



Lincolnshire County Council

Monthly Investment Analysis Review

June 2023

Monthly Economic Summary

General Economy

The UK Manufacturing Purchasing Managers' Index (PMI) dropped to 46.2 in June, down from 47.1 in May and below market expectations of 46.8. The report indicated a further contraction in output levels, accompanied by a sharp decline in new orders, which was attributed to subdued underlying demand and the impact of customer destocking. The UK Services PMI, meanwhile, fell to 53.7 in June from 55.2 in May but, by remaining above 50, extended the growth trend for British service providers for the fifth straight month. Companies reported a solid upturn in new orders, underscoring the British economy's resilience to higher borrowing costs from the Bank of England (BoE) and higher living costs. Reflecting the relative strength of the service sector, the Composite PMI (which incorporates both manufacturing and service industries) reached 52.8, although this was lower than April's 54.0 outturn. The UK Construction PMI (which is released one month behind) rose to 51.6 in May, above both April's reading and market expectations of 51.1. Although indicative of only modest growth, the latest PMI pointed to the strongest upturn in total construction activity since February, driven by faster rises in commercial building and civil engineering activity.

The UK economy expanded 0.2% m/m in April, in line with expectations and rebounding from a 0.3% drop in March, when heavy rain and strikes weighed on consumer spending. On the trade front, the UK's deficit narrowed to £1.52 billion in April, the smallest gap since last October, as exports increased 1.3% and imports fell 0.6% to a 16-month low. Within exports, goods sales to non-EU countries surged 7.3%, primarily driven by a sharp increase in the export of machinery and transport equipment.

The continued tightness of the labour market was evidenced by the 250,000 rise in employment in the three months to April. As a result, the unemployment rate in the UK eased to 3.8% during the same period, below both the previous period's 3.9% rate and market expectations of 4.0%. Against this backdrop, average weekly earnings (including bonuses) rose by 6.5% y/y in the three months to April, exceeding market forecasts and following an upwardly revised 6.1% rise in the three months to March. Meanwhile, regular pay which excludes bonus payments, rose 7.2%, registering its steepest rise since June 2021, after a 6.8% gain in the previous period and above forecasts of 6.9%.

Whilst the annual consumer price inflation rate in the UK remained at 8.7% in May, it exceeded both market expectations of 8.4% and the BoE's forecast of 8.3%. Moreover, the core inflation rate, which excludes food and energy, rose to 7.1% from 6.8%, registering its highest outturn since March 1992. With "the risks around inflation...skewed significantly to the upside", the BoE raised Bank Rate by 0.5% to 5.0% during its June meeting, marking the 13th consecutive hike. In so doing, the Bank surprised market expectations for a smaller 0.25% rate rise – and also noted that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required".

Retail sales in the UK rose by 0.3% m/m in May, following a 0.5% increase in April. The improvement in retail sales was mirrored in the GfK Consumer Confidence indicator, which rose to -24 in June from -27 in May, improving for the fifth straight month.

Public sector net borrowing (excluding banks) reached £20.0 billion in May, £10.7 billion more than in May 2022 and above both the consensus forecast of £19.5 billion and the Office for Budget Responsibility forecast of £18.3 billion. As a result, borrowing in the fiscal year to date reached £2.1 billion more than forecast. The higher than expected outturn reflected recent rises in RPI inflation (to which payments on index linked Gilts are tied), higher staff costs and the government's energy price subsidies.

The US economy unexpectedly added 339,000 jobs in May, the most in four months, and well above market forecasts of 190,000. Despite this gain, an increase in the number of people looking for work led to the unemployment rate rising from 3.4% in April to 3.7%. The Fed's preferred measure of inflation, the personal consumption expenditure price index, rose 3.8% y/y in May compared to a downwardly revised 4.3% rise in April, registering its lowest reading since April 2021. Against this backdrop, the Fed judged it appropriate to leave the fed funds rate steady at 5%-5.25% during its June meeting, to allow policymakers more time to "assess additional information and its implications for monetary policy". However, Fed Chair Powell also noted that inflation risks remain to the upside and that any rate cuts were "a couple of years out".

The Eurozone economy unexpectedly shrank 0.1% q/q during the first three months of 2023, compared to early estimates of a modest 0.1% rise. Figures for the final quarter of 2022 were also revised to show a 0.1% fall, instead of a flat reading, which means the Eurozone has now entered a small technical recession. According to the flash (i.e. preliminary) estimate, the consumer price inflation rate in the Eurozone fell to 5.5% y/y in June, down from 6.1% in May and slightly below market expectations of 5.6%. Given that the rate remains well above the European Central Bank's (ECB) target of 2% however, it was no surprise to see the ECB raise interest rates by another 0.25% during their June meeting, bringing the rate on their main refinancing operations to 4% and the rate on the deposit facility to a 22-year high of 3.5%. ECB President Lagarde also stated that the ECB had more ground to cover and would likely continue raising rates in July.

