



# Lincolnshire County Council

## Monthly Investment Analysis Review

June 2022

## Monthly Economic Summary

**General Economy**

The Flash (i.e. provisional) Manufacturing PMI tumbled to a 23-month low of 53.4 in June, below May's reading of 54.6 and market forecasts of 54.2. Conversely, the Flash Services PMI held steady at 53.4, the same as May's reading but beating forecasts of 52.8. Whilst manufacturing production growth eased further across the month, resilient business activity trends were seen across the service sector despite the slowing new order growth. Taken together, the Flash Composite remained unchanged on the month at 53.1 but beat market forecasts of 52.6. Finally, the Construction PMI was hit by a combination of a loss of momentum in residential building growth and rising input prices, dragging down June's reading to a 4-month low of 56.4.

UK GDP expanded 0.2% in the three months to April, below forecasts of 0.4% and slowing from 0.8% seen the previous month. Services and production were broadly flat across the month with construction contributing towards the 0.2% growth. The UK trade deficit narrowed to £8.503bn in April, from a revised reading of £11.552bn in the previous month. Exports rose 4.1% as good sales advanced 7.4%, pushed up by a 6.5% jump in exports to non-EU countries. Meanwhile, imports fell 1.1% as good purchases slumped 1.6% amid lower imports from non-EU countries.

UK employment rose to 177,000 in the 3 months to April, well above market expectations of 105,000. This trend continued with those in payroll employment reaching an all-time high, whilst the claimant count fell by 19,700 in the same month. In spite of the tight conditions, the unemployment rate actually edged up to 3.8% in the three months to April, below the previous period's reading of 3.7% although higher than forecasts of 3.6%. Meanwhile, average weekly earnings including bonuses rose 6.8% y/y in the three months to April, compared to 7.0% previously, and lower than market forecasts of 7.6%. Similarly, average weekly earnings excluding bonuses went up 4.2%, matching the figure seen the previous period and beating market expectations of 4.0%.

UK inflation, as measured by the Consumer Price Index, edged higher to 9.1% in May from 9.0% in April, matching market forecasts. It is the highest inflation rate since 1992, driving further pressure on households amid the cost-of-living crisis with further policymakers voicing concerns that price rises well over the 2% inflation target are now embedded into corporate pricing policies and wage settlements. These concerns were somewhat reflected in the June Monetary Policy Committee meeting, which saw a majority of 6-3 vote to raise the key Bank Rate by 25bps to 1.25%. This was the 5th consecutive rate hike, pushing the rate to its highest since early 2009. The decision was in line with market expectations, although three members voted for a bigger 50bps increase.

Meanwhile, with affordability continuing to play a greater weight on the mind of consumers amid a cost-of-living crisis, retail sales dropped to -0.5% m/m in May, after a downwardly revised 0.4% increase in April and compared to market expectations of a 0.7% fall. Continuing this trend, the Gfk Consumer Confidence index dropped to a new low at -41 in June, adding to concerns of a pullback in consumer spending amid rising prices and adding to concerns over sluggish economic growth. This followed a reading of -40 in May but was a touch higher than consensus forecasts of -42. The UK government recorded a £14.0 billion deficit in its public finances for May, £3.7 billion more than the Office for Budget Responsibility's forecast. This was also higher than market expectations of £13.4 billion, and the third-highest May borrowing since monthly records began in 1993. Public sector net debt excluding public sector banks was £2,363.2 billion, or around 95.8% of GDP, an increase of £170.1 billion compared with May 2021.

The US economy added 390,000 jobs in May 2022, the least since April last year but above market forecasts of 325,000. Despite this, the US unemployment rate was unchanged at 3.6% in May 2022, compared with market expectations of a modest decline to 3.5%. The US economy contracted at an annualised rate of 1.6% on quarter in the first three months of 2022, slightly worse than second estimates of a 1.5% decline.

Against this backdrop, price growth (as measured by the Federal Reserve’s preferred Personal Consumption Expenditure deflator) eased further to 4.7% in May from 4.9% in the prior month, the lowest in five months and slightly lower than market expectations of 4.8%. Nevertheless, the Federal Reserve raised the target for the Fed Funds rate by 75bps to 1.5%-1.75% during its June meeting, the biggest rate increase since 1994. Fed Chair Powell signalled a similar move could come at the next meeting as policymakers look to bring inflation back in line with their 2% target.

