



# Lincolnshire CC

## Monthly Investment Analysis Review

December 2022

## Monthly Economic Summary

### General Economy

The UK Manufacturing PMI declined to 44.7 in December 2022, from 46.5 in November. It was the lowest reading since May 2020. New business volumes continued to decline while contributing to a deterioration in order books, with exports also falling further. Regarding employment numbers, manufacturing companies shed the most jobs since October 2020 amid a deteriorating outlook for growth. In contrast, the UK Services PMI rose to 50.0 in December 2022, up from 48.8 in the previous month. The latest reading pointed to a stabilisation of activity, following two months of decline, helped by a smaller decline in inflows of new business. This result helped the UK Composite PMI rise to 49.0 in December 2022, up from 48.2 in the previous month and above market expectations of no change. Still, the latest reading pointed to the fifth consecutive month of contraction in private sector business activity, but at a rate that was the softest for three months. Elsewhere, the UK Construction PMI, which lags by a month, fell to a three-month low of 50.4 in November of 2022 from 53.2 in October, signalling a slowdown in construction activity, amid subdued demand and reduced risk appetite among clients. Higher borrowing costs and worries about the economic outlook also weighed. The UK GDP shrank 0.3% on quarter in the three months to September of 2022, slightly more than a preliminary estimate of a 0.2% drop. Household expenditure dropped 1.1%, while business investment went down 2.5% and inventories fell by £5.2 billion, mainly driven by reductions for retail and manufacturing. On the other hand, government expenditure went up 0.5% and government investment surged 17.3%, while exports jumped 8.9% compared to a 3.6% decline for imports. Nevertheless, The UK monthly GDP grew by 0.5% in October from September, the biggest increase in nearly a year and above forecasts of 0.4%

The UK trade deficit shrank to £1.8 billion in October from £3.1 billion in the previous month. It was the narrowest trade gap since November of 2021, as natural gas prices retreated from their peaks of the previous month and deflated the price of foreign energy purchases, driving imports to drop by 2.6%.

UK employment rose by 27K in the three months to October, beating market estimates of a 17K decline and following a 53K drop in the previous month's reading. The unemployment rate in the UK edged higher to 3.7% in October from 3.6% in the previous period, matching market forecasts. The employment rate also went up to 75.6% from 75.4%, with the timeliest figures for payrolled employees rising by 107K in November to a record of 29.9 million. Job vacancies however, fell by 65K to 1,187,000, a fifth consecutive decline, and reflecting uncertainty across industries, as economic pressures hold back on recruitment. Average weekly earnings including bonuses in the UK increased by 6.1% y/y in the three months to October, above a 6.0% gain in the three months to September but less than market forecasts of 6.2%. Meanwhile, regular pay which excludes bonus payment also went up 6.1%, the most since July 2021, exceeding forecasts of 5.9%. Adjusted for inflation, total pay fell 2.7%, and regular pay also dropped 2.7%, underlining the squeeze on households. In addition, retail sales unexpectedly declined 0.4% m/m in November, after an upwardly revised 0.9% in the previous month when there was a bounce back from the impact of the additional Bank Holiday in September for the State Funeral. The annual consumer-level inflation rate in the UK eased to 10.7% in November from 11.1% in October which had been the highest since October 1981. The figure was below market forecasts of 10.9% with the largest downward contribution made by transport, particularly motor fuels and second-hand cars. Elsewhere, the GfK Consumer Confidence indicator rose slightly to -42 in December, improving for the third straight month but remaining near a record low of -49 reached in September as high inflation and rising borrowing rates continued to erode household incomes. In November 2022, the public sector spent more than it received in taxes and other income, requiring it to borrow (public sector net borrowing excluding public sector banks (PSNB ex)) £22.0 billion, which was £13.9 billion more than in November 2021, and the highest November borrowing since monthly records began in 1993 as various new government support schemes came on stream. The Bank of England's Monetary Policy Committee voted by a majority of 6-3 to raise interest rates by 50 basis points to 3.5% during its December meeting, pushing the cost of borrowing to the highest level since late-2008, as policymakers try to balance containing inflation amid rising concerns of a looming economic recession.

