



Lincolnshire County Council

Monthly Investment Analysis Review

September 2023

Monthly Economic Summary

General Economy

The UK Manufacturing PMI for September rose to 44.2, from 42.5, outpacing market predictions of a rise / fall to 43. The uptick hinted at a more gradual decline in manufacturing activity, with some respondents attributing it to customer destocking influencing their output. By contrast, the UK Services PMI contracted, registering 47.2 in September, down from the previous month's 49.5 and below market expectations of 49.2. As a result, the Composite PMI (which incorporates both sectors) dropped to 46.8 in September, down from August's 48.6 and below the market consensus of 48.7, a preliminary estimate showed. This marked the fastest reduction in private sector activity since the lockdown period in January 2021, driven by a continued contraction in manufacturing output and the steepest decline in service sector activity in 32 months. The UK Construction PMI also experienced a dip, declining from 51.7 in July to 50.8 in August. This result suggested a marginal increase in overall business activity, with growth in commercial and civil engineering segments offsetting a slump in house building.

The UK economy contracted by 0.5% m/m in July, the largest decline this year, reversing 0.5% growth in June. This result was weaker than market forecasts of a 0.2% decrease. Notably, the services sector played a role in this contraction, primarily due to a 3.4% decline in the human health activities industry, a result of NHS strikes leading to appointment and procedure cancellations. Elsewhere, the UK's trade deficit narrowed to £3.446 billion in July from £4.787 billion in June, driven by a 1.8% rise in exports and a 0.2% drop in imports, taking them to their lowest level since February 2022.

In the three months to July, the number of people employed in the UK fell by 207,000, exceeding market expectations of a 185,000 drop. This marked the sharpest decline in job creation since September 2020. As a result, the unemployment rate in the UK rose to 4.3% in three months to July, reaching its highest level since the third quarter of 2021. This suggests a potential cooling in the labour market after extensive monetary policy tightening by the Bank of England. Despite this, average weekly earnings (including bonuses) in the UK increased 8.5% y/y in the three months to July, registering their biggest increase in two years. However, this was mainly reflective of one-off bonus payments to NHS staff, so would come out of calculations in the coming months.

The annual consumer price measure of inflation in the UK eased to 6.7% in August from 6.8% in July, falling below market consensus of 7.0% and the Bank's own forecast. This marked the lowest inflation rate since February 2022, primarily due to a slowdown in food inflation and a decline in the cost of accommodation services. Against this backdrop, the Bank of England's Monetary Policy Committee (MPC) decided to hold Bank Rate at 5.25% during this month's meeting, marking the first pause in policy tightening in nearly two years. The central bank cited expectations of a significant decline in CPI inflation in the near term as one reason for the pause, while also noting that the latest employment figures, specifically the wages element, did not tally with other data it had reviewed. However, while pausing, the Committee also noted that it would embark on further tightening if required.

Retail sales in the UK partially recovered in August, rising by 0.4% m/m following a 1.1% decline in July. Mirroring this, the GfK Consumer Confidence index rose to -21 in September from -25 in August, posting its highest reading since January 2022, with the report's subcomponents suggesting growing optimism about the economy and easing pressures on household spending.

Public sector net borrowing excluding public sector banks (PSNB ex) reached £11.6 billion in August, £3.5 billion more than in August 2022 and the fourth-highest August borrowing since records began in 1993. Borrowing in the financial year to August was £69.6 billion, £19.3 billion more than in the same five-month period last year - but £11.4 billion less than the £81.0 billion forecast by the Office for Budget Responsibility.

