City of Aurora

Investment management quarterly report

December 2021

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

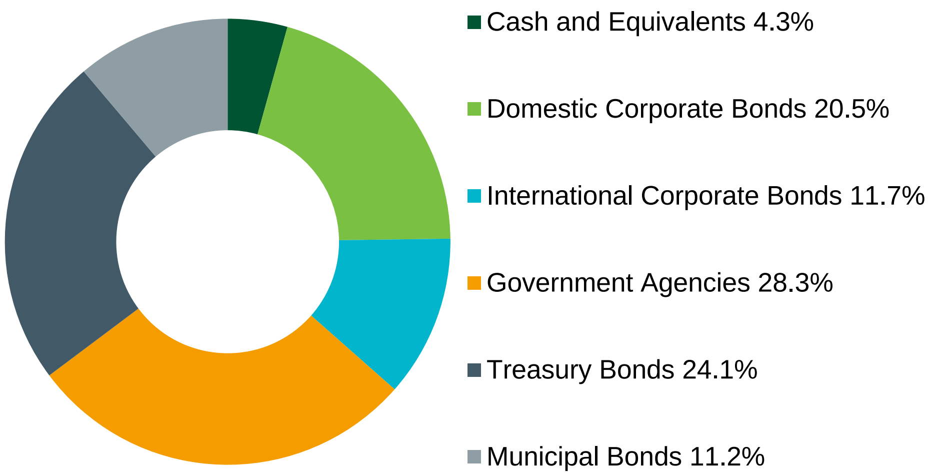
Q4 2021 summary

- **The economy is moving from recovery to mid-cycle:** Forecasts for growth edged lower over the quarter as the emergence of the Omicron variant proved a reminder that the pandemic was not yet over. The economy is still expected to perform well in 2022 but grow at a more moderate pace than in 2021.
- **Inflation remained elevated:** Headline CPI accelerated to 7.0% year-on-year in December, the highest level for 40 years. With the level of prices now well above the pre-pandemic trend the Fed has exceeded its average inflation target, and has taken a more hawkish stance, with the 'dot plot' now suggesting multiple rate hikes in 2022. We believe that inflation will moderate in mid-2022, taking some pressure off the Fed. We anticipate three rate hikes in 2022.
- **The short end of the curve moved to price in rate hikes:** With the prospect of multiple interest rate hikes in 2022, the shorter end of the Treasury yield curve rose sharply, however, at the longer end of the curve yields declined. The 2-year maturity Treasury yield rose by 46bp to 0.73%, the 10-year maturity Treasury yield rose by 2bp to 1.51% and the 30-year maturity Treasury yield declined by 14bp to 1.91%.
- **Credit spreads widened:** Aggregate US corporate spreads ended the quarter 8bp wider. The intermediate and long area of the credit curves also widened by 8bp. High yield outperformed given the still positive economic outlook and less rate sensitivity.
- **The S&P 500 Index had an extremely strong year:** US equity markets moved sharply higher over the quarter, gaining 11% to end the year with a 28% gain.
- **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
  - New COVID variants force economic retrenchment
  - Fading fiscal stimulus more aggressively slows consumption
  - Valuations already reflect strong underlying fundamentals, though there remains ample security and sector selection opportunity

Portfolio structure and composition

Asset allocation

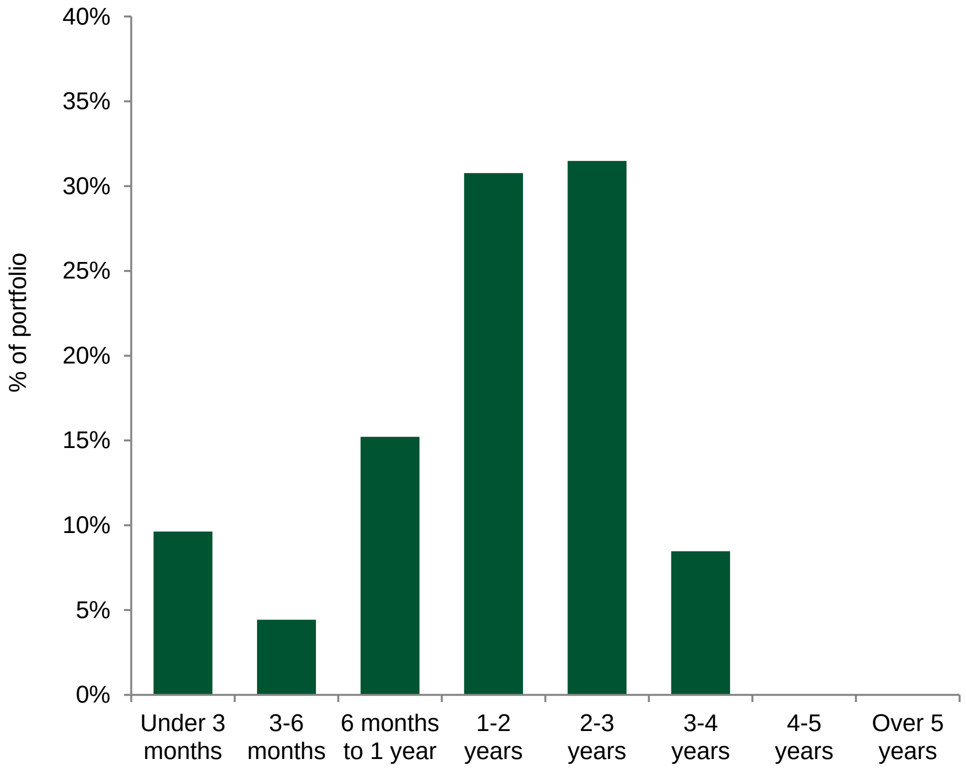
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	35,466,749	1	4.3%
Domestic Corporate Bonds	167,497,000	665	20.5%
International Corporate Bonds	96,074,000	336	11.7%
Government Agencies	231,484,000	757	28.3%
Treasury Bonds	197,000,000	580	24.1%
Municipal Bonds	91,520,000	670	11.2%
Total	**819,041,749**	**604**	**100.0%**



As of December 31, 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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Important disclosures

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