The unemployment rate in the US was unchanged at 3.7% in November 2022, matching market expectations while non-farm payrolls rose by a larger than forecast 263k. The number of unemployed persons fell from 6.059m to 6.011m in November, while the number of employed decreased by 138k to 158.5m. The labour force participation rate edged down to a four-month low of 62.1% in November from 62.2% in the previous month. The US economy grew an annualised 3.2% on quarter in Q3 2022, better than 2.9% in the second estimate, and rebounding from two straight quarters of contraction. Consumer spending rose more than anticipated as growth in health care and "other" services partially offset a decrease in spending on goods, namely motor vehicles and food and beverages. The biggest positive contribution to growth came from net trade, although exports rose slightly less than reported in the second estimate while imports were unrevised. Meanwhile, annual inflation rate in the US slowed for a fifth straight month to 7.1% in November, the lowest since December last year, and below forecasts of 7.3%. Finally, the Federal Reserve raised the Fed Funds Rate by 50bps to 4.25%-4.5% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007. It was a seventh consecutive rate hike, following four straight three-quarter point increases.

The Eurozone economy quarterly growth was revised slightly higher to 0.3% in the third quarter of 2022 from preliminary estimates of 0.2%. Fixed investment was the main driver of growth, rising by 3.6% during the quarter. The ECB raised interest rates by 50 bps during its last monetary policy meeting of 2022, marking a fourth rate increase, following two consecutive 75bps hikes. In addition, household consumption advanced 0.9% and government spending increased slightly by 0.1%. Among the biggest economies, Italy and Germany's GDP grew fastest while France and Spain's GDP showed slight growth and Netherlands contracted. Meanwhile, the annual inflation in the Euro Area was revised to 10.1% in November, slightly up from a preliminary estimate of 10.0%. Energy prices rose at a softer rate compared to last month but remained the largest contributor to the overall price increase.

## Housing

The Nationwide House Price Index in the UK increased by 2.8% y/y in December of 2022, much less than 4.4% in November but still modestly ahead of market expectations for 2.3%. Compared to the previous month, prices edged 0.1% lower, the fourth consecutive fall. It was also the worst run since 2008, leaving prices 2.5% lower from their August peak. The Halifax house price index increased 4.7% y/y in November, the least since July of 2020, following an 8.2% rise in October.

## Currency

Sterling depreciated slightly against the US dollar and Euro across December amid the ongoing conflict in Ukraine and surging commodity prices.

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December	Start	End	High	Low
GBP/USD	\$1.2267	\$1.2029	\$1.2406	\$1.2018
GBP/EUR	€1.1698	€1.1271	€1.1698	€1.1271

## Forecast

The Bank Rate was raised to 3.50% at the Monetary Policy Committee's meeting in December, with Capital Economics pencilling in rates to peak at 4.50% by Q2 2023.

Bank Rate	Now	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	3.50%	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%
Capital Economics	3.50%	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%	-	-	-	-

