



# Lincolnshire County Council

## Monthly Investment Analysis Review

December 2021

## Monthly Economic Summary

**General Economy**

The Flash (i.e. provisional) Manufacturing PMI dropped to a 3-month low of 57.6 in December from 58.1 in November, in line with market expectations. Notably, the Backlogs of Work sub-index dipped from 58.6 to 51.8 in December, signalling the slowest accumulation of work-in-hand since February. This was helped by reduced pressure on supply chains, as signalled by the least marked lengthening of delivery times for 12 months. The Flash Services PMI, meanwhile, fell more sharply to 53.2 in December, down from 58.5 in November, missing market forecasts of 57.0. This reading signalled a sharp slowdown in service sector growth to the lowest since February, amid reports of a negative impact on customer demand from Omicron variant restrictions. However, underlying components did suggest that rising employment levels contributed to the slowest accumulation of unfinished work since March while input cost inflation also eased from record highs. As a result of the fall in the Services PMI, the Flash Composite PMI (which incorporates both sectors), dropped to 53.2 in December from 57.6 in November, missing market expectations of 56.4. Meanwhile, the Construction PMI (which is released one month behind), rose to 55.5 in November from 54.6 in October and well ahead of market expectations of 54.2. This indicated a robust and accelerated expansion of overall construction activity.

By expanding just 0.1% m/m compared to expectations of a 0.4% gain, GDP data for October suggested that economic growth was anaemic even before the contemplation of COVID restrictions being re-introduced following the discovery of the Omicron variant in November. For the second month in a row, this weakness was evident in the breakdown of GDP, which confirmed that the biggest contributor to growth came from a 2.6% rise in health output as more people visited their GP. Absent this growth, GDP would have contracted during the month. Foreign trade continued to drag on GDP, although the UK's trade deficit did narrow to £2.03 billion in October from September's eight-month high of GBP 2.78 billion. Both exporters and importers reported challenges emanating from Brexit, the pandemic, rising energy prices and supply chain disruption.

Whilst employment rose by 149,000 in the three months to October, more notable was that employment fell by 143,000 during the single month of October, following the end of the furlough scheme. Combined with the rise of 78,000 in unemployment reported in the month (which left the unemployment rate at 4.2%), this suggests that there was some modest deterioration in the labour market following the scheme's end. However, the fall of 49,800 in the number of people claiming unemployment benefits and the 275,000 rise in the PAYE measure of company payrolls both observed in November suggests that the deterioration was short-lived. The rise in the number of vacancies from 1.18m to a record 1.22m in the three months to November also suggests that the supply of labour struggled to keep pace with demand during the period. Against this backdrop, average weekly earnings including bonuses increased 4.9% y/y in the three months to October, the smallest gain in seven months but above market forecasts of 4.6%.

UK inflation, as measured by the Consumer Price Index (CPI), jumped to 5.1% y/y in November from 4.2% in October, reaching its highest rate since December 2011. In the process, the CPI exceeded both market forecasts of 4.7% and the Bank of England's own forecast of 4.5% made in November's Monetary Policy Report. Much of the increase was driven by rising energy prices, supply chain disruptions and a low base effect from last year. Whilst some of these effects were due to one-off factors, rises in food prices, housing rents and second hand car prices provided evidence of more persistent price pressures. Ultimately, these signs of "greater persistence in domestic costs and price pressures" saw the Monetary Policy Committee (MPC) raise Bank Rate to 0.25% during the month. Although this move was in keeping with Link's forecasts, it surprised the market, which had expected the MPC to delay raising rates until it had greater clarity surrounding the impact

of the Omicron variant on economic growth.

Retail sales, meanwhile, rose 1.4% m/m in November, exceeding forecasts of a 0.8% increase, with retailers noting strong trading related to “Black Friday”. Reports also suggested that worries about shortages and shipping delays prompted some households to do their Christmas shopping early. Despite this rise, sales remained 0.7% lower than a year ago. The outsized monthly gain in retail sales was followed by a 1 point fall in the GFK Consumer Confidence index to -15 in December amid concerns over the Omicron variant.

Although public sector net borrowing fell to £17.4bn in November from £18.8bn in October, it exceeded both market forecasts of £16.0bn and the OBR’s forecast of £14.2bn. This was reportedly due to an increase in debt interest costs and additional spending on both the NHS Test and Trace and vaccine booster programmes. As a result, borrowing reached £136.0 billion in the financial year-to-November, £115.8 billion less than in the same period in 2020 but almost triple three times its level during April-November 2019.

