



Lincolnshire County Council

Monthly Investment Analysis Review

September 2022

Monthly Economic Summary

General Economy

The UK Manufacturing PMI rose to 48.5 in September from 47.3 in the previous month and above market expectations of 47.5. Still, the latest reading pointed to a second consecutive month of contraction in the sector as production continued to fall amid weaker intakes of new business. The UK Services PMI fell to 49.2 in September from 50.9 in August, missing market expectations of 50, flash estimates showed. This marked the first drop in services' activity since February 2021, though the rate of decline was only marginal. This was largely due to the slowdown in sales amid the cost of living crisis and rising economic uncertainty weighing in on activity levels. The UK Composite PMI slipped to 48.4 in September 2022 from 49.6 in August, below expectations of 49. The biggest concern with businesses often included the negative impact of high costs and a weaker economic outlook on client spending and output. The UK Construction PMI edged higher to 49.2 in August of 2022 from 48.9 in July, compared to market forecasts of 48. Although stronger than expected, the reading was a second consecutive month of falling construction output, as customer demand moved closer to stagnation amid cost pressures and economic uncertainty.

The British economy unexpectedly expanded 0.2% on quarter in the Q2 2022, better than initial estimates of a 0.1% contraction. Services rose 0.2%, revised from initial estimates of a 0.4% drop with the largest contributors coming from human health and social work. Meanwhile, production contracted 0.2%, with manufacturing falling 1.1% and mining 1% while electricity and gas, went up 3.9%. The UK trade deficit narrowed to £7.8 billion in July from £11.4 billion in the previous month. It was the smallest trade shortfall since last December, as exports rose by 4.2% (goods sales advanced by 7.2% and exports of services were up 0.6%). Meanwhile, imports fell by 1.6%, as goods purchases declined by 2.3%, mostly from non-EU countries (-4.1%). Conversely, imports of services rose by 0.7%. The Chancellor Kwasi Kwarteng has announced his "Growth Plan" in a Mini-Budget. The Growth Plan sets an ambitious target for annual economic growth of 2.5% and is supported by a range of cuts to both direct and indirect taxes, support for individuals and businesses to tackle increasing energy costs, and measures to encourage and reward investment. The proposed fiscal package and its unfunded nature, which seemed somewhat at odds to the Bank of England's focus on dampening inflation, caused a sharp market reaction in the immediate aftermath of the announcement. This saw Bank Rate expectations through the final two meetings of the year and 2023 ratchet higher, while gilt yields rose significantly.

UK employment went up by 40,000 in the three months to July, the smallest increase in five months, and less than a third of market forecasts of 128,000. Full-time employees and self-employed workers increased while part-time employees decreased. The unemployment rate in the UK fell to 3.6% in the three months to July, the lowest since 1974, from 3.8% in the previous period as the number of people who are no longer looking for work increased. Average weekly earnings including bonuses in the UK increased by 5.5% y/y in the three months to July, above an upwardly revised 5.2% in the three months to June. In addition, regular pay which excludes bonus payment went up 5.2%, after 4.7% rise in the previous period. However, adjusted for inflation, total pay fell 2.6% while regular pay dropped 2.8%, amid a squeeze in UK living standards. UK inflation, as measured by the Consumer Price Index edged lower to 9.9% in August from 10.1% in July, below market forecasts of 10.2%. It is the first time in 11 months inflation eased, with motor fuels prices making the largest downward contribution. The Bank of England's Monetary Policy Committee raised its key interest rate by 50bps to 2.25% during its September 2022 meeting, the 7th consecutive rate hike, and pushing borrowing costs to the highest since 2008. The GfK Consumer Confidence indicator fell to -49 in September from -44 in August, hitting a new record low as British households continued to grapple with the cost of living crisis and wider economic uncertainties. This is evidently shown a fall in retail sales by 1.6% m/m in August, the biggest decline so far this year and following a 0.4% rise in July. In August 2022, initial estimates show that the public sector

spent more than it received in taxes and other income. This required it to borrow £11.8 billion, which was £5.8 billion more than the £6.0 billion forecast by the Office for Budget Responsibility (OBR).

