



# City Of London Corporation

## Monthly Investment Analysis Review

May 2018

### General Economy

The data releases for the month kicked off with the Markit/CIPS Manufacturing PMI, which fell to 53.9 in April from a downwardly-revised 54.9 in March. This was the lowest headline level since November 2016. The release suggested that the sector has struggled to re-gain momentum at the start of Q2, which further reduced the chances of a rate hike at the Monetary Policy Committee (MPC) meeting on May 10th. The Markit/CIPS Services PMI, on the other hand, picked up slightly in April, to 52.8 from 51.7 in March. Nonetheless, the reading remains only showing tepid growth, implying that the economy has lost some of its underlying momentum. The construction PMI also improved, rebounding to 52.5 in April from 47.0 in March, suggesting that the sector was making up for activity delayed by March's adverse weather. Taking the three surveys together, the all-sector PMI suggests quarterly GDP growth of around 0.3% at the start of Q2, indicating only a small improvement on the weak start to the year.

Despite markets pricing in an almost 100% chance of a rate hike in mid-April, weaker economic data, alongside recent comments by Mark Carney, meant that the MPC's actual decision to leave policy unchanged at its May meeting was fully expected. Note that in the second half of April, market rate hike expectations fell from near 100%, to just 10%! Minutes for the meeting showed that the MPC thought that the economy's slow start to the year should prove to be temporary and is waiting for more evidence before it considers tightening monetary policy conditions. In the May Inflation Report, the Bank of England revised down GDP growth for this year from 1.8% to 1.4%, reflecting the weak start to the year. The Bank also revised down its wage growth forecast for this year by 25 basis points. Otherwise, the minutes from the MPC meeting noted that the central forecast for economic activity remained little changed from the Bank's February Inflation Report. Even with the weaker growth this year, the more hawkish members of the MPC – Ian McCafferty and Michael Saunders – still voted for an immediate rate hike as they believe that the weakness in growth figures for Q1 may have been overstated given the tendency for revisions. The rest of the Committee, on the other hand, wanted to wait until it becomes clearer that the weaker start to the year was only temporary before raising rates. Through the remainder of the month, markets were mixed as to their view of a change in August, November, or the potential for any move to be delayed into 2019.

Labour market data seemingly left an August rate hike looking more likely as employment rose by a substantial 197,000 in the three months to March. This was some way above the market consensus of a 130,000 rise and the biggest quarterly rise since the end of 2015. Furthermore, jobs growth was solely driven by the 271,000 rise in employees, while the number of self-employed workers dropped by 33,000. The unemployment rate remained at 4.2%, its lowest level since 1975 while the headline rate of weekly earnings excluding bonuses rose from 2.8% to 2.9% - above the MPC's 2.75% forecast for 2018 as a whole.

In other news, April's public finances figures gave the new fiscal year a positive start. The public sector net borrowing excluding public sector banks measure came in at £7.8bn, the lowest April figure since 2008. Thus, this should provide the Chancellor with some wriggle room to scale back any planned austerity in the Autumn Budget.

Inflation continued to head downwards as CPI dropped to 2.4% in April from 2.5% in March, its lowest level since March last year. However, fuel price and utility price rises are likely to hinder further drops in CPI inflation in the next few months, thus according to some analysts, a rate hike in August looks more likely.

The second estimate of first quarter GDP confirmed that the economy slowed down sharply as the 0.1% quarterly gain was left unrevised. The annual rate of 1.2% was also left unchanged and is the weakest since Q2 2012. GDP growth would have been stronger if it had not been for the large negative contribution from inventories. Without this, GDP would have risen by 0.3%, which would have been in line with the Bank of England's original forecast for growth.

Over in the EU, headline inflation rose to 1.9% in May from 1.2% in April, which was far higher than the consensus forecast of 1.6%. The increase was partly due to a jump in energy inflation to 6.1% in May from 2.6% in April. Core inflation also increased to an eight-month high of 1.1% due to a rise in services inflation. The boost in services prices could also be a result of the improving labour market in the EU as unemployment fell to 8.5% in April. Additionally, slowly rising wage growth is likely to push core inflation steadily higher this year and the recent rise in oil prices is expected to send the headline rate above 2%.

In the US, the unemployment rate hit an 18-year low of 3.9% in April while non-farm payrolls increased by 164,000 in April, which was below the consensus expectation of a 198,000 increase. However, the 103,000 rise in March was revised upwards to 135,000. The original estimate of Q1 GDP growth was revised down to 2.2% annualised in the second estimate, from 2.3%. However, incoming monthly data suggests that Q2 GDP growth will be much stronger, a trend that the US economy has seen in a number of recent years. Minutes of the latest Federal Reserve policy meeting revealed that most members thought another rate hike would be appropriate soon, reinforcing market views that the next hike will come in June.

