City of Aurora

Investment management quarterly report

June 30, 2022

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

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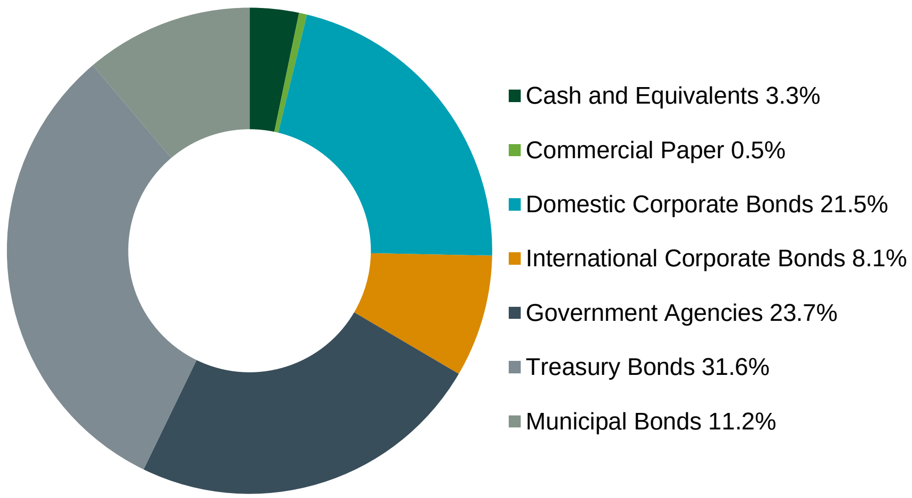
Q2 2022 summary

- **The Fed stepped on the brakes in June:** The first 75 basis point rate hike since 1994 combined with ongoing elevated inflation caused forecasts for growth to move sharply lower, compounded by a surprise contraction in Q1 GDP.
- **The Treasury curve moved upwards and steepened:** A hawkish Fed, rising global yields, and concerns about inflation put upward pressure on yields over the quarter. The 2-year maturity Treasury yield increased by 62bp to 2.96%, the 10-year maturity Treasury yield increased by 68bp to 3.02% and the 30-year maturity Treasury yield increased by 73bp to 3.19%.
- **Credit spreads widened:** Aggregate US corporate spreads ended the quarter 39bp higher. The intermediate and long area of the credit curves widened by 47bp and 31bp respectively, as declining dollar prices limited long-end widening. Lower rated credits underperformed, with the spreads of long maturity BBB rated issues widening by 41bp. High yield credit also experienced notable losses, although this was mitigated to a degree by the asset class's shorter duration. Although spreads have widened there is growing evidence that corporations are successfully passing rising costs onwards to consumers and, with funding locked in at advantageous levels, this may be an opportunity for some corporations to inflate away their debts.
- **We believe the Fed may cause a recession but it would likely be shallow:** The Fed would rather cause a recession than have inflation remain above 5% for a prolonged period of time; however, as inflation does come down, the Fed will become more responsive to growth risks and the employment side of its dual mandate. Given the rapid pace of tightening, there is substantial risk of recession. However, consumer balance sheets are very strong, and the corporate sector is retaining free cash flow, which should limit the severity of a potential downturn.
- **The S&P 500 Index declined:** US equity markets moved lower over the quarter, with the S&P 500 Index declining by 16.1%, taking its loss over the first half to -20%, entering a bear market in one of the worst starts to the year since the 1970s.
- **Risks include:**
  - A policy mistake raises the risks of domestic recession
  - Declining financial markets, combined with dour consumer sentiment, cause a sharper pullback in spending
  - Events in Europe worsen, causing market dislocations around the world
  - Spiralling food and energy prices increase geopolitical uncertainty