The US economy added just 210,000 jobs in November, well below market expectations of 550,000, as employers continued to report difficulties in hiring and retaining workers amid a strong economic recovery. This saw the unemployment rate fall to 4.2% in November, the lowest since February 2020 and well below market expectations of 4.5%. The US economy grew by an annualised 2.3% during Q3 2021, slightly higher than 2.1% according to the second estimate and following a 6.7% expansion in Q2. Against this backdrop, price growth (as measured by the Federal Reserve’s preferred Personal Consumption Expenditure deflator) reached 5.7%y/y in November, well ahead of the Fed’s 2% target. These "inflation developments and the further improvement in the labour market" saw the Federal Reserve signal during its December meeting (via its “dot plot” chart outlining individual member expectations) that it may raise rates (from 0-0.25% currently) three times in 2022 and 2023 and twice more in 2024. The Fed also announced plans to accelerate its QE taper, which would see the current programme of bond purchases end in March.

The Eurozone economy advanced 2.2% q/q in Q3 2021, following upwardly revised 2.2% growth in Q2, matching initial estimates. The final reading of inflation for November confirmed an increase to 4.9% y/y from 4.1% in October, representing the highest reading since July 1991 but in line with preliminary estimates. While energy prices (which rose 27.5% y/y) accounted for much of the rise, core inflation (which excludes energy, food, alcohol and tobacco) also reached a record high 2.6% rate. Although the ECB reiterated at its December meeting that the rise in inflation was expected to be transitory, the central bank announced that it would reduce the pace of its asset purchases under its €1.85 trillion PEPP next quarter and wind down the scheme in March 2022, citing progress on economic recovery and towards its medium-term inflation target.

**Housing**

The Halifax reported that house prices rose 1% m/m in November whilst Nationwide reported the same monthly gain in December. This left prices 8.2% and 10.4% higher than a year ago respectively.

**Currency**

The MPC’s unexpected Bank Rate rise helped Sterling gain ground against both the US Dollar and the Euro this month.

December	Start	End	High	Low
GBP/USD	\$1.3318	\$1.3497	\$1.3497	\$1.3208
GBP/EUR	€1.1750	€1.1911	€1.1911	€1.1663

**Forecast**

Link Group left its forecast for Bank Rate unchanged in December.

Bank Rate												
	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Link Group	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	-	-