Flash estimates showed the Eurozone economy expanded 0.6% on the quarter in Q1 2022, above both market expectations of 0.3% and the previous quarter’s downwardly revised reading of 0.2%. However, the economic outlook for the bloc remains subdued as the war in Ukraine continues, putting further upward pressure on commodity and fuel prices. The annual inflation rate in the Eurozone increased to 8.6% in June 2022, a fresh record high, from 8.1% seen the previous month and above market forecasts of 8.4%. Core inflation, which excludes prices of energy, food, alcohol and tobacco, edged down from a record high of 3.8% in May of 2022 to 3.7% in June. During the June 2022 meeting, the ECB left interest rates at record low levels but confirmed its intentions to raise the key interest rate by 25bps in July. Policymakers have also committed to ending net asset purchases under its APP as of 1st July 2022.

### Housing

The Nationwide House Price Index eased to 10.1% y/y in June, coming below both May’s reading of 11.2% and expectations of 10.8%. On a monthly basis, prices increased 0.3%, below forecasts of 0.6% but maintaining eleven months of consecutive increases. In a similar vein, the Halifax house price index edged down to 10.5% y/y in May following the previous month’s reading of 10.8%.

### Currency

Sterling depreciated against both the US dollar and Euro across June amid the ongoing conflict in Ukraine and surging commodity prices, which raised the prospect of stagflation.

June	Start	End	High	Low
GBP/USD	\$1.2497	\$1.2145	\$1.2582	\$1.2005
GBP/EUR	€1.1715	€1.1617	€1.1775	€1.1531

### Forecast

Bank Rate was raised to 1.25% at the Monetary Policy Committee’s meeting in June, with Capital Economics still pencilling in rates to peak at 3.00% by Q3 2023.

Bank Rate	Now	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Link Group	1.25%	1.75%	2.25%	2.75%	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%	2.25%	2.25%	2.25%
Capital Economics	1.25%	1.75%	2.25%	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%	2.75%	2.50%	-	

