City of Aurora

Investment management quarterly report

April 2019

Part of BNY MELLON

Insight INVESTMENT

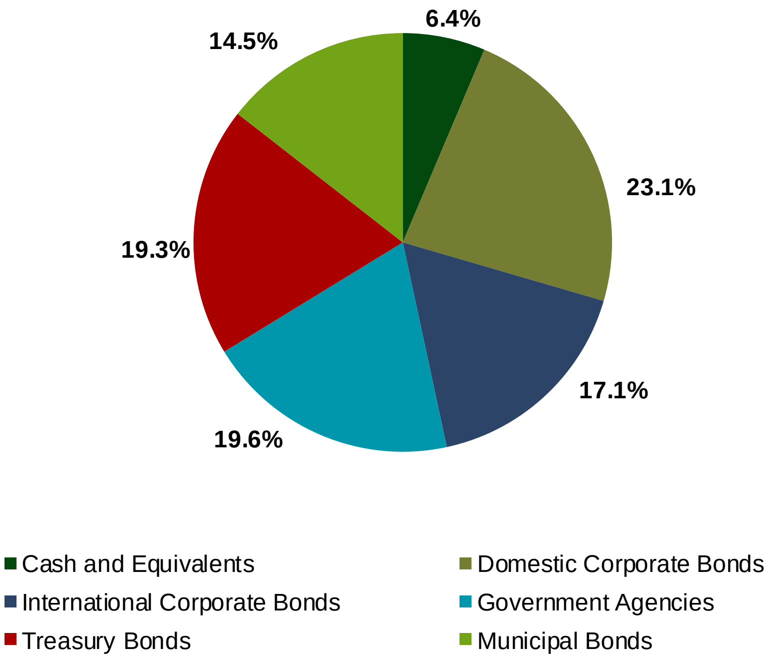
1Q 2019 market commentary: Markets appreciate with softer global growth and inflation outlook

- **Growth and inflation outlook weaken:** Growth forecasts dipped across the board, particularly in Europe and China, with US expected to slow from 2018 levels towards 2%. Global inflation expected to moderate to 3.1% and developed market inflation expected to remain below the typical 2% central bank target.
- **Central bank policy becomes more cautious:** Weaker growth outlook led major central banks to adopt a more cautious tone. The Federal Reserve, which was previously the most advanced in its tightening cycle, shifted to a neutral position. The Federal Open Markets Committee signaled it no longer expects interest rate hikes in 2019 and balance sheet reduction would be slowed in May and ended in September. This mimicked a global trend, with most policymakers postponing policy tightening and even speculation of eurozone easing.
- **US interest rates continued to decline:** The US Treasury curve shifted lower in Q1, with 2-year Treasury yields falling by 23bp, 10-year yields falling by 28bp and 30-year yields falling by 20bp.
- **Risk assets rebound from Q4 lows:** With dovish central bank signals, risk assets rebounded from their Q4 2018 lows. US equity markets performed well with the S&P 500 Index experiencing its best Q1 in the last 20 years, with a total return of 12.5%. Volatility declined and remained below recent average levels.
- **Corporate spreads tightened:** the Bloomberg Barclays Intermediate Corporate Index spread contracted from 132bp to 93bp and the Bloomberg Barclays Long Corporate Index spread contracted from 200bp to 173bp.
- **Risks include:**
  - Global growth continues to deteriorate, furthering pressuring the US outlook
  - Inflationary pressures unexpectedly turn upwards, forcing the Fed to shift back to tightening policy with disruptive effects for markets
  - Trade tensions escalate again and negatively impact global growth outlook

