed that the largest downward contribution to CPI came from fuel prices, which increased at a slower rate in January than at the same time last year. However, this was offset by a rise in the contribution from recreation and culture. Nonetheless, the elevated inflation level predominantly reflects the drop in the exchange rate since the Brexit vote in 2016. As the effect of sterling's drop continues to fade, it is expected that inflation will ease this year.

Labour market data proved to be slightly weaker than expected in December. Employment increased by 88,000 in the three months to December, compared to the 173,000 consensus. Meanwhile, the unemployment rate rose to 4.4% from 4.3%, the first increase since February 2016. However, the ONS ascribed the rise in unemployment to more people becoming "economically active" and looking for a job, rather than related to an increase in people becoming unemployed. Headline wage growth remained unchanged, but the BoE expects pay to pick up soon. However, workers' total earnings (including bonuses) rose by an annual rate of 2.5% in the three months to December, while total earnings rose by 2.8% in the month of December, up from 2.3% in November.

Public finance data was more upbeat this month as January's surplus of £10bn on the Public Sector Net Borrowing (PSNB) ex public sector banks measure was the second-highest surplus on record and higher than the consensus £9.5bn. Although the surplus was lower than last year's £11.6bn, this was always expected, as self-assessment tax receipts collected in January 2017 were temporarily boosted by changes in the dividend tax rate.

British retail sales continued to lose momentum in January as real incomes remained under pressure from weak nominal pay growth, which takes account of inflation. The retail sales volume monthly increase of 0.1% fell short of the market expectation of a 0.5% rise and dragged the quarterly growth rate down from 0.5% in December to only 0.1% in the latest reading. Thus, annual sales volumes growth came in at 1.5% in the three months to January – markedly lower than the 5-6% rates seen at the end of 2016. Nevertheless, the worst of the pay squeeze should have passed now, paving the way for a potential for recovery in spending growth this year.

There was more disappointing news for the UK as the economy grew slower than originally thought in the three months to December. GDP was revised down to 0.4% q/q from the preliminary estimate of 0.5%. The annual growth figure was also downwardly revised to 1.4%, its weakest in more than five years. Encouragingly, however, investment growth has remained robust, rising 1.1% in Q4, which put annual growth at 3.9% for 2017 – the strongest since 2014.

In the Eurozone, the second estimate of GDP confirmed that quarterly growth had slowed to 0.6% in Q4 from 0.7% in Q3. Despite the slowdown, it still marked a healthy end to a strong year for the currency bloc. Annual growth dropped to 2.7% in Q4, compared to 2.8% in Q3. Eurozone inflation declined to 1.3% in January, from 1.4% in December, driven largely by a slowdown in energy and food inflation. In other news, the unemployment rate for December was revised down to 8.6% from 8.7%.

In the US, the second estimate of GDP was revised down from 2.6% to 2.5% (annualised). This largely reflects a smaller stock inventory increase than previously reported. CPI inflation remained unchanged at 2.1% y/y in January and rose by 0.5% m/m. Non-farm payrolls rose by 200,000 in January, which was above the consensus, leaving the Fed firmly on track to hike rates in March. The unemployment rate held steady at a 17-year low of 4.1%. Markets are wavering between 3 and 4 hikes from the Fed through 2018.

Housing

Nationwide revealed house prices grew by 0.6% m/m in January. In annual terms they rose by 3.2%, up from 2.6% in December. According to Halifax, house prices fell by 0.6% in January following the 0.8% decline in December, the first time since the summer of 2016 that house prices have declined in two consecutive months. As a result, annual house price growth slowed to 2.2% in the three months to January, a fall from the 2.7% growth seen in the three months to December.

Forecast

Link Asset Services (LAS) changed its Bank Rate forecast during February. LAS suggest that the next interest rate rise will be to 0.75% in Q2 2018, with further rises of 25 basis points in Q4 2018 and again in Q4 2019. Capital Economics' forecasts continue to suggest further rises of 25 basis points in Q2 2018, Q3 2018, Q4 2018, Q2 2019 and Q4 2019.