# Lincolnshire County Council

## Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
	MMF Deutsche	30,000,000	0.02%		MMF	AAAm	
	MMF Morgan Stanley	22,435,000	0.05%		MMF	AAAm	
	Close Brothers Ltd	10,000,000	0.25%	02/07/2021	04/01/2022	A-	0.001%
	DBS Bank Ltd	5,000,000	0.12%	25/06/2021	04/01/2022	AA-	0.000%
	Landesbank Hessen-Thuringen Girozentrale (Helaba)	11,650,000	0.10%	05/07/2021	05/01/2022	A-	0.001%
	Northumberland County Council	5,000,000	0.45%	06/01/2021	05/01/2022	AA-	0.000%
	Kingston Upon Hull City Council	5,000,000	0.45%	08/01/2021	07/01/2022	AA-	0.000%
	Cardiff City Council	2,000,000	1.55%	10/01/2020	10/01/2022	AA-	0.001%
	Cambridgeshire County Council	5,000,000	0.40%	18/01/2021	17/01/2022	AA-	0.001%
	Landesbank Hessen-Thuringen Girozentrale (Helaba)	7,050,000	0.11%	16/04/2021	17/01/2022	A-	0.002%
	Close Brothers Ltd	5,000,000	0.25%	30/07/2021	31/01/2022	A-	0.004%
	HSBC UK Bank Plc (RFB)	20,000,000	0.30%		Call31	A+	0.004%
	Australia and New Zealand Banking Group Ltd	10,000,000	0.13%	02/07/2021	02/03/2022	A+	0.008%
	Landesbank Hessen-Thuringen Girozentrale (Helaba)	6,300,000	0.11%	06/09/2021	07/03/2022	A-	0.009%
	DBS Bank Ltd	10,000,000	0.11%	15/09/2021	15/03/2022	AA-	0.005%
	Cooperatieve Rabobank U.A.	2,926,274	0.17%	18/05/2021	23/03/2022	A+	0.011%
	Cooperatieve Rabobank U.A.	1,290,845	0.16%	23/06/2021	23/03/2022	A+	0.011%
	West Dunbartonshire Council	5,000,000	0.42%	24/03/2021	23/03/2022	AA-	0.005%
	Close Brothers Ltd	5,000,000	0.25%	27/09/2021	28/03/2022	A-	0.011%
	DBS Bank Ltd	5,000,000	0.13%	30/09/2021	30/03/2022	AA-	0.006%
	Barclays Bank UK PLC (RFB)	18,100,000	0.30%		Call95	A	0.012%
	National Westminster Bank Plc (RFB)	5,000,000	0.16%	29/04/2021	29/04/2022	A	0.015%
	DBS Bank Ltd	5,000,000	0.36%	04/11/2021	04/05/2022	AA-	0.008%
	Cambridgeshire County Council	5,000,000	0.62%	16/10/2020	16/05/2022	AA-	0.009%
	National Bank of Canada	2,370,000	0.26%	19/11/2021	19/05/2022	A	0.018%
	OP Corporate Bank plc	10,232,731	0.17%	02/06/2021	20/05/2022	AA-	0.009%
	Close Brothers Ltd	5,000,000	0.40%	25/11/2021	25/05/2022	A-	0.019%
	Nordea Bank Abp	3,067,511	0.15%	11/08/2021	02/06/2022	AA-	0.010%
	Nordea Bank Abp	5,026,991	0.16%	19/07/2021	02/06/2022	AA-	0.010%
	Nordea Bank Abp	5,111,675	0.15%	02/07/2021	02/06/2022	AA-	0.010%
	Bank of Nova Scotia	2,466,771	0.13%	05/08/2021	08/06/2022	A+	0.021%
	Bank of Nova Scotia	2,590,160	0.13%	05/08/2021	08/06/2022	A+	0.021%
	Bank of Montreal	1,014,545	0.17%	23/06/2021	21/06/2022	A+	0.022%
	Bank of Montreal	4,058,966	0.15%	23/06/2021	21/06/2022	A+	0.022%
	National Australia Bank Ltd	1,518,618	0.16%	19/08/2021	27/06/2022	A+	0.023%
	Santander UK PLC	25,000,000	0.58%		Call180	A	0.023%
	Australia and New Zealand Banking Group Ltd	10,000,000	0.43%		Call185	A+	0.024%
	BNP Paribas	7,067,614	0.17%	10/09/2021	16/08/2022	A+	0.029%