## Housing

Nationwide revealed house prices fell by 0.2% m/m in May, cancelling out the 0.2% rise in April. Compared with May last year, prices are 2.4% higher. According to Halifax, house prices fell by 3.1% in April following a 1.6% rise in March. Annual house prices rose by a weaker-than-expected 2.2% in the three months to April, compared with a 2.7% rise in March and significantly weaker than the expectation of a 3.3% rise.

## Forecast

Link Asset Services (LAS) updated its Bank Rate forecast in May following the MPC meeting. LAS suggests that the next interest rate rise will be to 0.75% in the final quarter of this year, with further rises of 25 basis points in Q3 2019, Q2 2020 and Q4 2020. Capital Economics, however, changed their forecast to expect that the next rate rise to 0.75% will be in August, with further rises of 25 basis points in Q4 2018, Q2 2019, Q4 2019 and Q4 2020.

Bank Rate	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Link Asset Services	0.50%	0.50%	0.75%	0.75%	0.75%
Capital Economics	0.50%	0.75%	1.00%	1.00%	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	0.54%		MMF	AAA	0.000%
USDBF Federated Sterling Cash Plus Fund	5,000,000	0.46%		USDBF	AAA	0.000%
MMF Federated Investors (UK)	19,000,000	0.53%		MMF	AAA	0.000%
MMF Invesco	31,900,000	0.54%		MMF	AAA	0.000%
Lloyds Bank Plc (RFB)	15,100,000	0.40%		Call	A+	0.000%
USDBF Payden Sterling Reserve Fund	55,000,000	0.35%		USDBF	AAA	0.000%
USDBF Standard Life Short Duration Cash Fund	5,000,000	0.54%		USDBF	AAA	0.000%
MMF Standard Life	11,200,000	0.52%		MMF	AAA	0.000%
Leeds Building Society	5,000,000	0.37%	05/09/2017	05/06/2018	A-	0.001%
Leeds Building Society	5,000,000	0.37%	07/09/2017	07/06/2018	A-	0.001%
Goldman Sachs International Bank	20,000,000	1.02%	03/07/2017	02/07/2018	A	0.005%
Lloyds Bank Plc (RFB)	22,600,000	0.57%		Call32	A+	0.005%
Nationwide Building Society	25,000,000	0.73%	05/04/2018	13/07/2018	A	0.006%
Leeds City Council	15,000,000	0.65%	13/04/2018	20/07/2018	AA	0.003%
Lloyds Bank Plc (RFB)	15,000,000	0.75%	03/11/2017	03/08/2018	A+	0.009%
Birmingham City Council	20,000,000	0.77%	27/04/2018	17/08/2018	AA	0.005%
Nationwide Building Society	10,000,000	0.70%	20/04/2018	20/08/2018	A	0.012%
Santander UK Plc	100,000,000	0.60%		Call95	A	0.014%
Barclays Bank Plc (NRFB)	25,000,000	0.76%	29/09/2017	28/09/2018	A	0.018%
Goldman Sachs International Bank	20,000,000	0.95%	26/09/2017	01/10/2018	A	0.018%
Australia and New Zealand Banking Group Ltd	15,000,000	0.60%	03/01/2018	03/10/2018	AA-	0.008%
Barclays Bank Plc (NRFB)	36,000,000	0.77%	04/10/2017	03/10/2018	A	0.018%
Lloyds Bank Plc (RFB)	10,500,000	0.65%	23/04/2018	23/10/2018	A+	0.021%
National Australia Bank Ltd	10,000,000	0.81%	04/04/2018	05/11/2018	AA-	0.011%
National Australia Bank Ltd	15,000,000	0.84%	04/04/2018	18/12/2018	AA-	0.014%
Coventry Building Society	20,000,000	0.70%	02/01/2018	02/01/2019	A	0.032%
Goldman Sachs International Bank	20,000,000	0.95%	08/01/2018	08/01/2019	A	0.033%
Lloyds Bank Plc (RFB)	15,000,000	0.82%	02/05/2018	23/01/2019	A+	0.035%
Northamptonshire County Council	20,000,000	0.73%	31/01/2018	30/01/2019	AA	0.016%
Barclays Bank Plc (NRFB)	14,000,000	0.93%	25/04/2018	01/02/2019	A	0.036%
Goldman Sachs International Bank	15,000,000	1.01%	18/05/2018	18/02/2019	A	0.039%
London Borough of Southwark	20,000,000	1.10%	19/03/2018	28/03/2019	AA	0.020%
Goldman Sachs International Bank	10,000,000	1.20%	29/03/2018	29/03/2019	A	0.045%
Skipton Building Society	20,000,000	1.00%	23/04/2018	18/04/2019	BBB+	0.140%
Yorkshire Building Society	20,000,000	0.88%	27/04/2018	26/04/2019	A-	0.049%