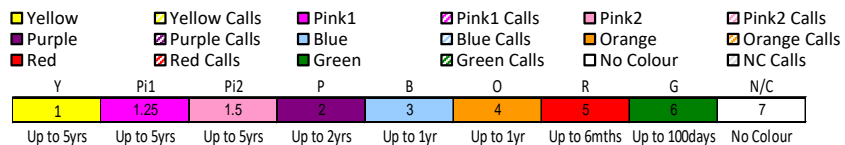
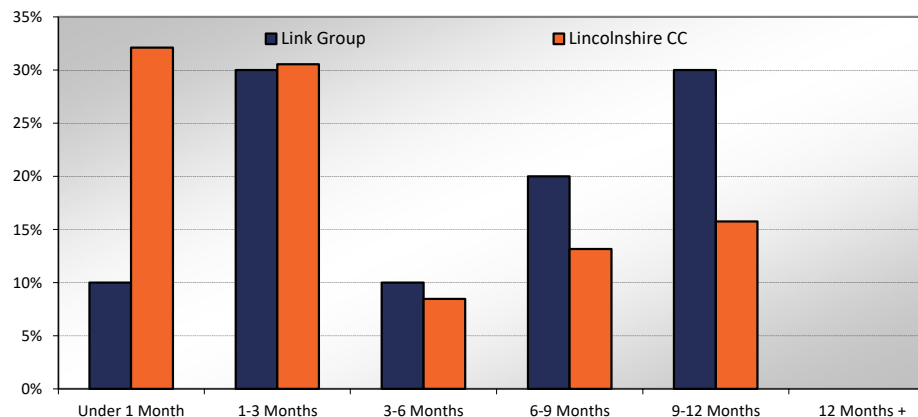
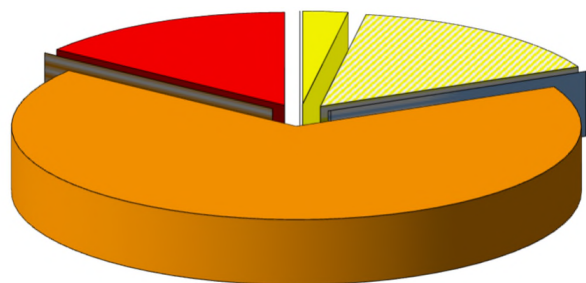
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## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	14,220,000	3.19%		MMF	AAAm	
MMF Deutsche	25,000,000	3.16%		MMF	AAAm	
Cooperatieve Rabobank U.A.	7,270,659	2.30%	17/08/2022	10/01/2023	A+	0.001%
HSBC UK Bank Plc (RFB)	20,000,000	2.78%	12/12/2022	12/01/2023	A+	0.002%
Close Brothers Ltd	5,000,000	2.40%	29/07/2022	31/01/2023	A-	0.004%
DBS Bank Ltd	10,000,000	2.48%	29/07/2022	31/01/2023	AA-	0.002%
National Bank of Canada	5,000,000	2.50%	05/08/2022	06/02/2023	A	0.005%
Santander UK PLC	5,000,000	3.35%	18/11/2022	20/02/2023	A	0.006%
National Bank of Canada	5,000,000	3.45%	21/10/2022	21/02/2023	A	0.007%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	10,000,000	2.75%	22/08/2022	22/02/2023	A+	0.007%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	8,700,000	2.44%	05/08/2022	23/02/2023	A+	0.007%
Australia and New Zealand Banking Group Ltd	5,000,000	3.31%	02/09/2022	02/03/2023	A+	0.008%
Santander UK PLC	5,000,000	3.63%	06/12/2022	06/03/2023	A	0.008%
Santander UK PLC	2,500,000	3.63%	06/12/2022	06/03/2023	A	0.008%
Landesbank Hessen-Thuringen Girozentrale (Helaba)	6,300,000	3.31%	07/09/2022	07/03/2023	A+	0.008%
DBS Bank Ltd	10,000,000	3.40%	15/09/2022	15/03/2023	AA-	0.005%
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	10,000,000	3.75%	25/11/2022	27/03/2023	A+	0.011%
DBS Bank Ltd	5,000,000	4.60%	30/09/2022	31/03/2023	AA-	0.006%
Oversea Chinese Banking Corporation Ltd	5,000,000	4.40%	14/10/2022	14/04/2023	AA-	0.007%
Standard Chartered Bank	5,000,000	4.32%	14/10/2022	14/04/2023	A+	0.013%
Close Brothers Ltd	5,000,000	4.20%	25/10/2022	25/04/2023	A-	0.015%
Slough Borough Council	6,500,000	0.33%	05/05/2021	04/05/2023	AA-	0.008%
Toronto Dominion Bank	10,000,000	4.05%	13/09/2022	13/09/2023	AA-	0.016%
Australia and New Zealand Banking Group Ltd	8,750,000	4.25%	20/09/2022	19/09/2023	A+	0.033%
Australia and New Zealand Banking Group Ltd	4,580,000	5.24%	26/09/2022	25/09/2023	A+	0.034%
Oversea Chinese Banking Corporation Ltd	10,100,000	5.10%	30/09/2022	29/09/2023	AA-	0.017%
Bank of Montreal	10,000,000	5.36%	14/10/2022	13/10/2023	A+	0.036%
Toronto Dominion Bank	5,000,000	5.50%	14/10/2022	13/10/2023	AA-	0.018%
Toronto Dominion Bank	10,000,000	5.13%	18/10/2022	18/10/2023	AA-	0.018%
Bank of Montreal	10,000,000	4.80%	07/11/2022	06/11/2023	A+	0.039%
Bank of Montreal	5,000,000	4.85%	18/11/2022	17/11/2023	A+	0.041%
<b>Total Investments</b>	<b>£253,920,659</b>	<b>3.59%</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



