City of Aurora

Investment management quarterly report

March 2020

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

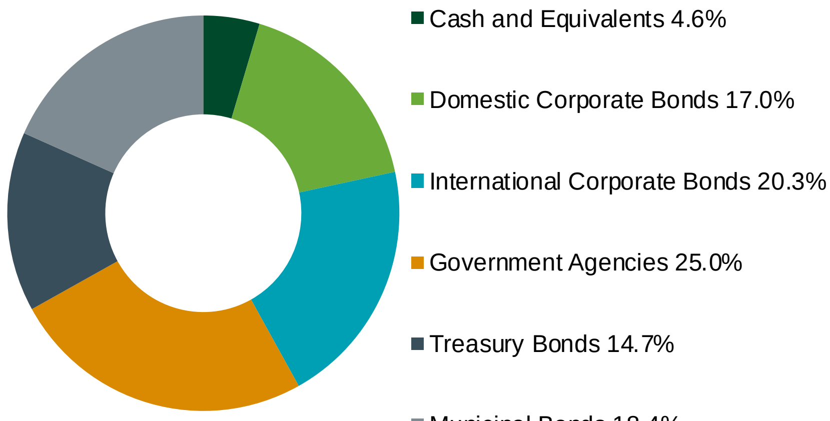
Q1 2020 summary

- **A global 'sudden stop' sent shock waves through markets:** The economic backdrop changed beyond recognition during the first quarter as a growing, interconnected world closed down and markets rapidly priced in the expected economic damage. Although the magnitude of market moves was comparable with previous economic shocks, the speed of the reaction was unprecedented. One positive is that the response from central banks and governments has also been rapid, with sizeable stimulus packages enacted. While these measures will do little to arrest the decline in growth given public health measures, they should lay the groundwork for a stronger recovery
- **The yield curve stepped lower and steepened:** The US Federal Reserve cut their target rate by 150bp and restarted quantitative easing, increasing their balance sheet by over $1.5 trillion with more to come. This caused the Treasury yield curve to step lower and steepen. The 2-year maturity Treasury yield declined by 132bp, the 10-year declined by 125bp and the 30-year declined by 107bp.
- **Credit underperformed significantly:** With markets experiencing volatility at levels previously seen during the global financial crisis, credit spreads moved significantly higher. The Bloomberg Barclays Corporate Index spread widened from 93bp to 272bp. The spread of the Bloomberg Barclays Long Corporate Index widened to 274bp and the spread of the Bloomberg Barclays Intermediate Corporate Index widened to 271bp. Within investment grade issuers, BBB-rated issues underperformed, widening by 174bp over the quarter to 345bp. Investment grade issuance remained strong as corporates were prepared to issue at higher yields to build liquidity buffers.
- **Equity markets experienced record Q1 loss:** US equity markets fell sharply, with the S&P 500 Index experiencing its worst ever Q1 loss, falling by close to 20%. Volatility spiked to levels not seen since the global financial crisis.
- **Oil prices collapsed amid a dual shock:** WTI crude oil prices plummeted 66% as lockdown policies potentially cut oil demand by 15%. Compounding this demand shock, Saudi Arabia and Russian talks broke down, resulting in their announcement of production increases in an apparent effort to crush US shale. A sustained period of sub-$40 oil will lead to a significant number of shale bankruptcies.
- **Risks include:**
  - The recovery takes significantly longer than expected, prolonging the economic damage at a time of policy tool exhaustion
  - US-China relations deteriorate further, due to the coronavirus, leading to further political brinksmanship with global repercussions
  - European policymakers facing a deep recession and already at the limits of their current policy toolkit, turn to more extreme measures to stimulate growth, which could have implications for global bond and asset markets