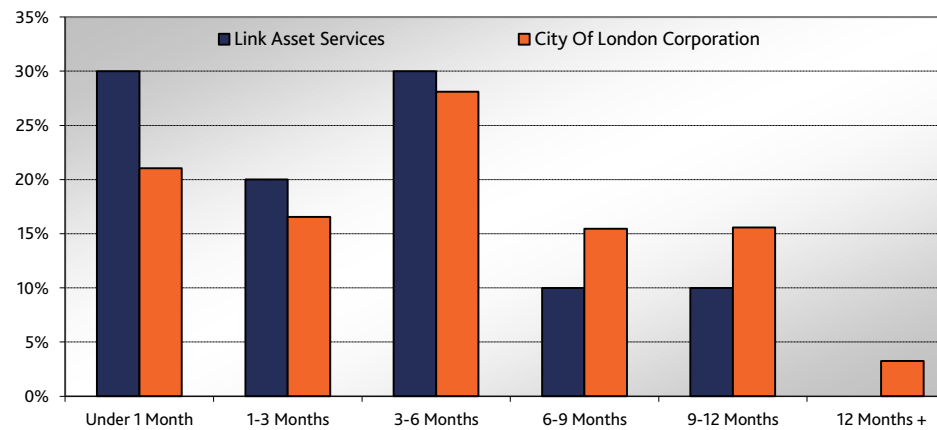
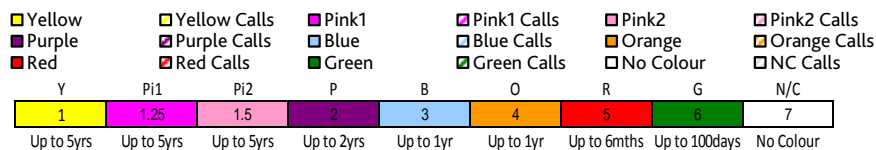
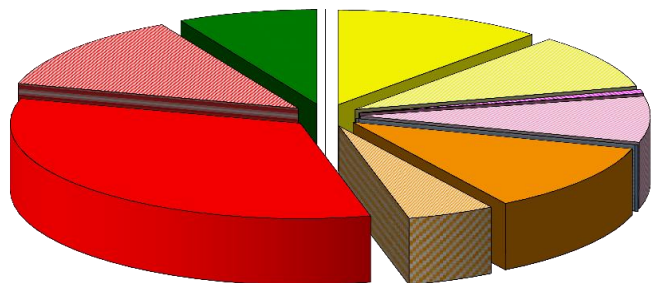
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### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Barclays Bank Plc (NRFB)	25,000,000	1.07%	17/04/2018	01/05/2019	A	0.049%
Leeds Building Society	10,000,000	0.86%	16/05/2018	16/05/2019	A-	0.052%
Goldman Sachs International Bank	15,000,000	1.13%	18/05/2018	18/05/2019	A	0.052%
Australia and New Zealand Banking Group Ltd	10,000,000	1.05%	09/04/2018	09/10/2019	AA-	0.031%
Lancashire County Council	15,000,000	1.27%	14/05/2018	16/12/2019	AA	0.034%
<b>Borrower - Funds</b>	<b>Principal (£)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>		
L&G UTM CLIENT ACC (UTM)	50,000,000	0.64%				
ROYAL LONDON UT MGRS LTD DEALING A/C	50,000,000	0.98%				
<b>Total Investments</b>	<b>£870,300,000</b>	<b>0.75%</b>				<b>0.018%</b>
<b>Total Investments - excluding Funds</b>	<b>£770,300,000</b>	<b>0.74%</b>				<b>0.020%</b>
<b>Total Investments - Funds Only</b>	<b>£100,000,000</b>	<b>0.81%</b>				

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## Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **3.77**