Bank Rate	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Link Asset Services	0.50%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF CCLA	10,000,000	0.42%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.44%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	30,900,000	0.44%		MMF	AAA	0.000%
MMF Invesco	45,200,000	0.46%		MMF	AAA	0.000%
Lloyds Bank Plc	10,000,000	0.40%		Call	A	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.40%		USDBF	AAA	0.000%
USDBF Standard Life Short Duration Cash Fund	5,000,000	0.60%		USDBF	AAA	0.000%
MMF Standard Life	22,600,000	0.43%		MMF	AAA	0.000%
Goldman Sachs International Bank	10,000,000	0.75%	01/06/2017	01/03/2018	A	0.000%
Australia and New Zealand Banking Group Ltd	10,000,000	0.53%	03/11/2017	05/03/2018	AA-	0.000%
North Tyneside Metropolitan Borough Council	5,000,000	0.31%	04/09/2017	05/03/2018	AA	0.000%
Nationwide Building Society	25,000,000	0.40%	26/07/2017	12/03/2018	A	0.002%
Northamptonshire County Council	5,000,000	0.32%	14/09/2017	14/03/2018	AA	0.001%
Surrey County Council	25,000,000	0.50%	28/02/2018	15/03/2018	AA	0.001%
Nationwide Building Society	25,000,000	0.32%	01/09/2017	19/03/2018	A	0.003%
Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A	0.004%
Lloyds Bank Plc	22,600,000	0.57%		Call32	A	0.005%
Leeds Building Society	8,000,000	0.48%	29/06/2017	03/04/2018	A-	0.005%
Lloyds Bank Plc	15,000,000	0.60%	03/11/2017	03/04/2018	A	0.005%
Plymouth City Council	12,000,000	0.32%	25/09/2017	03/04/2018	AA	0.002%
Leeds City Council	25,000,000	0.50%	16/01/2018	13/04/2018	AA	0.003%
Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB+	0.025%
Telford & Wrekin Council	6,000,000	0.35%	27/09/2017	24/04/2018	AA	0.004%
Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A	0.009%
Lloyds Bank Plc	16,100,000	0.65%	02/11/2017	02/05/2018	A	0.010%
Leeds Building Society	2,000,000	0.37%	16/08/2017	16/05/2018	A-	0.012%
Nationwide Building Society	13,800,000	0.37%	16/08/2017	16/05/2018	A	0.012%
Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.012%
Santander UK Plc	100,000,000	0.60%		Call95	A	0.015%
Leeds Building Society	5,000,000	0.37%	05/09/2017	05/06/2018	A-	0.015%
Leeds Building Society	5,000,000	0.37%	07/09/2017	07/06/2018	A-	0.015%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.019%
Lloyds Bank Plc	15,000,000	0.75%	03/11/2017	03/08/2018	A	0.024%
Barclays Bank Plc	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.033%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.033%

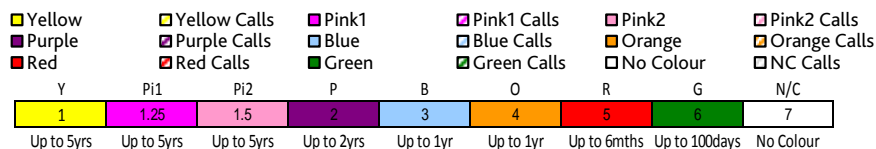
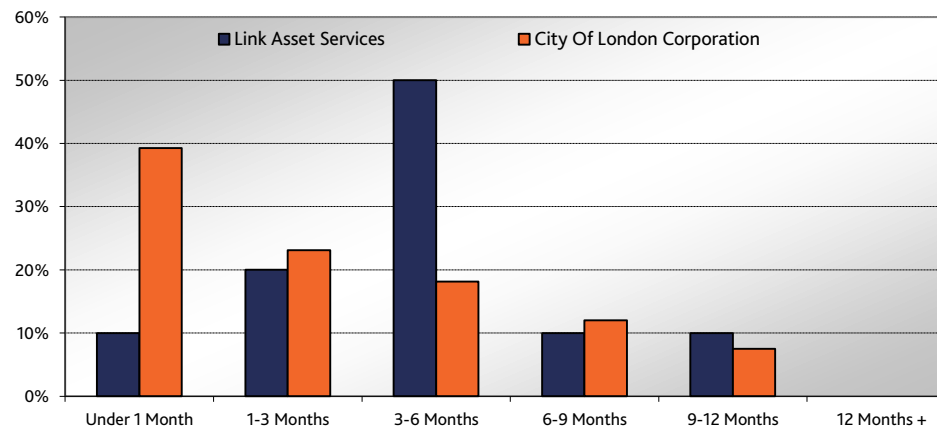
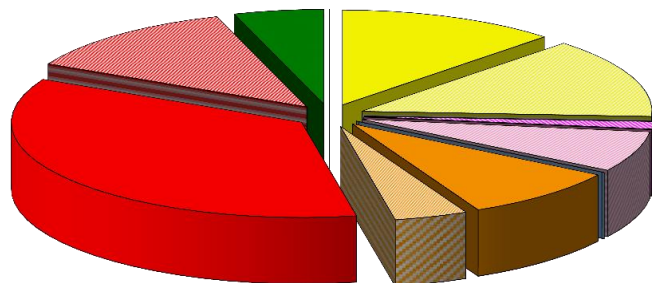
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Australia and New Zealand Banking Group Ltd	15,000,000	0.60%	03/01/2018	03/10/2018	AA-	0.014%
Barclays Bank Plc	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.033%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.048%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.048%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.021%
Total Investments	£799,200,000	0.60%				0.012%