The US economy created 187,000 jobs in August, marking the third consecutive month with job gains below the 200,000 threshold. This provided further evidence of a gradual easing of labour market conditions largely attributed to the Federal Reserve's interest rate rises aimed at lowering inflation. According to its preferred measure of inflation, Personal Consumption Expenditure index, prices rose by 3.5% y/y in August after an upwardly revised 3.4% rise in July, matching market forecasts. Meanwhile, the US economy grew at an annualised rate of 2.1% in the second quarter of 2023, unchanged from the previous estimate, and compared to an upwardly revised 2.2% growth in the first quarter. Against this backdrop, the Federal Reserve kept the target range for the Federal Funds Rate at a 22-year high of 5.25%-5.5% at its September meeting but signalled there could be another rate rise later this year.

In the Euro Area, the inflation rate fell to 4.3% y/y in September compared to 5.2% in August, reaching its lowest level since October 2021 and falling below the market consensus of 4.5%, a preliminary estimate showed. GDP, meanwhile, expanded a meagre 0.1% q/q in the three months to June, revised lower from initial estimates of a 0.3% gain. With inflation starting to decline but remaining above the central bank's 2% target, the ECB raised rates for the 10th consecutive time at its September meeting but signalled that it could be minded to a pause in further tightening.

Housing

House prices in the UK continued to decline in August, with the Nationwide House Price Index falling by 5.3% y/y, registering its largest drop since July 2009. By comparison, the Halifax House Price Index fell by 4.6% y/y.

Currency

The MPC's decision to hold Bank Rate at 5.25%, which surprised some investors looking for a rate rise, saw Sterling fall against both the Dollar and the Euro over the month and reflected a more hawkish tone to policymakers' outlooks outside the UK.

September	Start	End	High	Low
GBP/USD	\$1.2620	\$1.2206	\$1.2620	\$1.2135
GBP/EUR	€1.1677	€1.1528	€1.1724	€1.1498

Forecast

In the wake of the MPC's decision to leave Bank Rate at 5.25%, both Link Group and Capital Economics revised their forecasts and now believe that 5.25% (rather than 5.5%) will be the peak in Bank Rate for this cycle.

Bank Rate	Now	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Link Group	5.25%	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	2.75%	2.75%	2.75%	2.75%	2.75%
Capital Economics	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	-	-	-	-