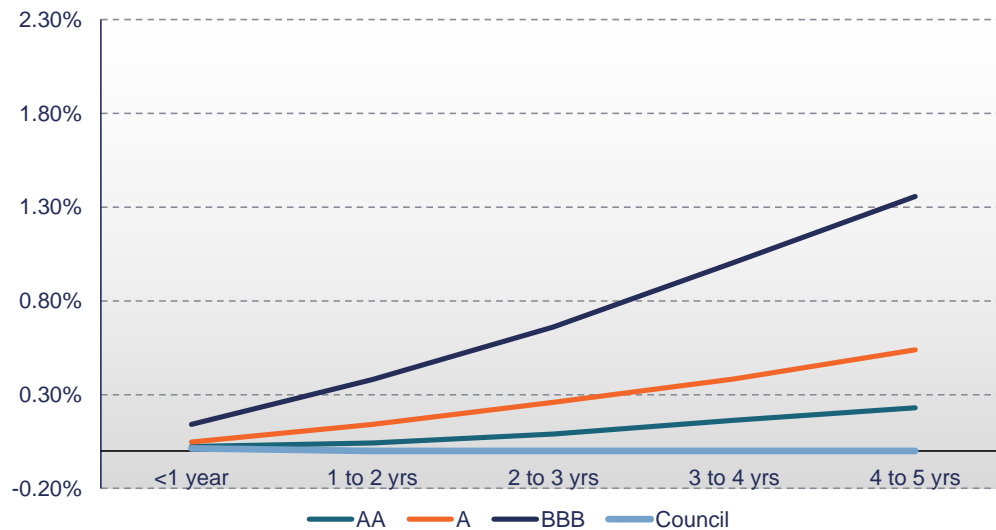
Portfolios weighted average risk number = 3.61

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	18.01%	£45,720,000	85.78%	£39,220,000	15.45%	2.77%	18	104	124	729
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	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	67.23%	£170,700,659	0.00%	£0	0.00%	3.85%	150	239	150	239
Red	14.77%	£37,500,000	0.00%	£0	0.00%	3.42%	65	145	65	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
<b>Total</b>	<b>100.00%</b>	<b>£253,920,659</b>	<b>15.45%</b>	<b>£39,220,000</b>	<b>15.45%</b>	<b>3.59%</b>	<b>114</b>	<b>201</b>	<b>135</b>	<b>237</b>

Investment Risk and Rating Exposure

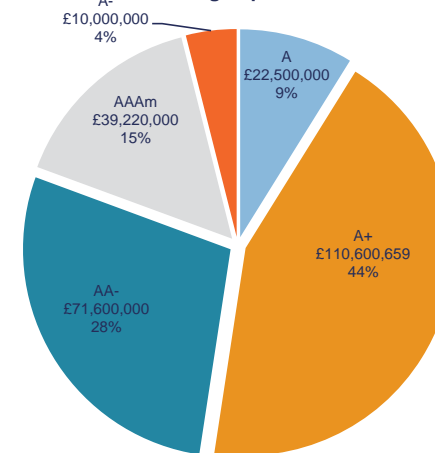
Investment Risk Vs. Rating Categories



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
05/12/2022	1946	The Co-operative Bank plc	United Kingdom	The Long Term Rating was upgraded to 'Ba1' from 'Ba2'. At the same the Outlook on the Long Term Rating changed to Positive from Stable.

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### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
08/12/2022	1948	SMBC Bank International Plc	United Kingdom	The Long Term Rating was downgraded to 'A-' from 'A'. At the same the Outlook on the Long Term Rating was changed to Stable from Negative

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Monthly Credit Rating Changes  
S&P

Date	Update Number	Institution	Country	Rating Action
05/12/2022	1947	France (Sovereign Rating)	France	The Outlook on the Sovereign Rating of France was changed to Negative from Stable. At the same time the Sovereign Rating was affirmed at 'AA'.

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