Housing

The Nationwide House Price Index in the UK rose by 0.1% m/m in June following the same sized fall in May, to leave house prices 3.5% lower than a year ago. By contrast, the Halifax reported that prices were stagnant in May and 1% lower year on year.

Currency

The decision from the US Federal Reserve not to raise interest rates saw Sterling gain against the Dollar during the month, but the currency was little changed against the Euro.

June	Start	End	High	Low
GBP/USD	\$1.2520	\$1.2714	\$1.2812	\$1.2408
GBP/EUR	€1.1667	€1.1653	€1.1726	€1.1570

Forecast

Both Link and Capital Economics revised their Bank Rate forecasts in the wake of the stronger than expected UK inflation data, raising the forecast peak in Bank Rate to at least 5.25%.

Bank Rate	Forecast												
	Now	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Link Group	5.00%	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%	2.75%	2.75%	2.50%	2.50%
Capital Economics	5.00%	5.25%	5.25%	5.25%	5.25%	4.75%	4.50%	4.00%	3.50%	3.25%	-	-	-

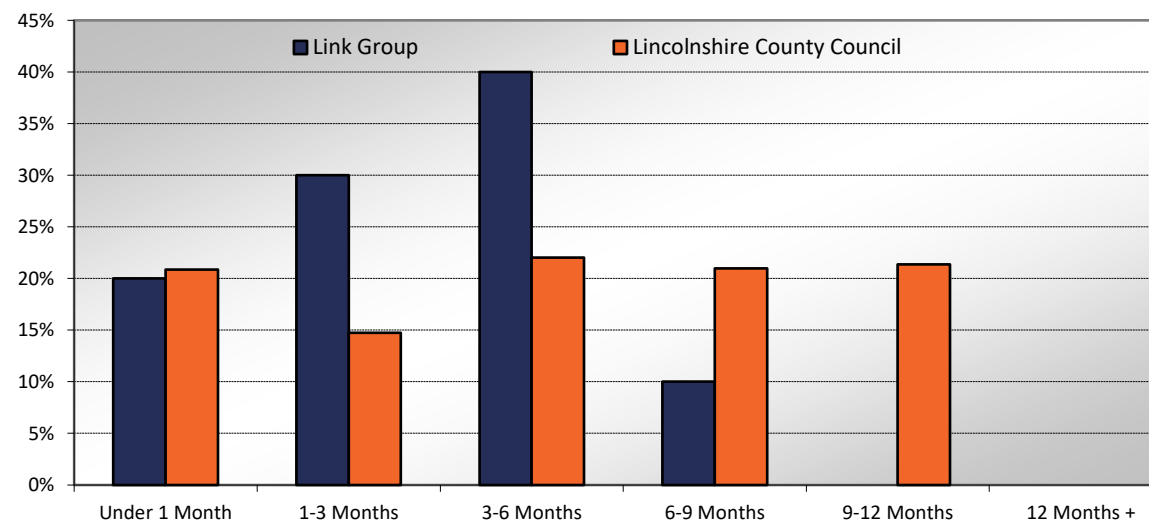
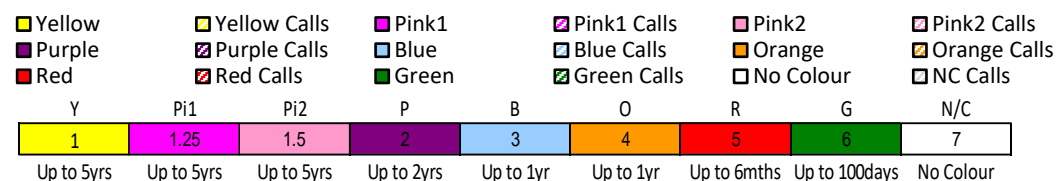
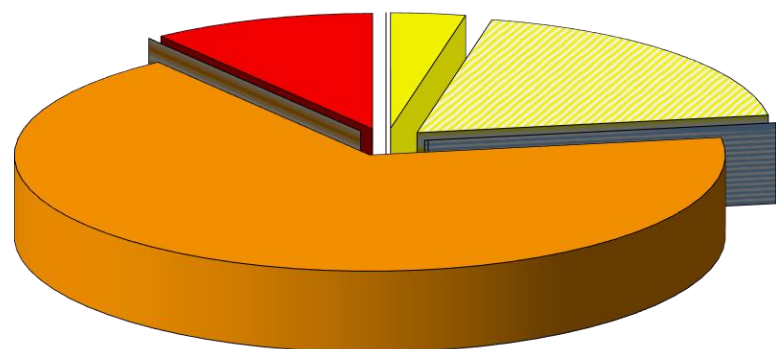
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	25,000,000	4.43%		MMF	AAAm	
MMF Deutsche	6,565,000	4.51%		MMF	AAAm	
MMF HSBC	25,000,000	4.58%		MMF	AAAm	
Close Brothers Ltd	5,000,000	4.10%	31/01/2023	31/07/2023	A-	0.004%
Colchester Borough Council	5,000,000	4.35%	23/02/2023	23/08/2023	AA-	0.003%
National Australia Bank Ltd	5,000,000	4.54%	09/03/2023	31/08/2023	A+	0.008%
Toronto Dominion Bank	10,000,000	4.05%	13/09/2022	13/09/2023	AA-	0.005%
Australia and New Zealand Banking Group Ltd	8,750,000	4.25%	20/09/2022	19/09/2023	A+	0.010%
Australia and New Zealand Banking Group Ltd	4,580,000	5.24%	26/09/2022	25/09/2023	A+	0.011%
Oversea Chinese Banking Corporation Ltd	10,100,000	5.10%	30/09/2022	29/09/2023	AA-	0.006%
Bank of Montreal	10,000,000	5.36%	14/10/2022	13/10/2023	A+	0.013%