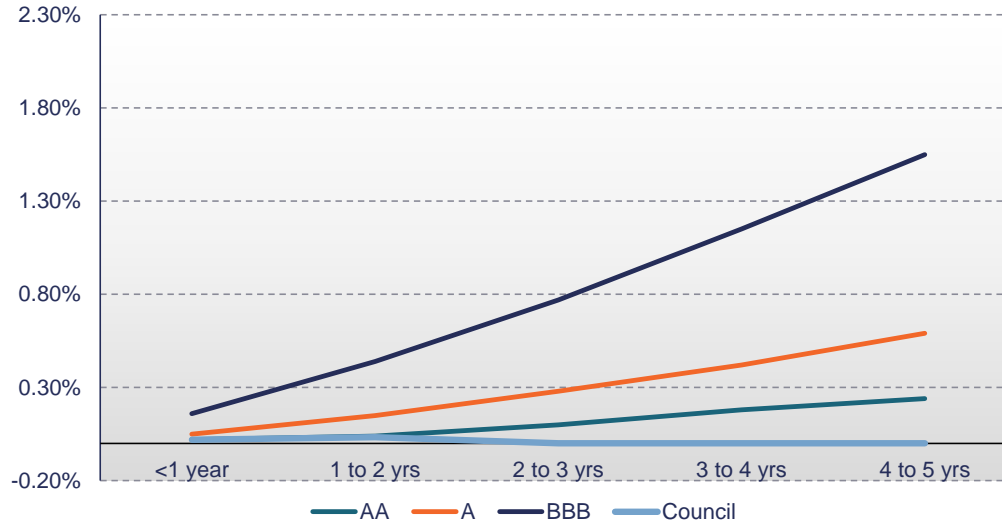
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	21.04%	£162,100,000	44.48%	£72,100,000	9.36%	0.74%	134	168	241	302
Pink1	0.65%	£5,000,000	100.00%	£5,000,000	0.65%	0.54%	0	0	0	0
Pink2	7.79%	£60,000,000	100.00%	£60,000,000	7.79%	0.36%	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	16.64%	£128,200,000	29.41%	£37,700,000	4.89%	0.70%	142	205	193	283
Red	46.09%	£355,000,000	28.17%	£100,000,000	12.98%	0.81%	154	257	178	321
Green	7.79%	£60,000,000	0.00%	£0	0.00%	0.83%	277	348	277	348
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£770,300,000</b>	<b>35.67%</b>	<b>£274,800,000</b>	<b>35.67%</b>	<b>0.74%</b>	<b>144</b>	<b>215</b>	<b>204</b>	<b>314</b>

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## Investment Risk and Rating Exposure

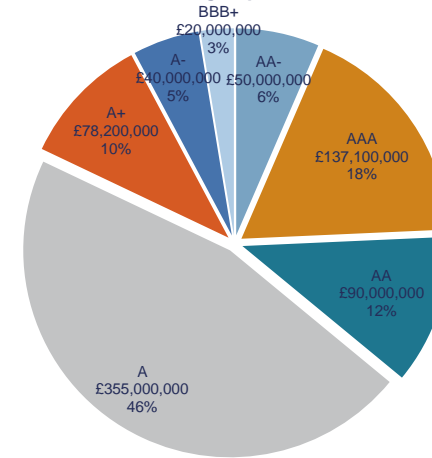
Investment Risk Vs. Rating Categories



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	0.020%	0.033%	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
01/05/2018	1606	National Westminster Bank Plc	UK	Long Term Rating upgraded to 'A-' from 'BBB+', removed from Positive Watch and placed on Stable Outlook
08/05/2018	1607	Commonwealth Bank of Australia	Australia	Outlook on the Long Term Rating changed to Negative from Stable
16/05/2018	1610	NatWest Markets Plc (NRFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
16/05/2018	1610	National Westminster Bank Plc (RFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
16/05/2018	1610	The Royal Bank of Scotland Plc (RFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
16/05/2018	1610	Royal Bank of Scotland Group Plc	UK	Outlook on the Long Term Rating changed to Positive from Stable

## City Of London Corporation

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
08/05/2018	1608	Sovereign	France	Outlook on the Sovereign Rating changed to Positive from Stable
31/05/2018	1611	HSBC Bank Plc	UK	Outlook on the Long Term Rating removed from Negative Watch and placed on Stable Outlook

## City Of London Corporation

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
08/05/2018	1609	Lloyds Bank Plc	UK	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive
08/05/2018	1609	Bank of Scotland Plc	UK	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive
31/05/2018	1612	Natwest Markets Plc (NRFB)	UK	Outlook on the Long Term Rating changed to Positive from Stable
31/05/2018	1612	National Westminster Plc (RFB)	UK	Long Term Rating upgraded to 'A-' from 'BBB+'
31/05/2018	1612	The Royal Bank of Scotland Plc (RFB)	UK	Long Term Rating upgraded to 'A-' from 'BBB+'

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