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Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.60**

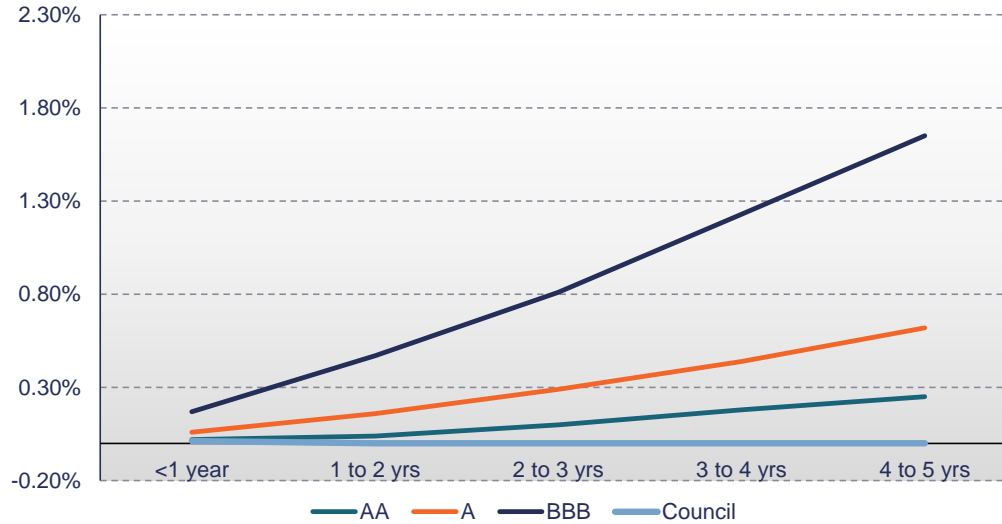
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour		% of Call		Excluding Calls/MMFs/USDBFs			
			in Calls	Amount of Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	25.86%	£206,700,000	52.59%	£108,700,000	13.60%	0.47%	44	73	92	155
Pink1	1.25%	£10,000,000	100.00%	£10,000,000	1.25%	0.52%	0	0	0	0
Pink2	6.88%	£55,000,000	100.00%	£55,000,000	6.88%	0.40%	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	12.98%	£103,700,000	31.44%	£32,600,000	4.08%	0.60%	76	148	101	205
Red	48.02%	£383,800,000	26.06%	£100,000,000	12.51%	0.70%	124	268	134	330
Green	5.01%	£40,000,000	0.00%	£0	0.00%	0.59%	62	320	62	320
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£799,200,000	38.33%	£306,300,000	38.33%	0.60%	84	183	115	276

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Investment Risk and Rating Exposure

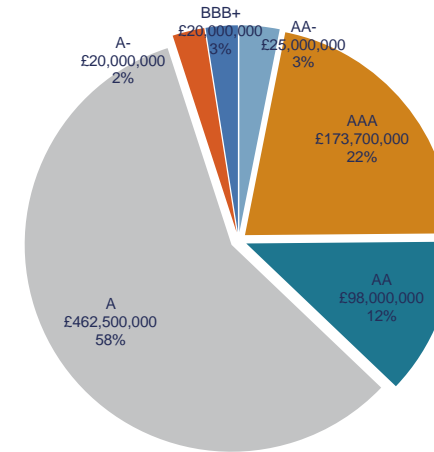
Investment Risk Vs. Rating Categories



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%	0.25%
A	0.06%	0.16%	0.29%	0.44%	0.62%
BBB	0.17%	0.47%	0.81%	1.23%	1.65%
Council	0.012%	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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
				There were no rating updates from Fitch over the month.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
05/02/2018	1584	Danske A/S	Denmark	Long Term Rating downgraded to 'A1' from 'Aa3', Outlook Stable. Short Term Rating affirmed at 'P-1'.
07/02/2018	1585	Wells Fargo Bank, NA	United States	Long Term and Short Term Ratings affirmed, Outlook on Long Term Rating changed to Negative from Stable.
23/02/2018	1587	Barclays Bank PLC	United Kingdom	Long Term Rating 'A1', removed from Negative Outlook and placed on Negative Watch. Short Term Rating 'P-1', placed on Negative Watch.
23/02/2018	1587	HSBC Bank PLC	United Kingdom	Long Term Rating 'Aa3', removed from Negative Outlook and placed on Negative Watch. Short Term Rating affirmed at 'P-1'.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
07/02/2018	1586	Wells Fargo Bank, NA	United States	Long Term Rating downgraded to 'A+' from 'AA-', Outlook changed to Stable from Negative. Short Term Rating downgraded to 'A-1' from 'A-1+'.

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