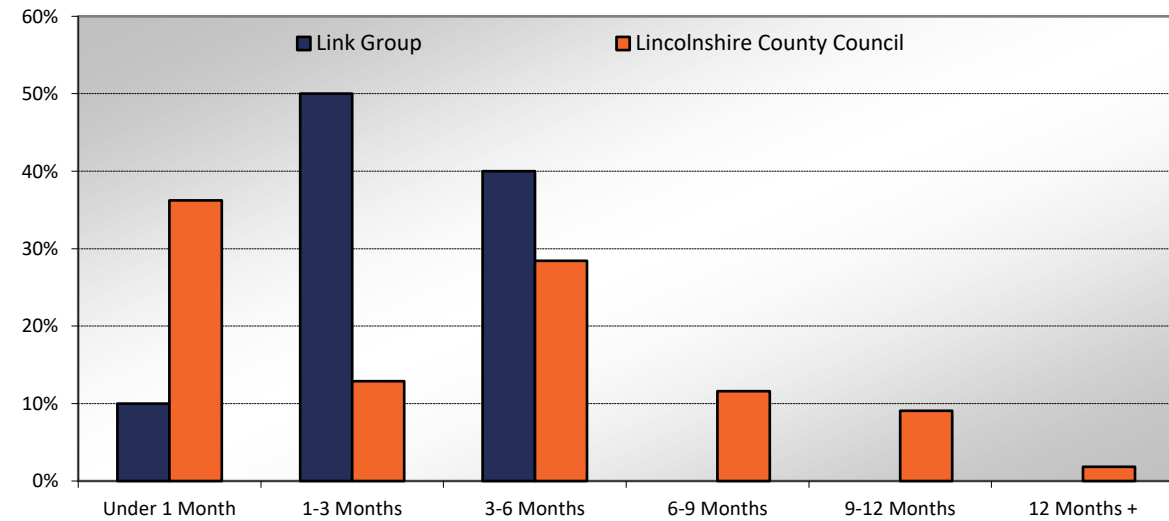
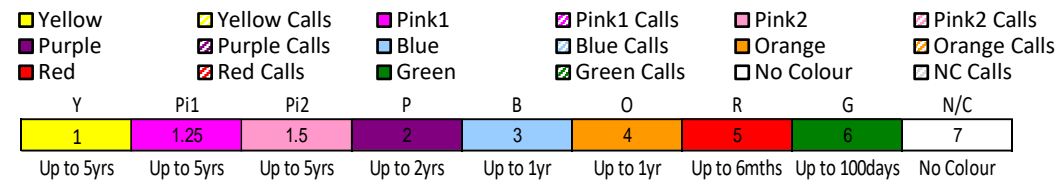
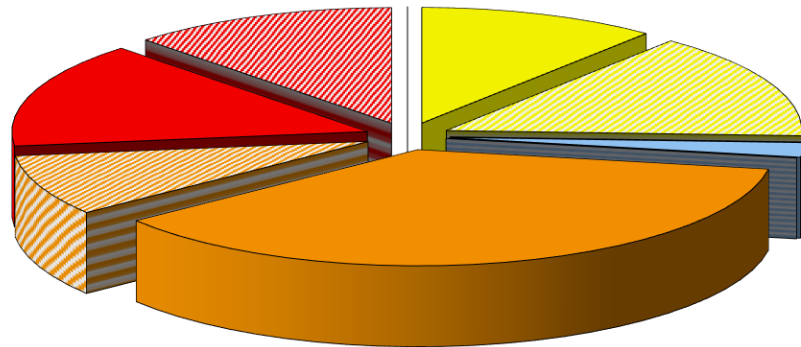
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Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
BNP Paribas	4,837,185	0.22%	06/08/2021	16/08/2022	A+	0.029%
BNP Paribas	5,047,992	0.18%	15/09/2021	16/08/2022	A+	0.029%
Toronto Dominion Bank	10,000,000	0.21%	13/09/2021	13/09/2022	AA-	0.016%
Australia and New Zealand Banking Group Ltd	4,000,000	0.25%	20/09/2021	19/09/2022	A+	0.034%
Broxbourne Borough Council	5,000,000	0.18%	05/10/2021	04/10/2022	AA-	0.018%
Toronto Dominion Bank	10,000,000	0.51%	15/10/2021	14/10/2022	AA-	0.018%
Toronto Dominion Bank	10,000,000	0.70%	19/10/2021	18/10/2022	AA-	0.019%
Bank of Montreal	5,000,000	0.70%	05/11/2021	04/11/2022	A+	0.040%
National Westminster Bank Plc (RFB)	2,000,000	0.65%	24/11/2021	23/11/2022	A	0.042%
Slough Borough Council	6,500,000	0.33%	05/05/2021	04/05/2023	AA-	0.029%
<b>Total Investments</b>	<b>£353,662,875</b>	<b>0.27%</b>				<b>0.013%</b>

