City of Aurora

Investment management quarterly report

June 2020

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

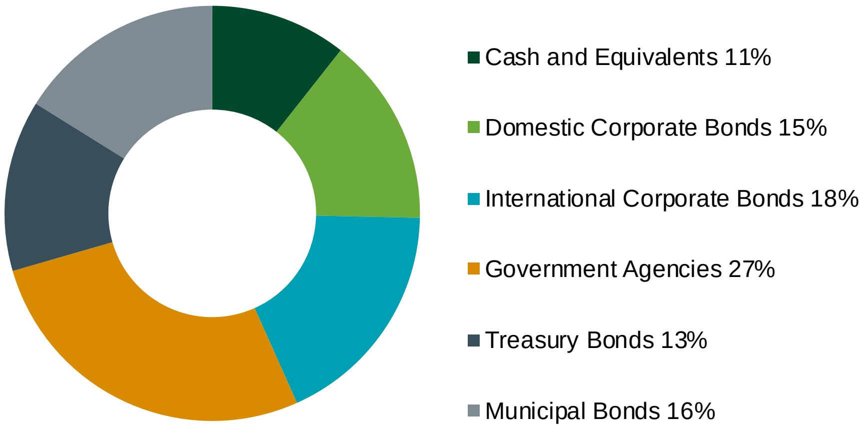
Q2 2020 summary

- **Markets turn more optimistic, for now:** Economic data clarified the catastrophic economic damage caused by efforts to control the spread of COVID-19. The National Bureau of Economic Research confirmed that the US economy entered recession in February. Despite this, optimism grew through the quarter, buoyed by signs of initial recovery and hopes that a vaccine or combination of existing drugs could bring the virus under control. Whether this optimism proves to be justified will only become clear in the coming months and years, and the start of the traditional winter flu season is likely to be a key risk point.
- **The yield curve steepened marginally as sentiment improved:** The Treasury yield curve steepened marginally as yields were largely anchored over the quarter but drifted upwards in very long maturities. The 2-year maturity Treasury yield declined by 6bp, the 10-year maturity Treasury yield declined by 7bp and the 30-year maturity Treasury yield rose by 4bp. The US Federal Open Market Committee's 'dot plot', which signals individual member forecasts, suggested that rates would remain unchanged through 2022.
- **Credit spreads recover:** Credit spreads tightened in Q2, with aggregate US corporate spreads ending the quarter 122bp tighter than where they began. Longer-maturity spreads tightening by a lesser 72bp with lower-rated securities outperforming given positive sentiment. Q2 saw the surge in investment grade corporate issuance continue, with total issuance in the first half of 2020 at a similar level as for the whole of 2019. The Federal Reserve's purchases of corporate bonds and ETFs buoyed sentiment.
- **Equity markets rebound:** Equity markets recovered a large part of their previous losses, with the S&P 500 Index gaining 20% to just under previous highs. The tech heavy NASDAQ Index broke to new all-time highs.
- **Risks include:**
  - A stop-start recovery, where further waves of the virus make it difficult for activity to recover, would not be good for risk markets
  - Election uncertainty is likely to shift into focus as we move into the final stage of campaigning
  - The role of China in the world is now uncertain as relationships between China and other powers are increasingly strained

