City of Aurora

Investment management quarterly report

March 2021

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

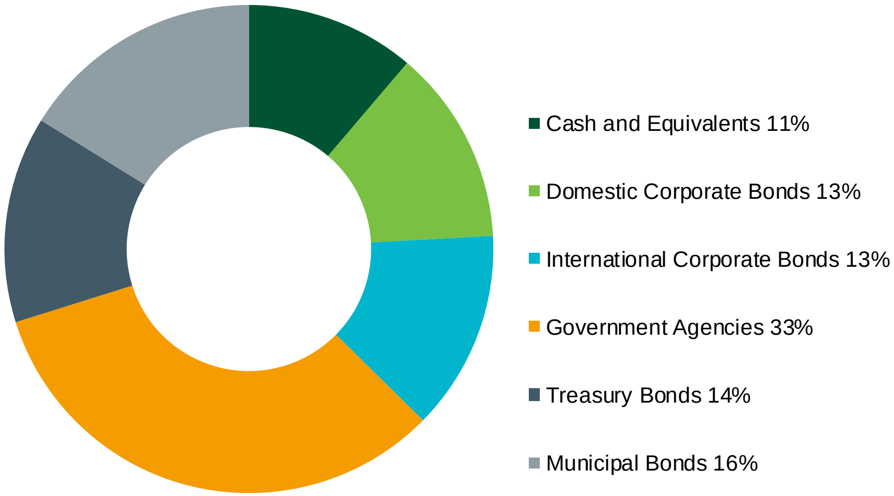
Q1 2021 summary

- **Fiscal stimulus passes:** The Biden Administration successfully passed the $1.9trn fiscal America Rescue Act plan, which included $1,400 stimulus checks, enhanced jobless benefits, state and local aid, and funding for vaccines and testing.
- **Fed accommodative even as economy impresses**: The FOMC significantly revised its economic projections to forecast GDP growth of 6.5% this year (from 4.2% previously), unemployment below 4% by the end of 2022 and perhaps most notably, core PCE at or above its 2% target over the next three years. The Fed's dot plot was unchanged, reflecting a median expectation of no policy rate hikes through 2023, though several more members anticipate a hike in 2023.
- **US ramps up vaccinations:** Close to 40% of the adult population received one dose by the end of the quarter, reaching a pace of ~3m vaccinations per day. Economic restrictions continued to be scaled back across most states, and business restrictions were removed outright in others.
- **Economic restrictions begin to ease**: At the beginning of the period, COVID-19 deaths in the US were running at the highest levels since the start of the pandemic, but hospitalizations began to ease from the end of January onwards.
- **Yield curve aggressively steepens:** Improving growth expectations led the curve to steepen, with longer-dated Treasuries selling off sharply. 10-year yields and longer increased more than 80bp to 1.74% while the 2-year Treasury rose just 4bp to 0.16%.
- **Credit spreads trade at cycle lows:** Having already recovered to pre-pandemic levels at the end of 2020, US investment grade credit spreads ended Q1 only modestly tighter, albeit trading at the tightest levels since early 2018 and close to pre-2008 levels.
- **Valuations remain a concern:** We expect growth to remain strong and inflation to be transitory. Given valuations, we continue to advocate caution in terms of security and sector selection. We believe the very front-end of the treasury curve is likely to remain anchored with the prospect of longer-term yields moving moderately higher given a Fed on hold.