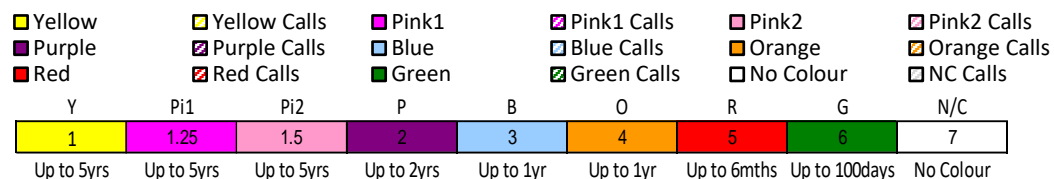
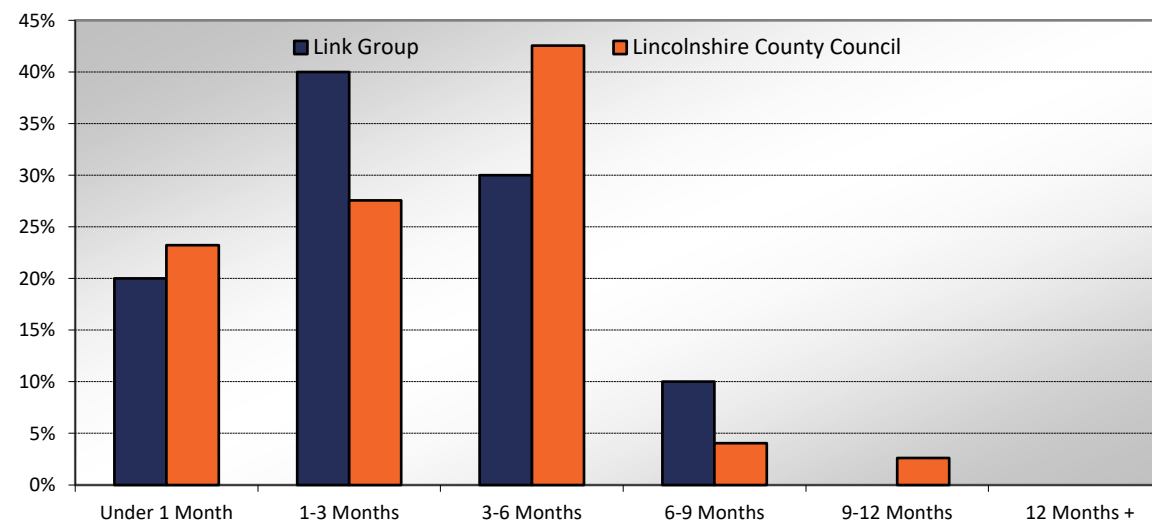
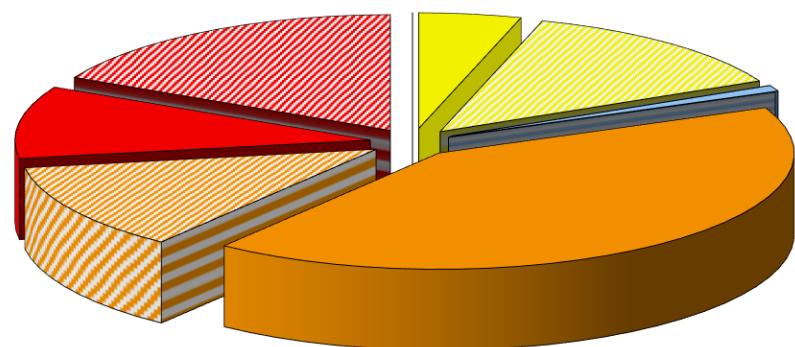
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## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Deutsche	17,855,000	0.93%		MMF	AAAm	
MMF HSBC	14,430,000	0.99%		MMF	AAAm	
MMF Insight	132,000	0.95%		MMF	AAAm	
Close Brothers Ltd	5,000,000	0.65%	31/01/2022	29/07/2022	A-	0.004%
HSBC UK Bank Plc (RFB)	20,000,000	1.30%		Call31	A+	0.004%
BNP Paribas	5,047,992	0.18%	15/09/2021	16/08/2022	A+	0.006%
BNP Paribas	4,837,185	0.22%	06/08/2021	16/08/2022	A+	0.006%
BNP Paribas	7,067,614	0.17%	10/09/2021	16/08/2022	A+	0.006%
Australia and New Zealand Banking Group Ltd	10,000,000	1.24%	02/03/2022	02/09/2022	A+	0.008%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	6,300,000	1.10%	07/03/2022	07/09/2022	A	0.009%
Toronto Dominion Bank	10,000,000	0.21%	13/09/2021	13/09/2022	AA-	0.005%
DBS Bank Ltd	10,000,000	1.56%	15/03/2022	15/09/2022	AA-	0.005%
Australia and New Zealand Banking Group Ltd	4,000,000	0.25%	20/09/2021	19/09/2022	A+	0.010%
Australia and New Zealand Banking Group Ltd	5,800,000	1.43%	23/03/2022	23/09/2022	A+	0.011%
DBS Bank Ltd	5,000,000	1.44%	30/03/2022	30/09/2022	AA-	0.006%
Barclays Bank Plc (NRFB)	18,100,000	1.30%		Call95	A	0.012%
Broxbourne Borough Council	5,000,000	0.18%	05/10/2021	04/10/2022	AA-	0.006%
Toronto Dominion Bank	10,000,000	0.51%	15/10/2021	14/10/2022	AA-	0.007%
Toronto Dominion Bank	10,000,000	0.70%	19/10/2021	18/10/2022	AA-	0.007%
National Bank of Canada	5,000,000	1.55%	19/05/2022	21/10/2022	A	0.014%
Close Brothers Ltd	5,000,000	1.25%	25/05/2022	25/10/2022	A-	0.015%
Bank of Montreal	5,000,000	0.70%	05/11/2021	04/11/2022	A+	0.016%
National Bank of Canada	10,000,000	1.70%	27/05/2022	23/11/2022	A	0.018%
National Westminster Bank Plc (RFB)	2,000,000	0.65%	24/11/2021	23/11/2022	A	0.018%
Santander UK PLC	25,000,000	0.67%		Call180	A	0.023%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	10,000,000	2.08%	30/06/2022	30/12/2022	A	0.023%
Australia and New Zealand Banking Group Ltd	10,000,000	1.43%		Call185	A+	0.023%
Slough Borough Council	6,500,000	0.33%	05/05/2021	04/05/2023	AA-	0.019%
<b>Total Investments</b>	<b>£247,069,790</b>	<b>0.98%</b>				<b>0.012%</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 = **3.73**

