City of Aurora

Investment management quarterly report

September 2021

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

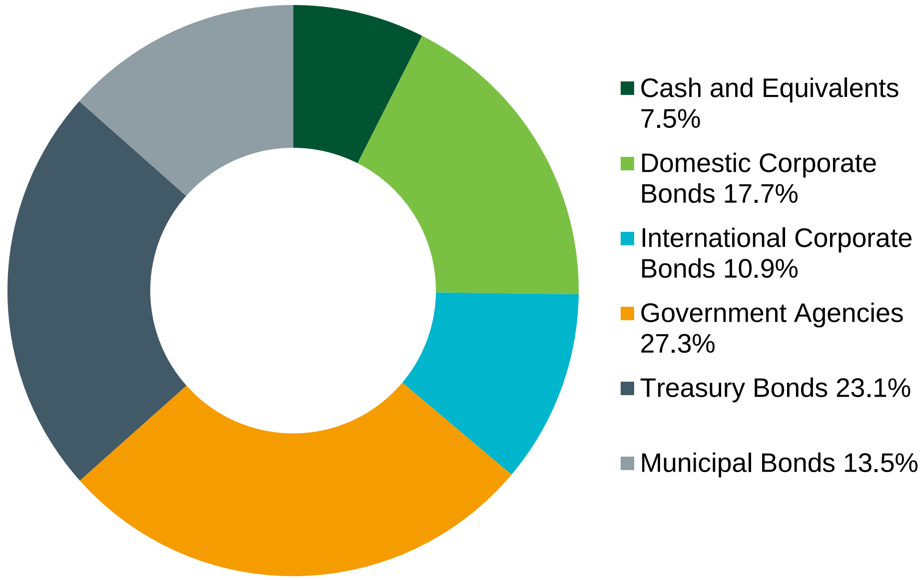
Q3 2021 summary

- **Economic momentum softened in Q3 but should recover as the delta wave subsides:** A resurgence of the pandemic in the form of the more virulent delta variant reduced momentum in sectors such as leisure and hospitality. However, supply chains are the biggest issue with delta forcing temporary shutdowns in Vietnam, China, and elsewhere. Lean inventories and supply chain delays have pushed prices up and reduced real consumption with the auto sector particularly hard hit. Inventory rebuilding should boost 2022 growth
- **Inflation remains elevated:** Headline CPI ticked down from its recent high but remained at an elevated 5.3% year-on-year in August. With the level of prices now above their pre-pandemic trend the Fed has arguably achieved its average inflation target, and markets are anticipating that tapering of bond purchases will be announced in November. We believe this uptick in inflation will prove transitory and will slowly dissipate in 2022, though inflation will likely stay above 3% through Q2 2022.
- **The yield curve flattened despite inflation data:** Treasury yields out to twelve years in maturity rose over the quarter, but beyond twelve years they declined, leading to a flatter curve. The 2-year maturity Treasury yield rose by 2bp to 0.27%, the 10-year maturity Treasury yield rose by 3bp to 1.49% and the 30-year maturity Treasury yield declined by 6bp to 2.05%.
- **Credit spreads widened marginally:** Credit spreads drifted wider in Q3, with aggregate US corporate spreads ending the quarter 4bp higher. The intermediate area of the credit curve outperformed, widening by only 2bp. BBB-rated issues and high yield outperformed given the still positive economic outlook.
- **The S&P 500 Index edged higher:** US equity markets drifted lower into the end of the quarter, eroding earlier gains but with the S&P 500 Index managing to record a marginally positive return for the quarter as a whole.
- **Risks include:**
  - Inflation proves stickier than anticipated, forcing a more disruptive response from the Fed
  - Pressure to increase corporate leverage in a world of ultra low yields could lead to credit downgrades
  - Valuations may have already priced in all of the good news