Standard Chartered Bank	5,000,000	4.71%	14/04/2023	13/10/2023	A+	0.013%
Toronto Dominion Bank	5,000,000	5.50%	14/10/2022	13/10/2023	AA-	0.006%
Toronto Dominion Bank	10,000,000	5.13%	18/10/2022	18/10/2023	AA-	0.007%
Close Brothers Ltd	5,000,000	4.85%	25/04/2023	25/10/2023	A-	0.014%
Bank of Montreal	10,000,000	4.80%	07/11/2022	06/11/2023	A+	0.016%
Close Brothers Ltd	5,000,000	4.90%	05/05/2023	06/11/2023	A-	0.016%
Close Brothers Ltd	5,000,000	4.90%	05/05/2023	06/11/2023	A-	0.016%
Bank of Montreal	5,000,000	4.85%	18/11/2022	17/11/2023	A+	0.017%
Standard Chartered Bank	5,000,000	5.23%	06/06/2023	06/12/2023	A+	0.020%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,900,000	5.02%	02/05/2023	02/02/2024	A+	0.027%
Nordea Bank Abp	10,000,000	4.64%	03/02/2023	05/02/2024	AA-	0.014%
DBS Bank Ltd	10,000,000	4.45%	07/02/2023	07/02/2024	AA-	0.014%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,000,000	4.55%	23/02/2023	23/02/2024	A+	0.029%
Australia and New Zealand Banking Group Ltd	10,000,000	4.72%	02/03/2023	29/02/2024	A+	0.030%
London Borough of Southwark	5,000,000	4.40%	20/03/2023	18/03/2024	AA-	0.016%
DBS Bank Ltd	15,000,000	4.75%	31/03/2023	28/03/2024	AA-	0.017%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,675,000	4.70%	04/04/2023	03/04/2024	A+	0.034%
Oversea Chinese Banking Corporation Ltd	9,900,000	4.90%	14/04/2023	12/04/2024	AA-	0.018%
Skandinaviska Enskilda Banken AB	10,000,000	5.04%	14/04/2023	12/04/2024	A+	0.036%
Skandinaviska Enskilda Banken AB	10,000,000	5.28%	21/04/2023	19/04/2024	A+	0.036%
Commonwealth Bank of Australia	10,000,000	5.18%	22/05/2023	22/04/2024	A+	0.037%
Oversea Chinese Banking Corporation Ltd	5,000,000	4.95%	28/04/2023	26/04/2024	AA-	0.019%
National Australia Bank Ltd	5,000,000	6.35%	27/06/2023	24/05/2024	A+	0.041%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	7,425,000	5.46%	06/06/2023	05/06/2024	A+	0.042%
Total Investments	£294,895,000	4.80%				0.019%