Market environment and strategies

Asset allocation

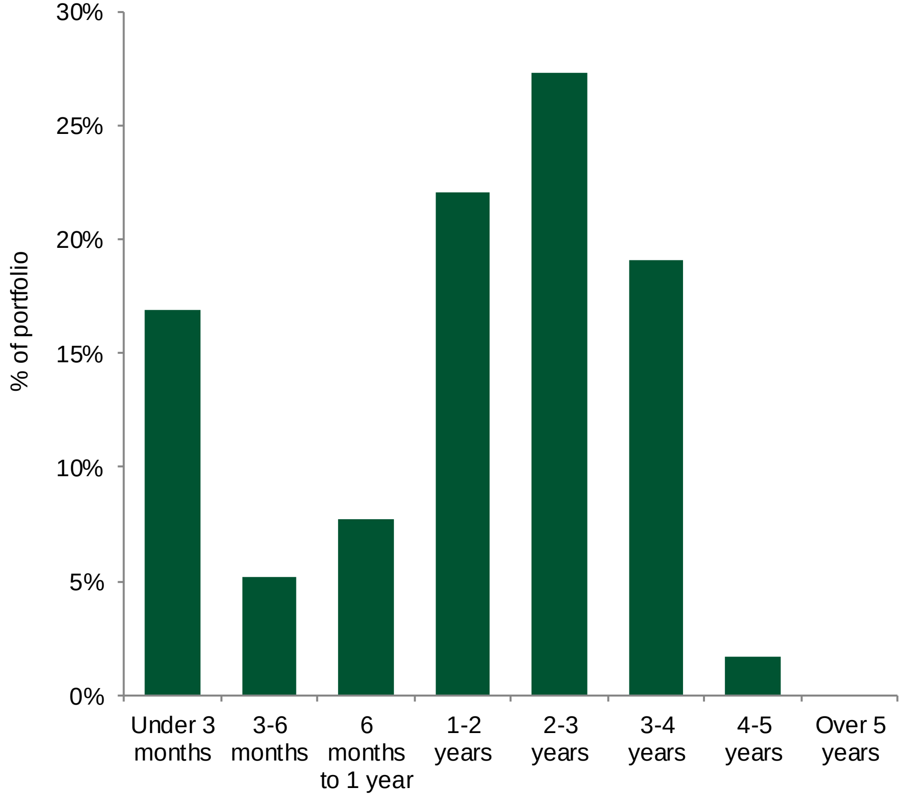
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	72,508,750	1	11%
Domestic Corporate Bonds	80,154,000	756	13%
International Corporate Bonds	85,696,000	419	13%
Government Agencies	211,984,000	950	33%
Treasury Bonds	88,500,000	620	14%
Municipal Bonds	104,585,000	783	16%
Total	**643,427,750**	**675**	**100%**



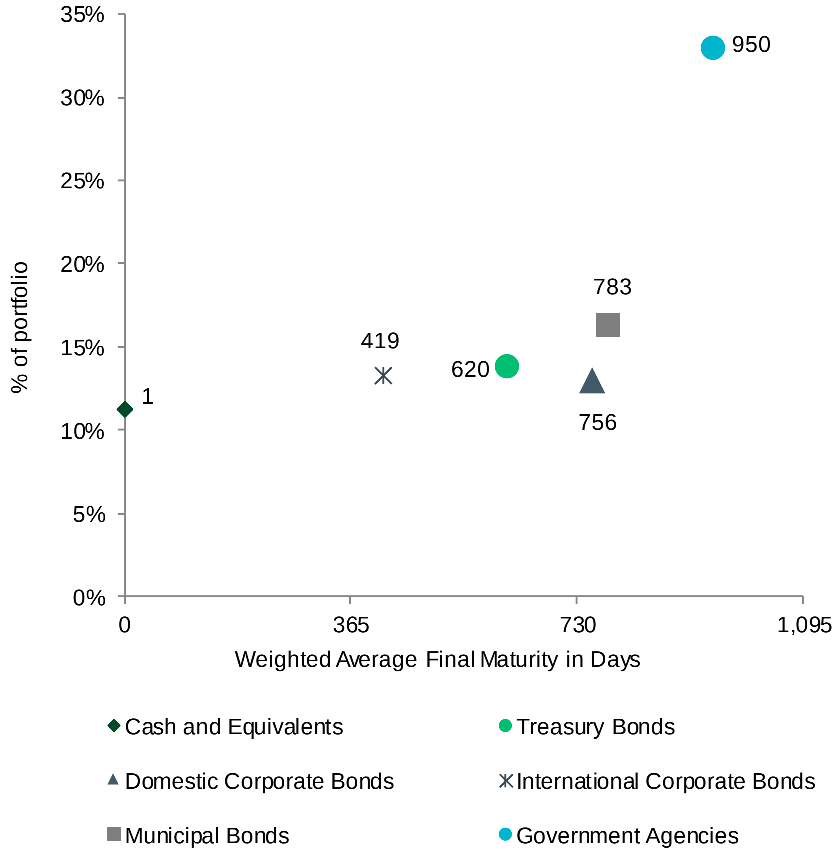
As of March 31, 2021. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Market environment and strategies

Maturity distribution



Maturity allocation map



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