Portfolio structure and composition

Asset allocation

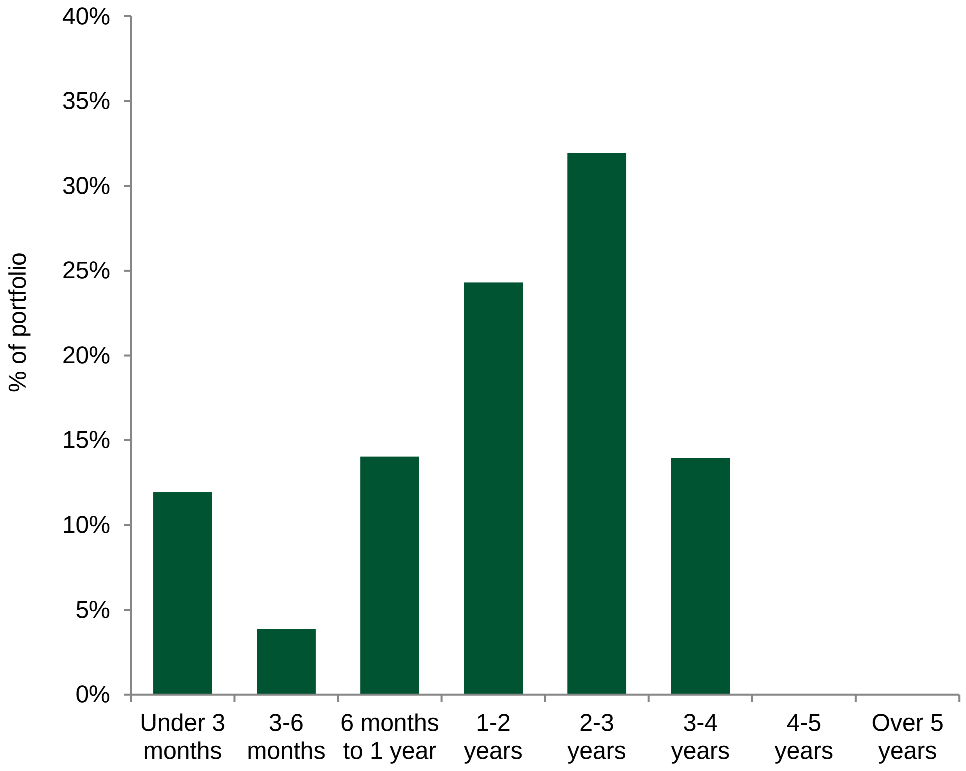
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	59,381,628	1	7.5%
Domestic Corporate Bonds	141,197,000	736	17.7%
International Corporate Bonds	87,074,000	452	10.9%
Government Agencies	216,984,000	843	27.3%
Treasury Bonds	184,000,000	618	23.1%
Municipal Bonds	107,125,000	652	13.5%
Total	**795,761,628**	**641**	**100.0%**



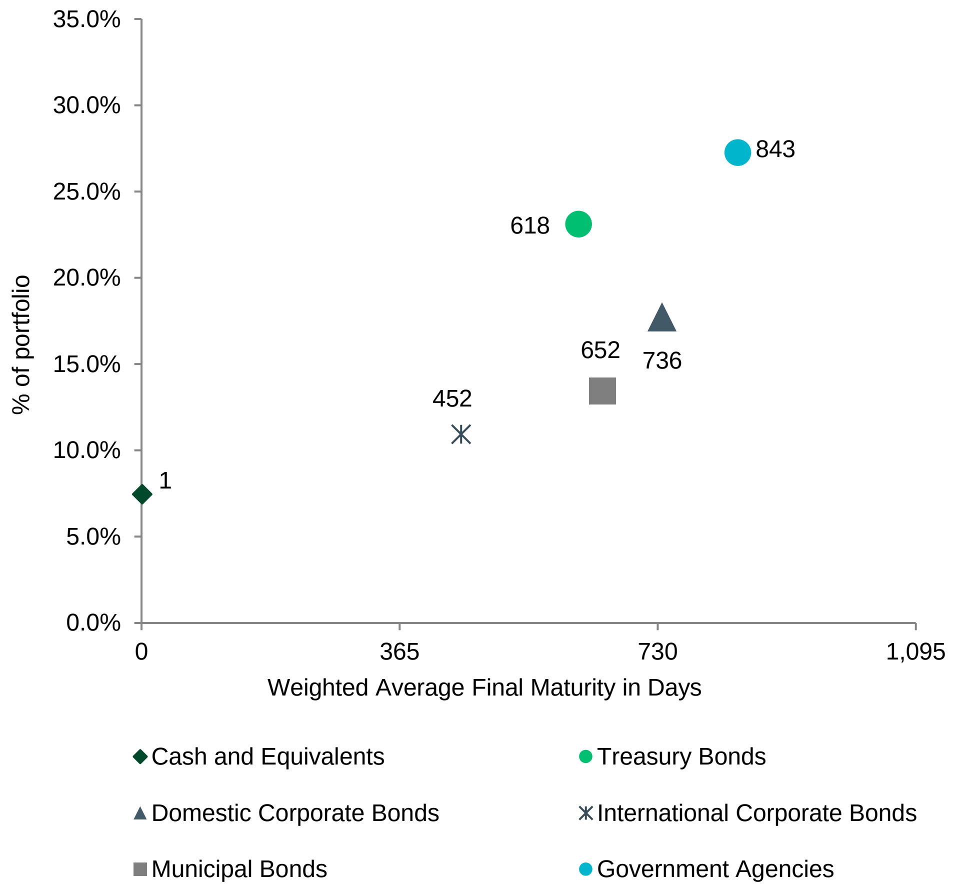
As of September 30, 2021. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Portfolio structure and composition

Maturity distribution



Maturity allocation map



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