The US unemployment rate rose to 3.7% in August, the highest since February and above market expectations of 3.5%. The number of unemployed people increased by 344,000 to 6.01 million, while employment levels went up by 442,000 to 158.73 million. The US economy contracted by an annualised 0.6% on quarter in Q2 2022, matching the second estimate, and confirming the economy technically entered a recession, following a 1.6% drop in Q1. The Federal Reserve raised the Federal Funds Rate by 75 bps to the 3%-3.25% range at its September meeting, the third straight three-quarter point increase and pushing borrowing costs to the highest since 2008. Policymakers also anticipate that ongoing increases in the target range will be appropriate, which was reinforced by Chair Powell at the post-meeting press conference. The Fed's "dot plot", which outlines individual member forecasts, showed interest rates will likely reach 4.4% by December, above 3.4% projected in June, and rise to 4.6% next year.

The Euro Area economy expanded 0.8% on quarter in Q2 2022, higher than a 0.6% rise indicated in the second estimate, and the strongest growth rate in three quarters. Household spending was the main driver of the expansion, prompted by the easing of covid restrictions and the summer tourism season. The annual inflation rate in the Euro Area jumped to 10% in September of 2022 from 9.1% in August. It marks the fifth consecutive month of rising inflation, with prices showing no signs of peaking. In a similar vein, core inflation, which excludes prices of energy, food, alcohol and tobacco, increased to a record high of 4.8% in September from 4.3% in August.

Housing

The Nationwide House Price Index in the UK increased 9.5% y/y in September, slightly less than 10% in August and below market forecasts of 10%. The growth rate came back to single digits for the first time since October last year. The South West region was the strongest performer region once again, while London remained the weakest. Moreover, The Halifax house price index in the United Kingdom rose 11.5% y/y in August of 2022, the lowest level in three months.

Currency

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

September	Start	End	High	Low
GBP/USD	\$1.1601	\$1.1395	\$1.1640	\$1.1159
GBP/EUR	€1.1527	€1.1163	€1.1706	€1.0747

Forecast

The Bank Rate was raised to 2.25% at the Monetary Policy Committee's meeting in September, with both Link Group and Capital Economics now expecting rates to peak at 5.00% by Q1 2023.

Bank Rate	Now	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Link Group	2.25%	4.00%	5.00%	5.00%	5.00%	4.50%	4.00%	3.75%	3.25%	3.00%	2.75%	2.75%	2.50%
Capital Economics	2.25%	4.25%	5.00%	5.00%	5.00%	5.00%	4.75%	4.25%	3.75%	3.25%			