Market environment and strategies

Asset allocation

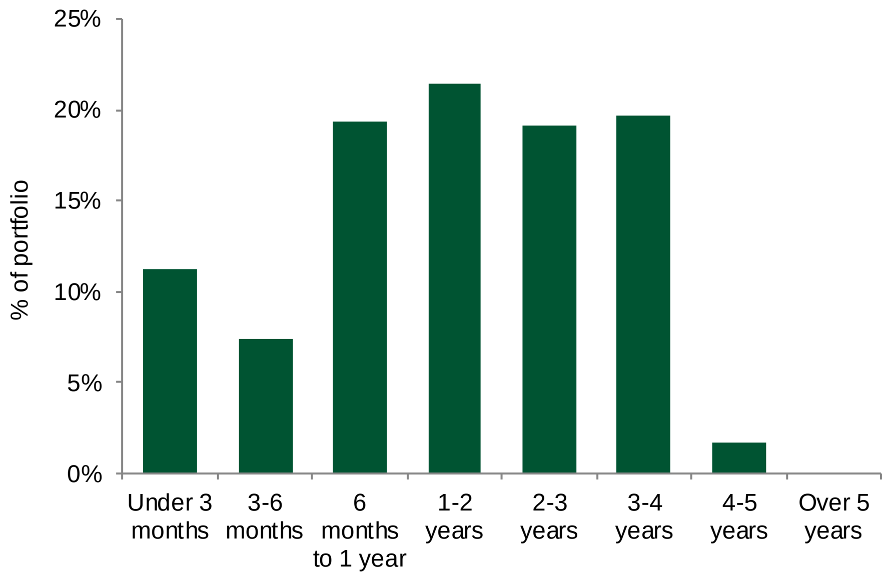
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	27,127,034	1	4.6%
Domestic Corporate Bonds	99,847,000	612	17.0%
International Corporate Bonds	118,609,000	544	20.3%
Government Agencies	146,500,000	858	25.0%
Treasury Bonds	86,000,000	507	14.7%
Municipal Bonds	107,500,000	712	18.4%
Total	**585,583,034**	**634**	**100.0%**



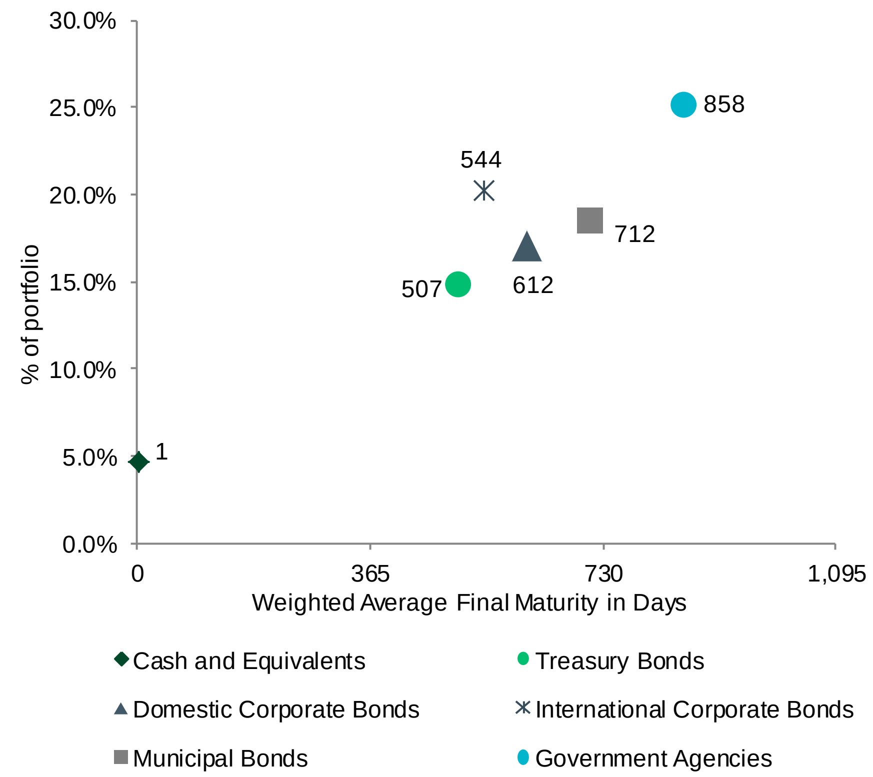
As of March 31, 2020. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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