Portfolio structure and composition

Asset allocation

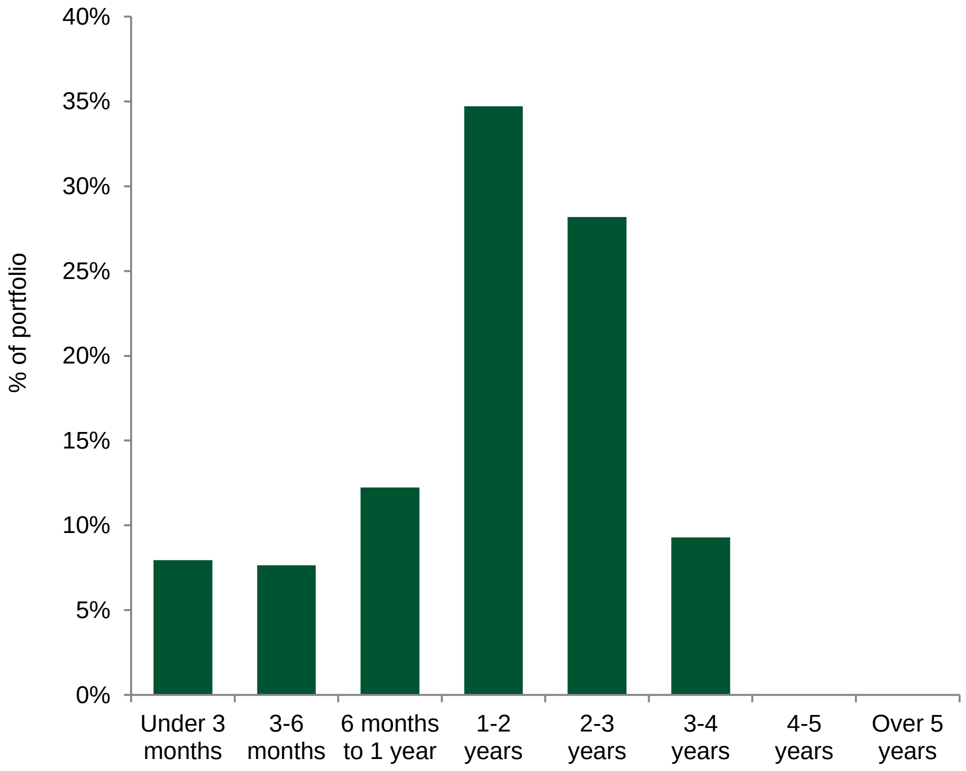
Investment Type	Par Value	Final Maturity	Allocation
Cash and Equivalents	30,492,394	1	3.3%
Commercial Paper	5,000,000	21	0.5%
Domestic Corporate Bonds	200,714,000	577	21.5%
International Corporate Bonds	75,861,000	513	8.1%
Government Agencies	221,484,000	599	23.7%
Treasury Bonds	295,000,000	773	31.6%
Municipal Bonds	104,345,000	576	11.2%
Total	**932,896,394**	**617**	**100.0%**



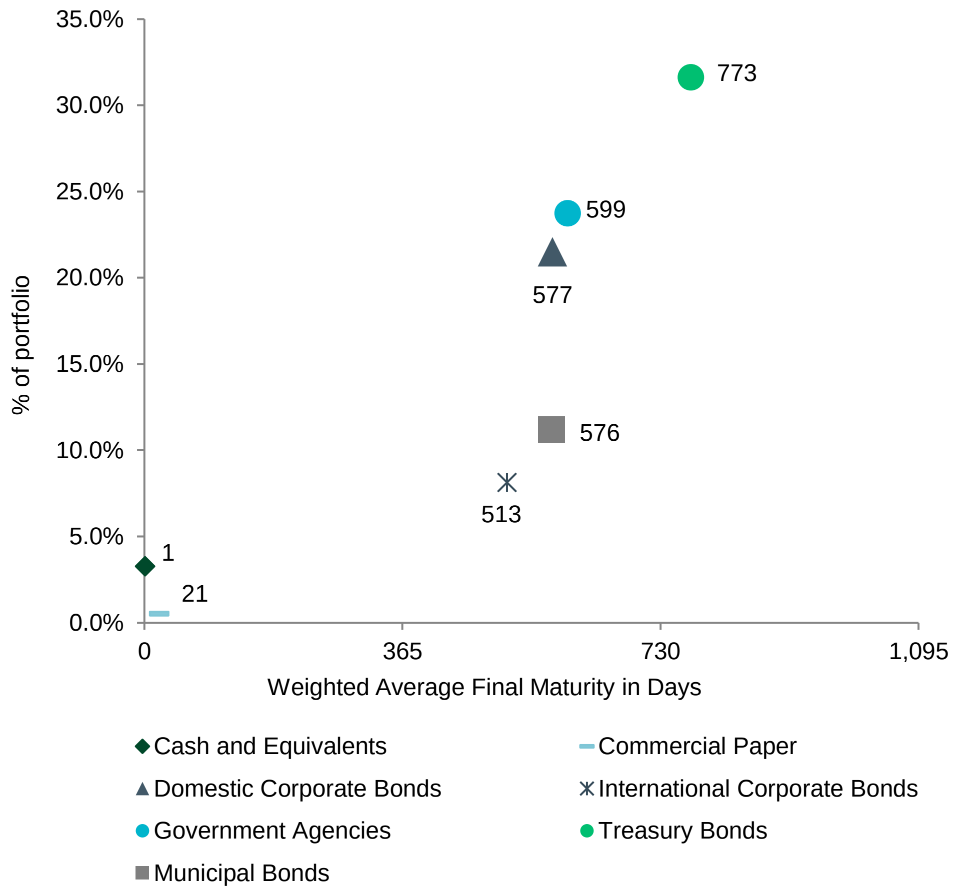
As of June 30, 2022. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation.

Portfolio structure and composition

Maturity distribution



Maturity allocation map



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