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

# Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.48**

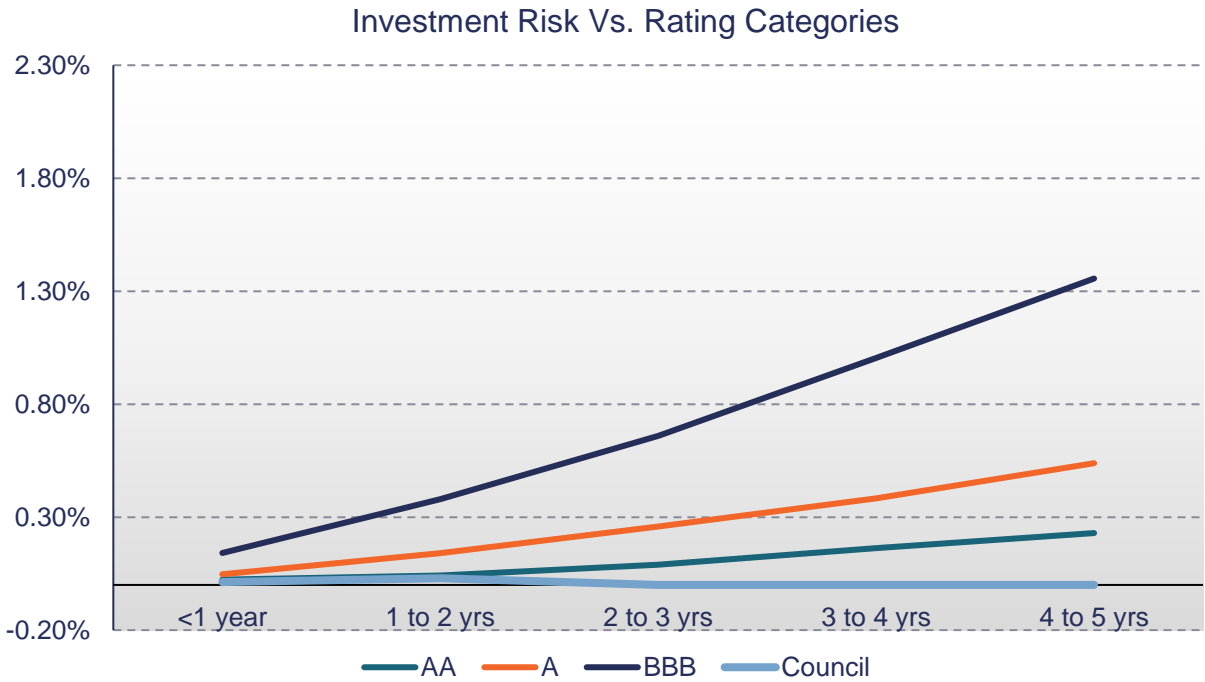
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	25.71%	£90,935,000	57.66%	£52,435,000	14.83%	0.22%	64	200	151	472
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	1.98%	£7,000,000	0.00%	£0	0.00%	0.30%	178	365	178	365
Orange	45.31%	£160,257,875	18.72%	£30,000,000	8.48%	0.27%	159	265	176	308
Red	26.99%	£95,470,000	45.15%	£43,100,000	12.19%	0.32%	89	173	44	196
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£353,662,875</b>	<b>35.50%</b>	<b>£125,535,000</b>	<b>35.50%</b>	<b>0.27%</b>	<b>116</b>	<b>226</b>	<b>142</b>	<b>312</b>



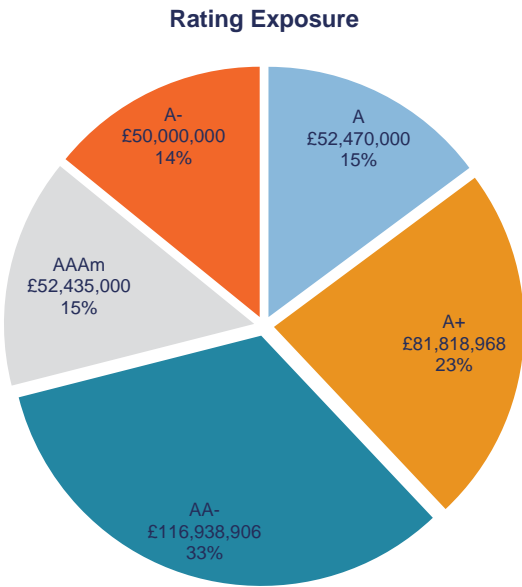
Lincolnshire County Council

Investment Risk and Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
Council	0.01%	0.03%	0.00%	0.00%	0.00%



**Historic Risk of Default**  
This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

**Chart Relative Risk**  
This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

**Rating Exposures**  
This pie chart provides a clear view of your investment exposures to particular ratings.

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Monthly Credit Rating Changes  
FITCH

Date	Update Number	Institution	Country	Rating Action
03/12/2021	1862	Norddeutsche Landesbank Girozentrale	Germany	The Support Rating was withdrawn. At the same time all other ratings were affirmed.
22/12/2021	1867	Bank of Montreal	Canada	The Support Rating was withdrawn. At the same time all other ratings were affirmed.



Monthly Credit Rating Changes  
MOODY'S

Date	Update Number	Institution	Country	Rating Action
10/12/2021	1863	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was upgraded to 'Ba3' from 'B2'.

## Lincolnshire County Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
15/12/2021	1864	Standard Chartered Bank	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time all other ratings were affirmed.
16/12/2021	1865	Danske A/S	Denmark	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Outlook on the Long Term Rating was changed to Negative from Stable and all other ratings were affirmed.
16/12/2021	1866	Credit Industriel et Commercial	France	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Short Term Rating was affirmed.

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