City of Aurora

Investment management quarterly report

September 2020

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

Q3 2020 summary

- **Markets cautiously optimistic given uncertain outlook:** With the economic carnage of the first half of the year moving into the rear-view mirror, investors focused on the recovery, which has proven much sharper than expected as lockdowns reversed. Still, we expect the pace of growth to slow given permanent damage done by COVID. The Federal Reserve modified its inflation target to an average of 2% and signalled they wanted to see inflation overshoot 2% before hiking rates. Improving growth and an accommodative Fed buoyed risk sentiment as investors sought what yield they could find. Perhaps, the sharp rebound in technology stocks was the clearest example of increased risk appetite.

- **The yield curve steepened marginally as sentiment improved:** The Treasury yield curve shifted marginally higher and steeper over the quarter as shorter maturities remained anchored by Fed policy, but longer-maturity yields drifted higher after making strong gains in the previous quarter. Some of this steepening reflects increased inflation risk from the Fed's new framework. The 2-year maturity Treasury yield declined by 2bp, the 10-year maturity Treasury yield rose by 3bp and the 30-year maturity Treasury yield rose by 6bp.

- **Credit spreads recover:** Credit spreads tightened in Q3, with aggregate US corporate spreads ending the quarter 14bp tighter than where they began. The intermediate area of the credit curve outperformed marginally, tightening by 16bp given direct Fed purchases. BBB-rated issues generally outperformed given more positive sentiment in credit markets. Cumulative investment grade credit gross issuance reached $1,835bn at the end of Q3, breaking above the previous annual high of $1,468bn set in 2017.

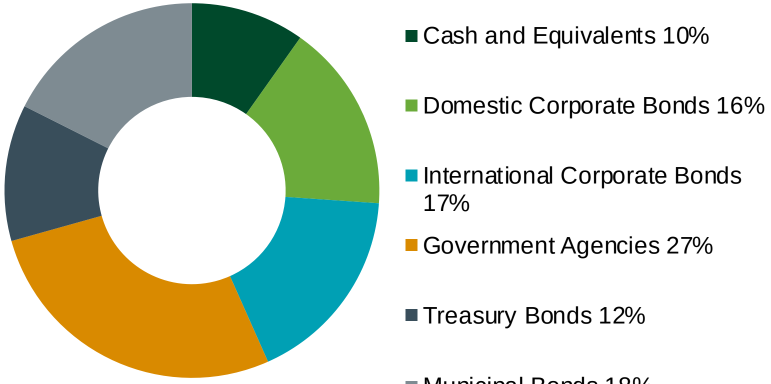
- **Equity markets rebound:** US equity markets experienced a strong, but volatile, quarter, with technology stocks rallying to record highs before giving back some of these gains at the end of the quarter on valuation concerns.

- **Risks include:**
  - A stop-start recovery, where further waves of the virus make it difficult for activity to recover, which would not be good for corporates
  - Election uncertainty and the impact of the election result is difficult to estimate
  - Brexit could be a flashpoint in Europe at year end