Market environment and strategies

Asset allocation

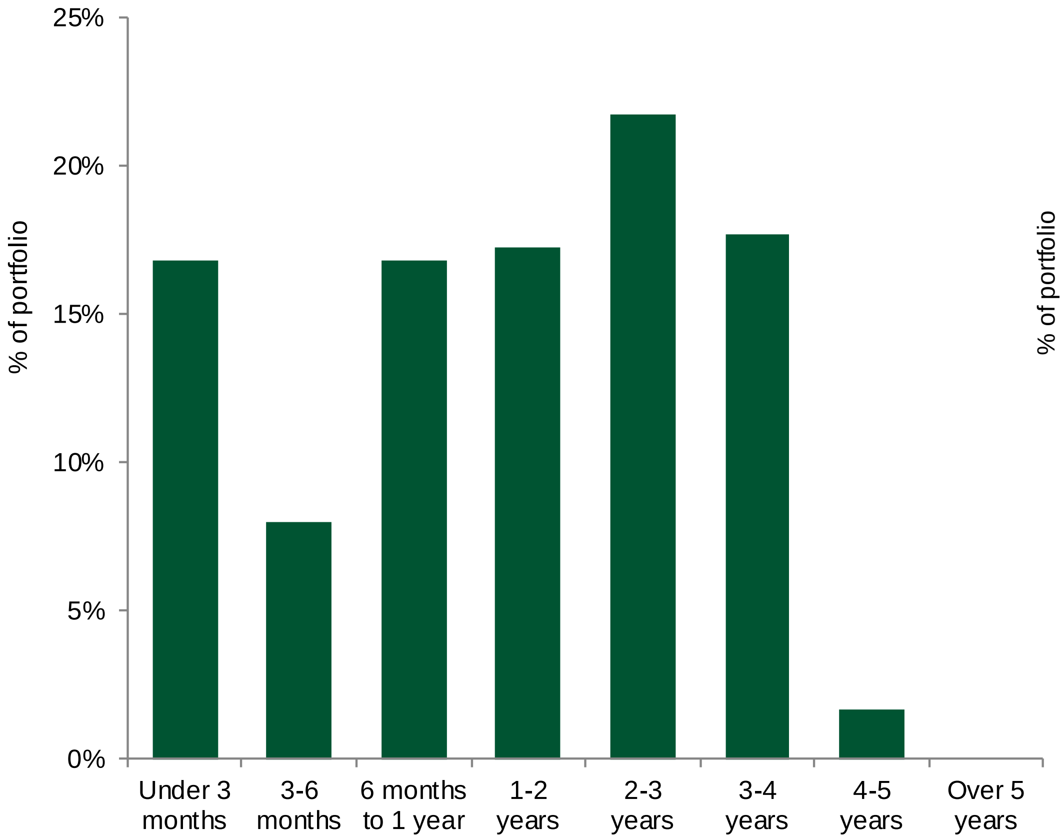
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	64,461,785	1	11%
Domestic Corporate Bonds	89,434,000	584	15%
International Corporate Bonds	109,109,000	496	18%
Government Agencies	165,218,000	948	27%
Treasury Bonds	81,000,000	442	13%
Municipal Bonds	97,980,000	687	16%
Total	**607,202,785**	**603**	**100%**



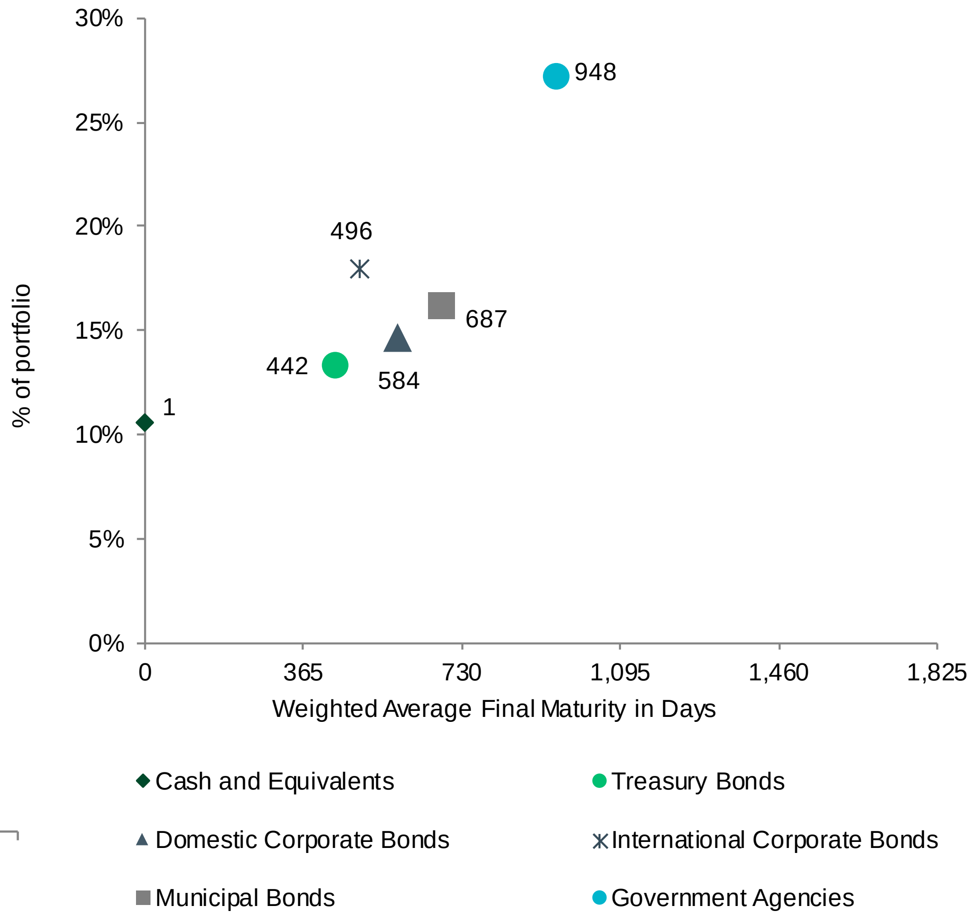
As of June 30, 2020. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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