City of Aurora

Investment management quarterly report

December 2019

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

Q4 2019 summary

- **Global central bank easing appears to have worked:** With global economic data stabilizing over the quarter and the outlook for inflation still benign, it appears that global central banks may have successfully navigated the economic slowdown. The 'dot plot' released after the December Federal Open Market Committee (FOMC) meeting indicated that most members expect interest rates to remain unchanged through 2020. The committee noted that "the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective".
- **Global tail risks have faded**: The US and China have reached a Phase One trade agreement, and while tariff rollback is modest, this agreement stands in strong contrast to the spiraling escalation experienced in Q3. Additionally, an agreement on the USMCA was reached and passed by the House of Representatives. Elections in the UK have also averted a potential crash out Brexit.
- **The yield curve steepened:** The US Treasury curve steepened in Q4, with 2-year Treasury yields falling by 5bp, 10-year yields rising by 25bp and 30-year yields rising by 28bp.
- **Credit outperformed Treasuries:** Corporate credit spreads contracted with the Bloomberg Barclays Corporate Index spread declining from 115bp to 93bp. Spreads at the longer end of the curve outperformed, as the Bloomberg Barclays Long Corporate Index spread contracted by 30bp and the Intermediate Corporate Index spread contracted by 18bp. Within investment grade issuers, BBB-rated issues tightened by 34bp over the quarter and by a significant 76bp over the year.
- **Risk assets continued to rally:** US equity markets performed well, with the S&P 500 Index reaching record highs and experiencing over 30% increase in 2019, buoyed by lower bond yields and monetary stimulus. Equity market volatility remained low.
- **Risks include:**
  - Trade tensions re-escalate to a point where they have 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

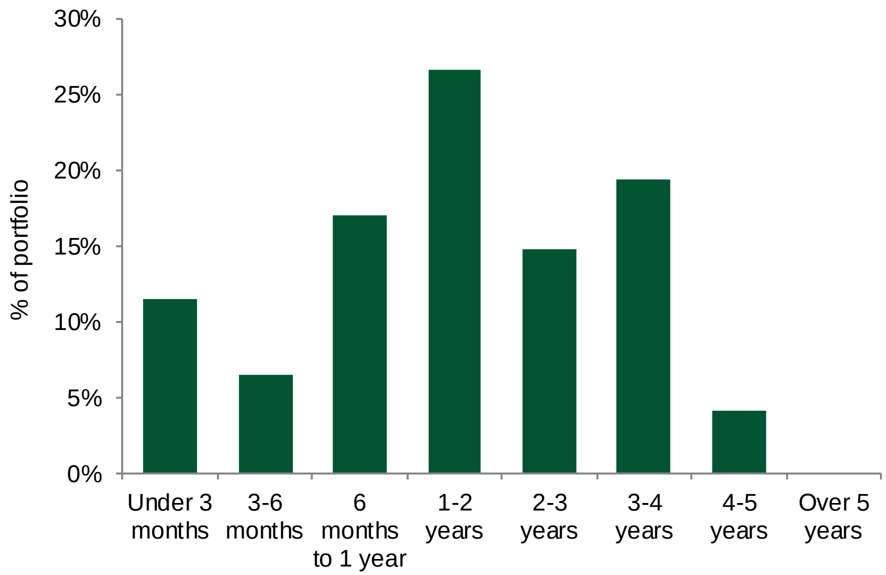
Asset allocation

Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	22,593,704	1	3.8%
Domestic Corporate Bonds	97,647,000	526	16.3%
International Corporate Bonds	124,175,000	610	20.7%
Government Agencies	146,500,000	820	24.4%
Treasury Bonds	101,000,000	518	16.8%
Municipal Bonds	107,500,000	803	17.9%
Total	**599,415,704**	**644**	**100.0%**

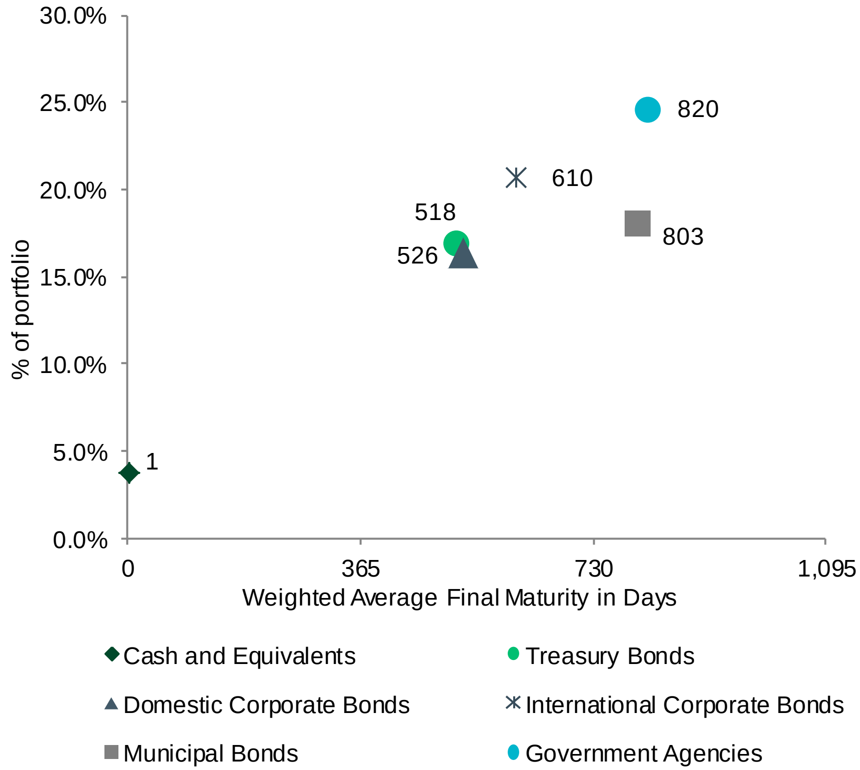
As of December 31, 2019. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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