Market environment and strategies

Asset allocation

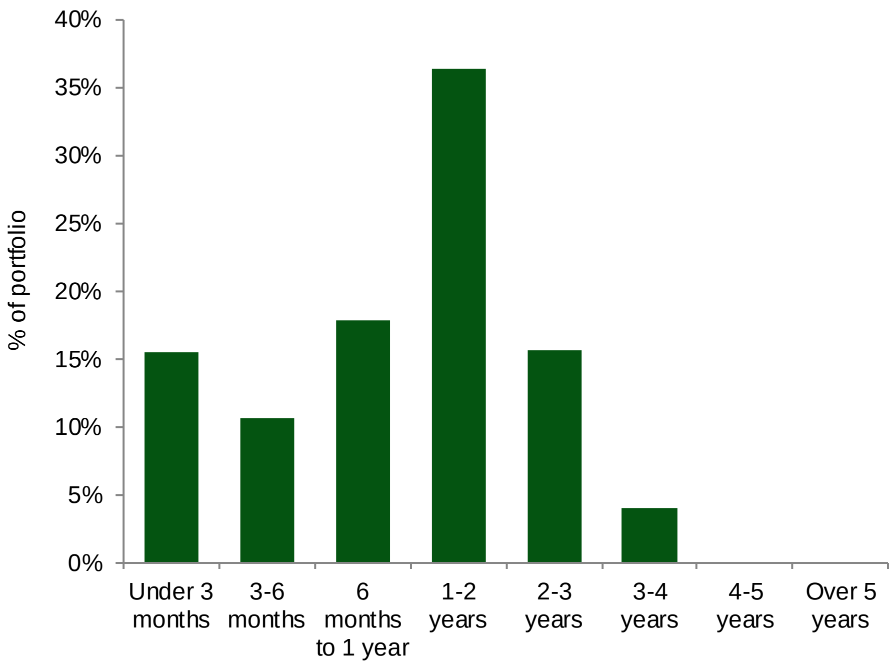
Investment type	Par value	Final maturity	Allocation
Cash and equivalents	35,572,728	1	6.4%
Domestic corporate bonds	129,005,000	346	23.1%
International corporate bonds	95,451,000	352	17.1%
Government agencies	109,500,000	646	19.6%
Treasury bonds	107,500,000	611	19.3%
Municipal bonds	80,690,000	555	14.5%
Total	**557,718,728**	**465**	**100.0%**



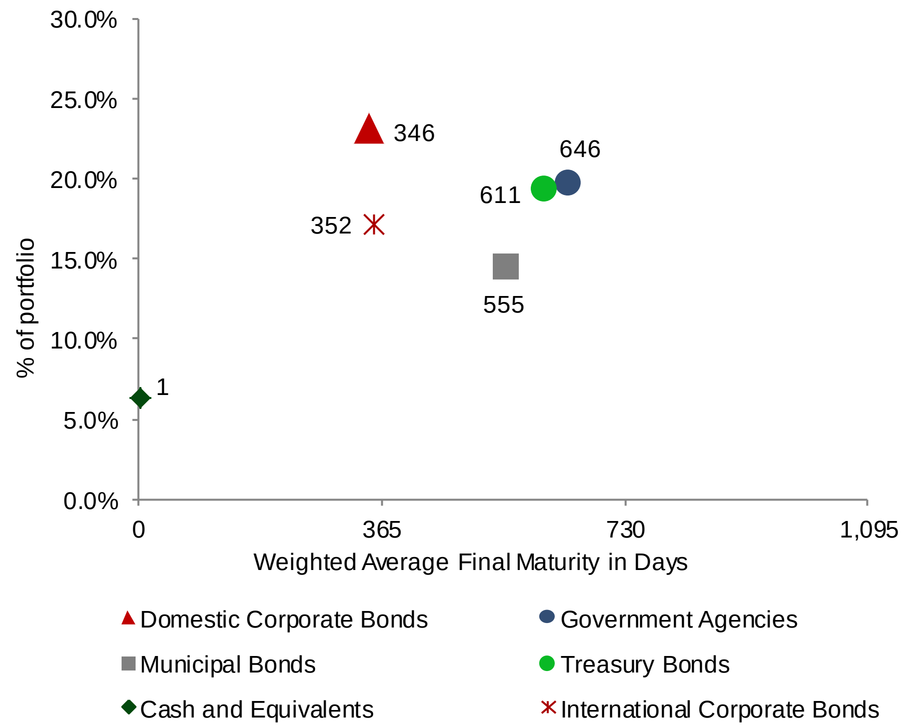
As of March 31, 2019. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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