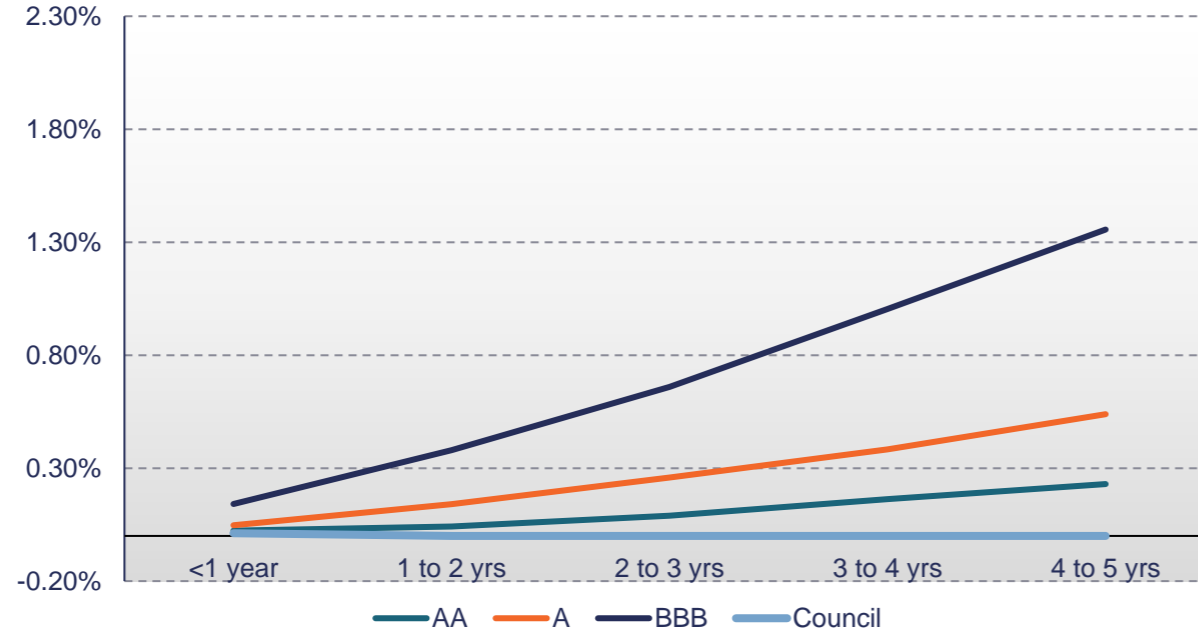
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% 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	17.78%	£43,917,000	73.81%	£32,417,000	13.12%	0.78%	57	149	216	570
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	0.81%	£2,000,000	0.00%	£0	0.00%	0.65%	146	364	146	364
Orange	53.85%	£133,052,790	22.55%	£30,000,000	12.14%	1.00%	88	235	90	279
Red	27.56%	£68,100,000	63.29%	£43,100,000	17.44%	1.09%	132	154	110	169
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>£247,069,790</b>	<b>42.71%</b>	<b>£105,517,000</b>	<b>42.71%</b>	<b>0.98%</b>	<b>95</b>	<b>198</b>	<b>105</b>	<b>285</b>

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## Investment Risk and Rating Exposure

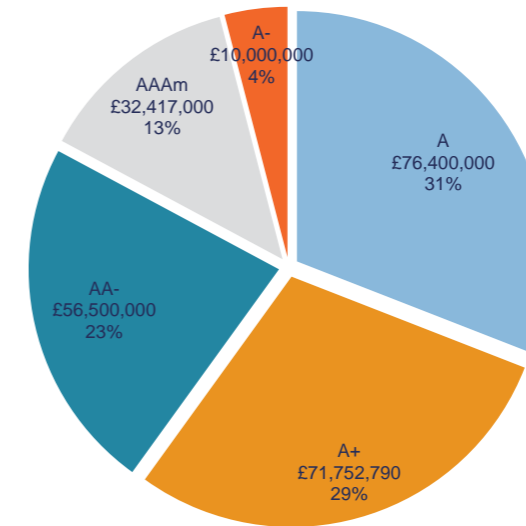
Investment Risk Vs. Rating Categories



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%	0.00%	0.00%	0.00%	0.00%

Rating Exposure



### 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.

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## Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
28/06/2022	1900	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was upgraded to 'A3' from 'Baa1'.
29/06/2022	1901	KBC Bank N.V.	Belgium	The Outlook on the Long Term Rating was changed to Positive from Stable.

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### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
07/06/2022	1897	Wells Fargo Bank, NA	United States	The Outlook on the Long Term Rating was changed to Stable from Negative. At the same time, the Support Rating was withdrawn.
10/06/2022	1898	DBS Bank Ltd.	Singapore	The Support Rating was withdrawn.
10/06/2022	1899	Oversea-Chinese Banking Corp. Ltd.	Singapore	The Support Rating was withdrawn.
29/06/2022	1902	Clydesdale Bank PLC	United Kingdom	The Support Rating was withdrawn.



Lincolnshire County Council

Monthly Credit Rating Changes  
S&P

Date	Update Number	Institution	Country	Rating Action

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