Market environment and strategies

Asset allocation

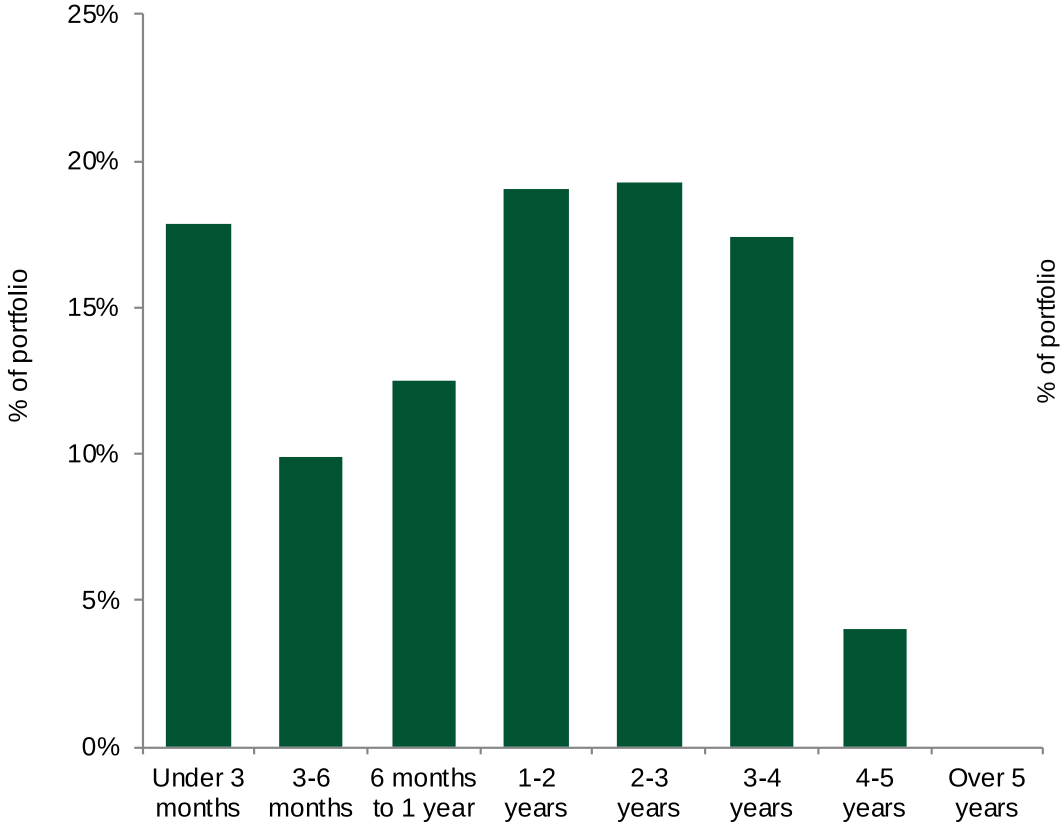
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	59,167,310	1	10%
Domestic Corporate Bonds	98,154,000	724	16%
International Corporate Bonds	104,109,000	427	17%
Government Agencies	164,718,000	973	27%
Treasury Bonds	71,000,000	406	12%
Municipal Bonds	105,980,000	656	18%
Total	**603,128,310**	**620**	**100%**



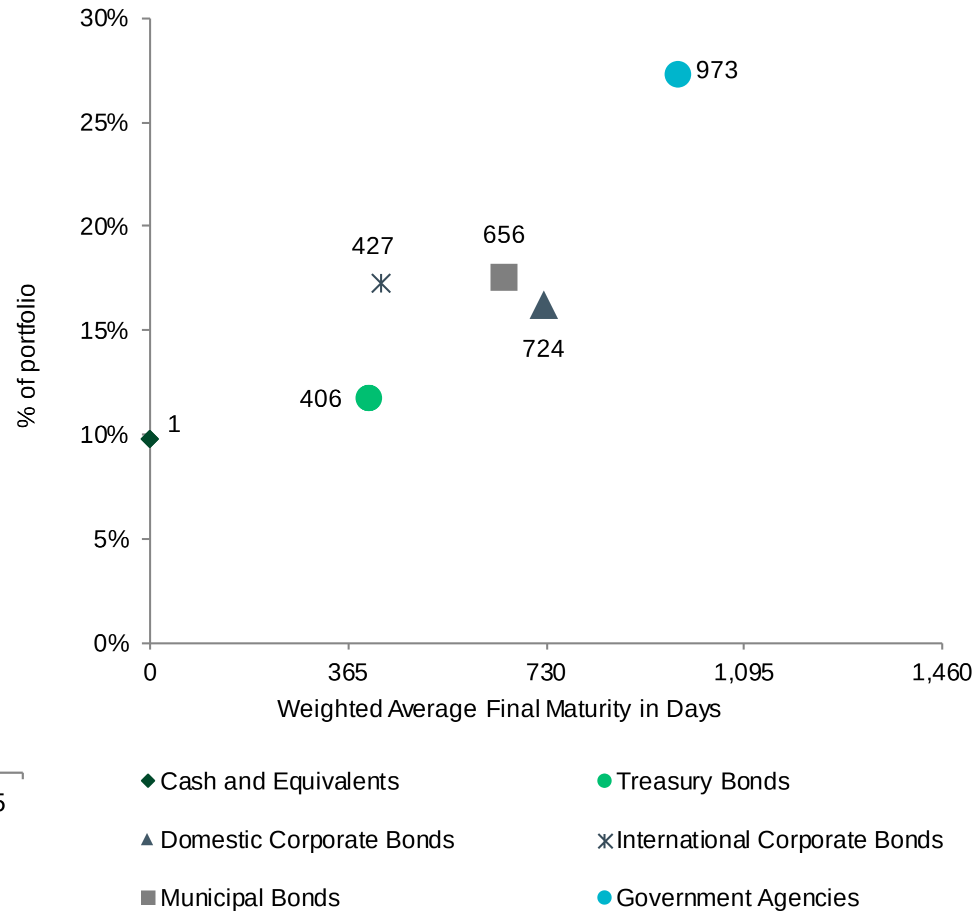
As of September 30, 2020. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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