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 = **3.42**

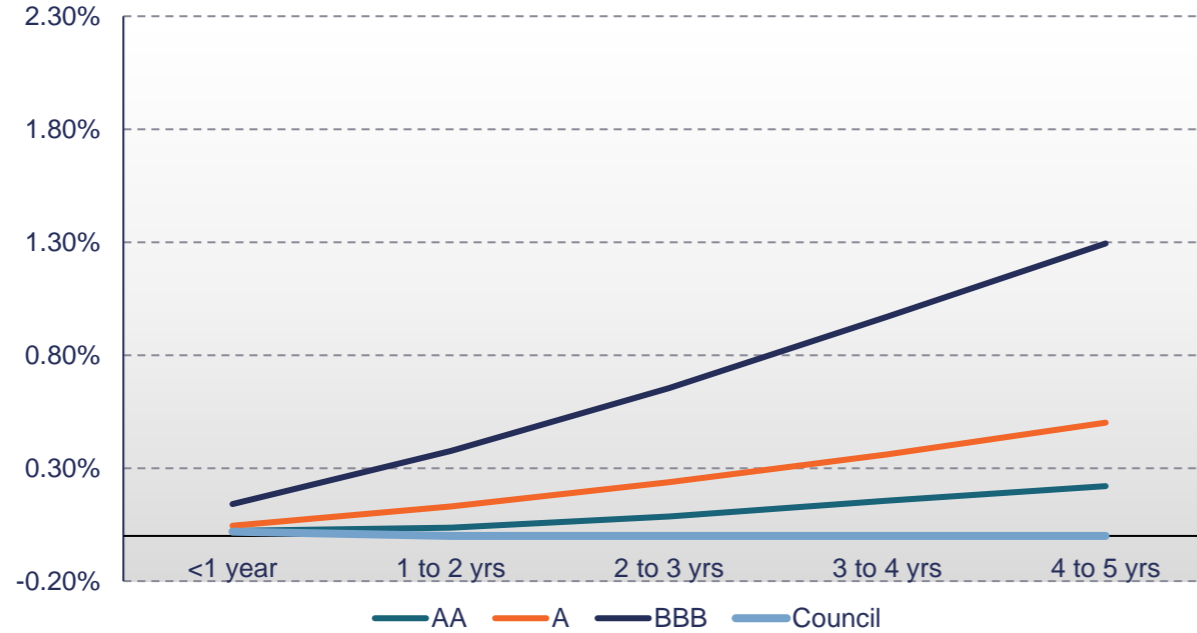
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	22.57%	£66,565,000	84.98%	£56,565,000	19.18%	4.49%	24	41	158	273
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	67.25%	£198,330,000	0.00%	£0	0.00%	4.91%	203	354	203	354
Red	10.17%	£30,000,000	0.00%	£0	0.00%	4.78%	112	183	112	183
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%	£294,895,000	19.18%	£56,565,000	19.18%	4.80%	153	266	190	329

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Investment Risk and Rating Exposure

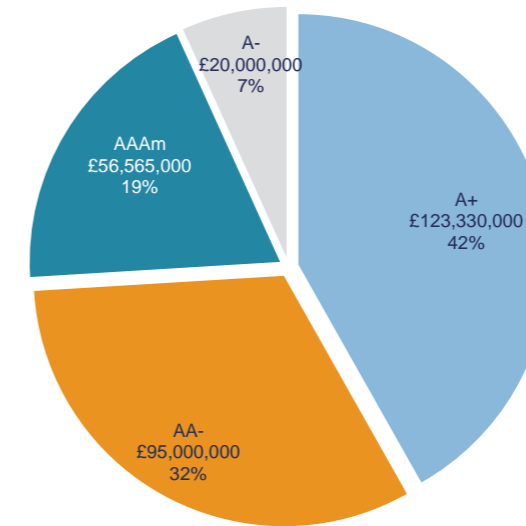
Investment Risk Vs. Rating Categories



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%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
Council	0.02%	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
02/06/2023	1974	Macquarie Bank Ltd.	Australia	The Long Term Rating was upgraded to 'A1' from 'A2' and the Outlook on the Long Term Rating was changed to Stable from Positive.
09/06/2023	1975	KBC Bank N.V.	Belgium	The Long Term Rating was upgraded to 'Aa3' from 'A1' and the Outlook on the Long Term Rating was changed to Stable from Positive.
09/06/2023	1976	Yorkshire Building Society	United Kingdom	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
12/06/2023	1977	UBS AG	Switzerland	The Long Term Rating was Downgraded to 'A+' from 'AA-' Additionally, Fitch downgraded the Short Term Rating to 'F1' from 'F1+', and downgraded the Viability Rating to 'a' from 'a+'. At the same time, Fitch removed the Long Term, Short Term and Viability Ratings from Negative Watch and placed the Long Term Rating on Stable Outlook.
16/06/2023	1978	Clydesdale Bank	United Kingdom	The Outlook on the Long Term Rating was changed to Positive from Stable.
20/06/2023	1979	Bank of Montreal	Canada	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

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