City of Aurora

Investment management quarterly report

October 2019

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

Q3 2019 summary

- **Rhetoric on trade and Fed policy intensifies:** Rather than softening his position, President Trump doubled down in Q3. Domestically, the president stepped up his criticism of Federal Reserve Chairman Jerome Powell, calling for the Federal Reserve to immediately cut interest rates by 100 basis points and to resume quantitative easing to boost growth. At the same time, the conflict between the US and China further intensified. Faced with retaliatory tariffs on US goods from China, the president immediately countered with an additional 5% tariff on around $550bn of Chinese goods

- **Bond markets continued the rally:** The US Treasury curve shifted lower and flattened in Q3, with 2-year Treasury yields falling by 12bp, 10-year yields falling by 33bp and 30-year yields falling by 41bp. Markets now expect the Fed to cut interest rates multiple times and for other global central banks to also ease policy. This caused bond yields to plummet globally.

- **Central bank policy:** The Federal Open Market Committee (FOMC) decreased the target range for the federal funds rate twice in Q3. After 25bp decreases on July 31 and September 18, the target range ended Q3 at 1.75% to 2.00%. With interest rates moving lower around the world, there has been an increased reach for yield, which has benefited credit sectors.

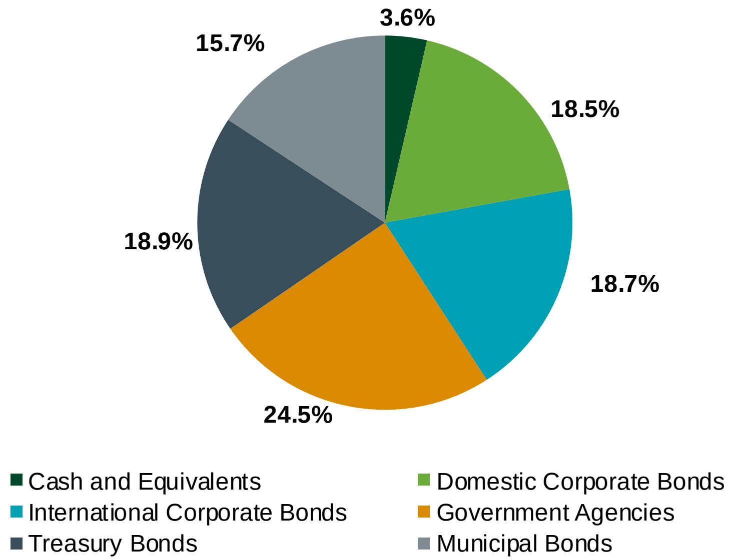
- **Risk assets continued to rally:** US equity markets performed well, with the S&P 500 Index reaching record highs and experiencing strong gains so far in 2019, buoyed by lower bond yields and the expectation of monetary stimulus. Equity market volatility remained low.

- **Risks include:**
  - Protectionism escalates to a point where it has a severe impact on the global growth outlook
  - Inflationary pressures unexpectedly turn upwards, forcing the Fed to abruptly change position again
  - European growth slows further, leading to more radical policy responses, with implications for global bond and credit markets

Market environment and strategies

Asset allocation

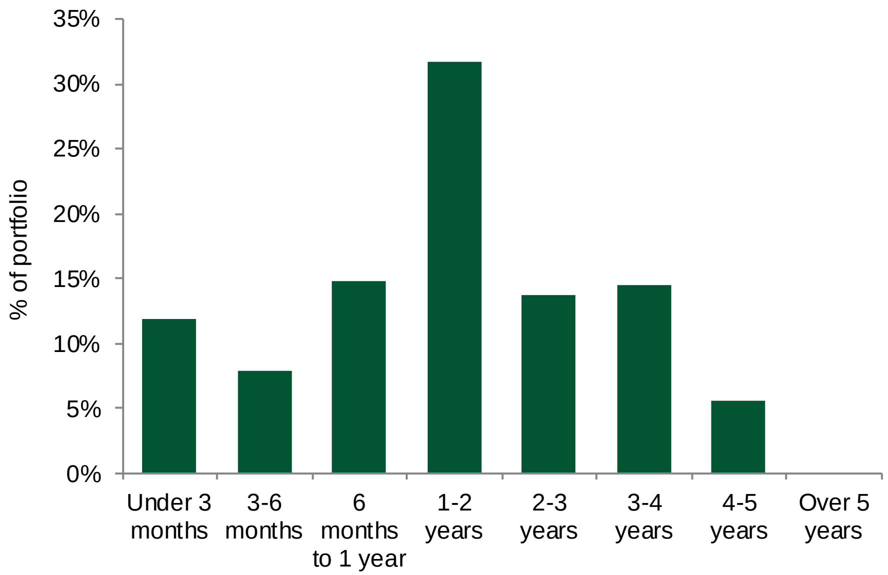
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	21,288,547	1	3.6%
Domestic Corporate Bonds	109,005,000	460	18.5%
International Corporate Bonds	110,275,000	588	18.7%
Government Agencies	144,500,000	797	24.5%
Treasury Bonds	111,000,000	560	18.9%
Municipal Bonds	92,620,000	780	15.7%
Total	**588,688,547**	**619**	**100.0%**



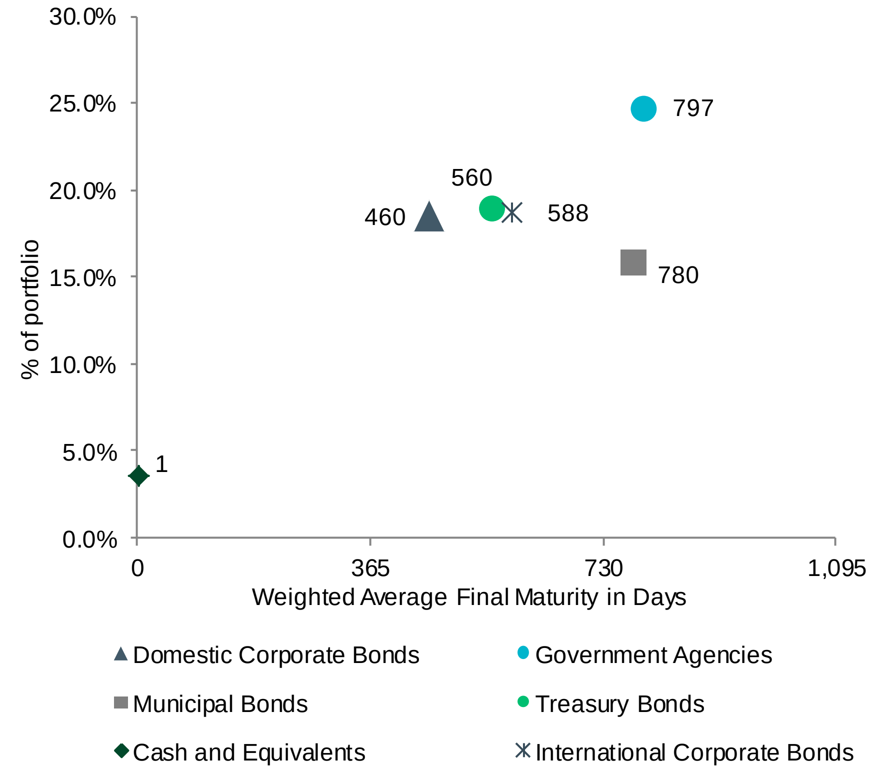
As of September 30, 2019. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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