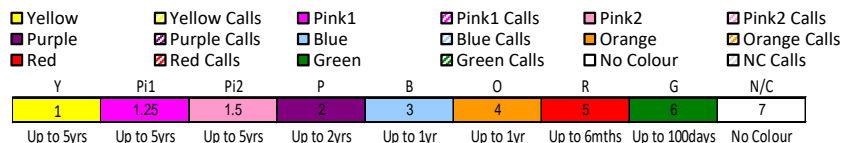
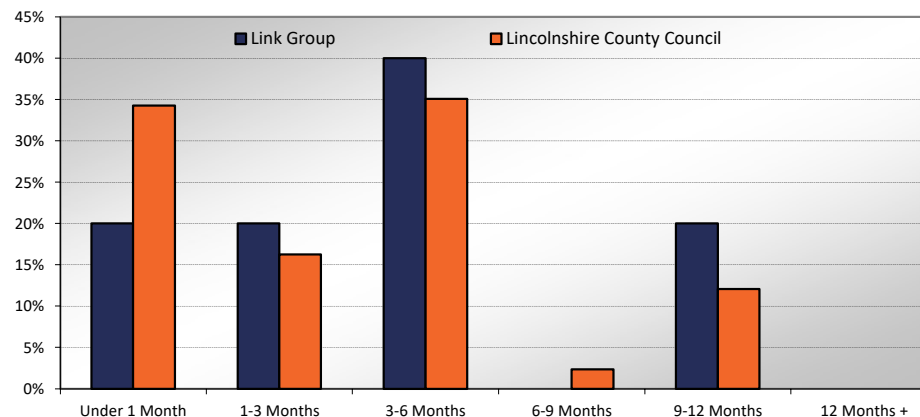
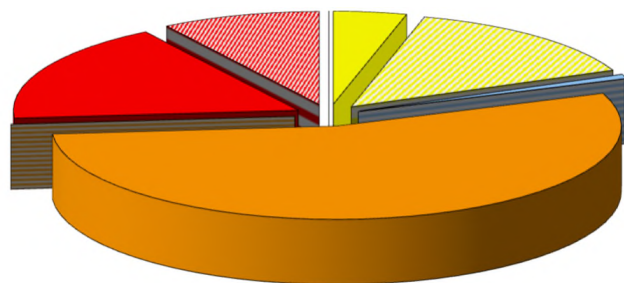
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF HSBC	24,662,000	1.83%		MMF	AAAm	
MMF Morgan Stanley	15,290,000	1.74%		MMF	AAAm	
Broxbourne Borough Council	5,000,000	0.18%	05/10/2021	04/10/2022	AA-	0.000%
HSBC UK Bank Plc (RFB)	20,000,000	1.68%	08/09/2022	10/10/2022	A+	0.001%
Toronto Dominion Bank	10,000,000	0.51%	15/10/2021	14/10/2022	AA-	0.001%
Toronto Dominion Bank	10,000,000	0.70%	19/10/2021	18/10/2022	AA-	0.001%
National Bank of Canada	5,000,000	1.55%	19/05/2022	21/10/2022	A	0.003%
Close Brothers Ltd	5,000,000	1.25%	25/05/2022	25/10/2022	A-	0.003%
Bank of Montreal	5,000,000	0.70%	05/11/2021	04/11/2022	A+	0.004%
National Bank of Canada	10,000,000	1.70%	27/05/2022	23/11/2022	A	0.007%
National Westminster Bank Plc (RFB)	2,000,000	0.65%	24/11/2021	23/11/2022	A	0.007%
Barclays Bank Plc (NRFB)	18,100,000	1.65%	20/09/2022	28/12/2022	A	0.011%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	10,000,000	2.08%	30/06/2022	30/12/2022	A+	0.011%
Cooperatieve Rabobank U.A.	7,270,659	2.30%	17/08/2022	10/01/2023	A+	0.013%
Close Brothers Ltd	5,000,000	2.40%	29/07/2022	31/01/2023	A-	0.016%
DBS Bank Ltd	10,000,000	2.48%	29/07/2022	31/01/2023	AA-	0.008%
National Bank of Canada	5,000,000	2.50%	05/08/2022	06/02/2023	A	0.016%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	10,000,000	2.75%	22/08/2022	22/02/2023	A+	0.018%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	8,700,000	2.44%	05/08/2022	23/02/2023	A+	0.018%
Australia and New Zealand Banking Group Ltd	5,000,000	3.31%	02/09/2022	02/03/2023	A+	0.019%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	6,300,000	3.31%	07/09/2022	07/03/2023	A+	0.020%
DBS Bank Ltd	10,000,000	3.40%	15/09/2022	15/03/2023	AA-	0.010%
Santander UK PLC	25,000,000	1.52%		Call180	A	0.023%
DBS Bank Ltd	5,000,000	4.60%	30/09/2022	31/03/2023	AA-	0.011%
Slough Borough Council	6,500,000	0.33%	05/05/2021	04/05/2023	AA-	0.014%
Toronto Dominion Bank	10,000,000	4.05%	13/09/2022	13/09/2023	AA-	0.022%
Australia and New Zealand Banking Group Ltd	8,750,000	4.25%	20/09/2022	19/09/2023	A+	0.045%
Australia and New Zealand Banking Group Ltd	4,580,000	5.24%	26/09/2022	25/09/2023	A+	0.045%
Oversea Chinese Banking Corporation Ltd	10,100,000	5.10%	30/09/2022	29/09/2023	AA-	0.023%
Total Investments	£277,252,659	2.19%				0.014%

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 = **3.70**

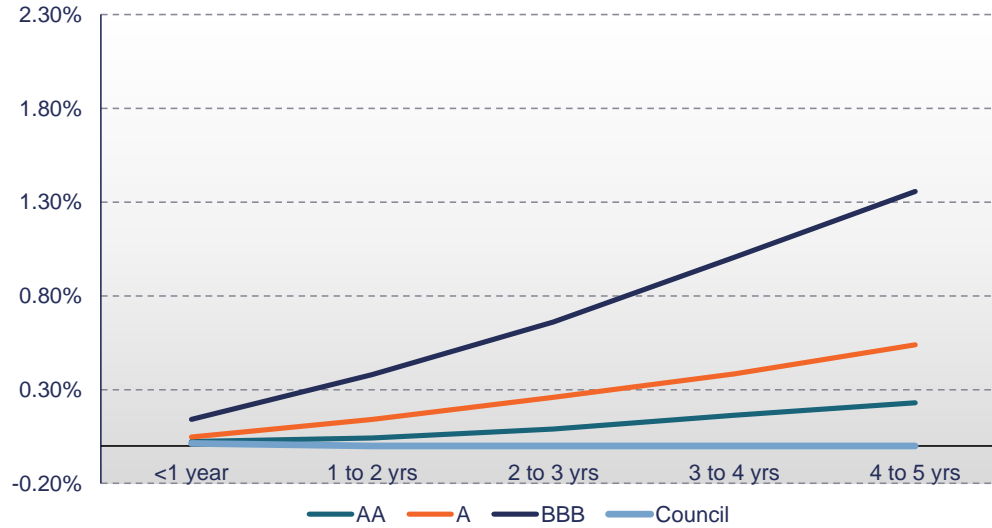
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	18.56%	£51,452,000	77.65%	£39,952,000	14.41%	1.45%	28	127	124	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	0.72%	£2,000,000	0.00%	£0	0.00%	0.65%	54	364	54	364
Orange	54.35%	£150,700,659	0.00%	£0	0.00%	2.71%	150	232	150	232
Red	26.37%	£73,100,000	34.20%	£25,000,000	9.02%	1.69%	111	157	76	145
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
Total	100.00%	£277,252,659	23.43%	£64,952,000	23.43%	2.19%	116	194	130	232

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Investment Risk and Rating Exposure

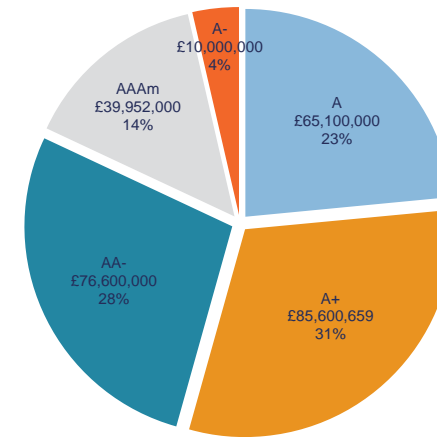
Investment Risk Vs. Rating Categories



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.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
23/09/2022	1927	NatWest Markets Plc (NRFB)	United Kingdom	The Long Term Rating was upgraded to 'A1' from 'A2'. At the same time the Outlook on the Long Term rating was changed to Stable from Positive.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
13/09/2022	1918	UBS AG	Switzerland	The Support Rating was withdrawn
13/09/2022	1921	Societe Generale	France	The Support Rating was withdrawn
13/09/2022	1919	Deutsche Bank AG	Germany	The Support Rating was withdrawn
13/09/2022	1922	Barclays Bank UK PLC (RFB)	United Kingdom	The Support Rating was withdrawn
13/09/2022	1920	BNP Paribas	France	The Support Rating was withdrawn
20/09/2022	1925	Citibank N.A.	United States	The Support Rating was withdrawn
20/09/2022	1923	Bank of America N.A.	United States	The Support Rating was withdrawn
20/09/2022	1924	JPMorgan Chase Bank, N.A.	United States	The Support Rating was withdrawn
20/09/2022	1926	Goldman Sachs International Bank	United Kingdom	The Support Rating was withdrawn
23/09/2022	1929	HSBC UK Bank Plc (RFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative. At the same time the Support Rating was withdrawn
23/09/2022	1928	HSBC Bank PLC (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative. At the same time the Support Rating was withdrawn

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action

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