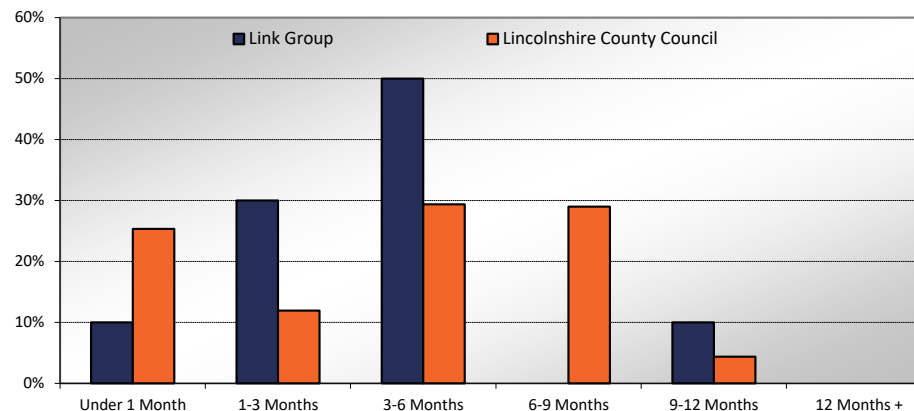
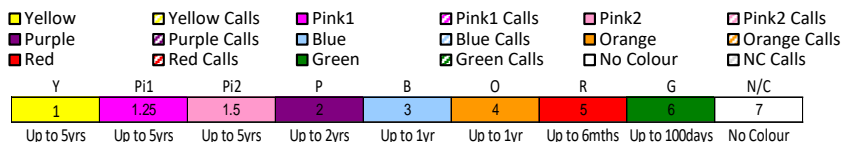
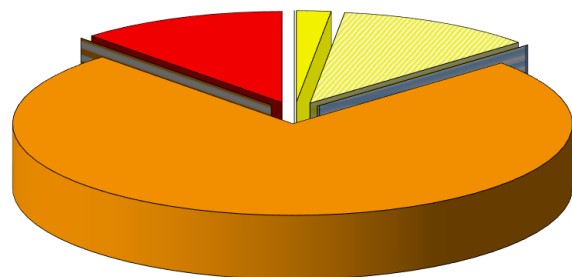
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF HSBC	9,790,000	5.26%		MMF	AAAm	
MMF Insight	18,945,000	5.24%		MMF	AAAm	
Bank of Montreal	10,000,000	5.36%	14/10/2022	13/10/2023	A+	0.002%
Standard Chartered Bank (ESG)	5,000,000	4.71%	14/04/2023	13/10/2023	A+	0.002%
Toronto Dominion Bank	5,000,000	5.50%	14/10/2022	13/10/2023	AA-	0.001%
Toronto Dominion Bank	10,000,000	5.13%	18/10/2022	18/10/2023	AA-	0.001%
Close Brothers Ltd	5,000,000	4.85%	25/04/2023	25/10/2023	A-	0.003%
Bank of Montreal	10,000,000	4.80%	07/11/2022	06/11/2023	A+	0.005%
Close Brothers Ltd	5,000,000	4.90%	05/05/2023	06/11/2023	A-	0.005%
Close Brothers Ltd	5,000,000	4.90%	05/05/2023	06/11/2023	A-	0.005%
Bank of Montreal	5,000,000	4.85%	18/11/2022	17/11/2023	A+	0.006%
Standard Chartered Bank (ESG)	5,000,000	5.23%	06/06/2023	06/12/2023	A+	0.008%
Close Brothers Ltd	5,000,000	5.75%	31/07/2023	31/01/2024	A-	0.015%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	6,900,000	5.02%	02/05/2023	02/02/2024	A+	0.015%
Nordea Bank Abp	10,000,000	4.64%	03/02/2023	05/02/2024	AA-	0.008%
DBS Bank Ltd	10,000,000	4.45%	07/02/2023	07/02/2024	AA-	0.008%
Nordea Bank Abp	7,000,000	5.80%	09/08/2023	09/02/2024	AA-	0.008%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,000,000	4.55%	23/02/2023	23/02/2024	A+	0.018%
Australia and New Zealand Banking Group Ltd	10,000,000	4.72%	02/03/2023	29/02/2024	A+	0.019%
London Borough of Southwark	5,000,000	4.40%	20/03/2023	18/03/2024	AA-	0.010%
DBS Bank Ltd	15,000,000	4.75%	31/03/2023	28/03/2024	AA-	0.011%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	5,675,000	4.70%	04/04/2023	03/04/2024	A+	0.023%
Oversea Chinese Banking Corporation Ltd	9,900,000	4.90%	14/04/2023	12/04/2024	AA-	0.012%
Skandinaviska Enskilda Banken AB	10,000,000	5.04%	14/04/2023	12/04/2024	A+	0.024%
Skandinaviska Enskilda Banken AB	10,000,000	5.28%	21/04/2023	19/04/2024	A+	0.025%
Commonwealth Bank of Australia	10,000,000	5.18%	22/05/2023	22/04/2024	A+	0.025%
Oversea Chinese Banking Corporation Ltd	5,000,000	4.95%	28/04/2023	26/04/2024	AA-	0.013%
National Australia Bank Ltd	5,000,000	6.35%	27/06/2023	24/05/2024	A+	0.029%
Landesbank Hessen-Thueringen Girozentrale (Helaba)	7,425,000	5.46%	06/06/2023	05/06/2024	A+	0.031%
UBS AG	10,000,000	6.50%	07/07/2023	07/06/2024	A+	0.031%
UBS AG	5,000,000	6.33%	26/07/2023	25/07/2024	A+	0.037%
UBS AG	6,000,000	6.39%	21/08/2023	19/08/2024	A+	0.040%
Total Investments	£251,635,000	5.16%				0.015%

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 = **3.72**

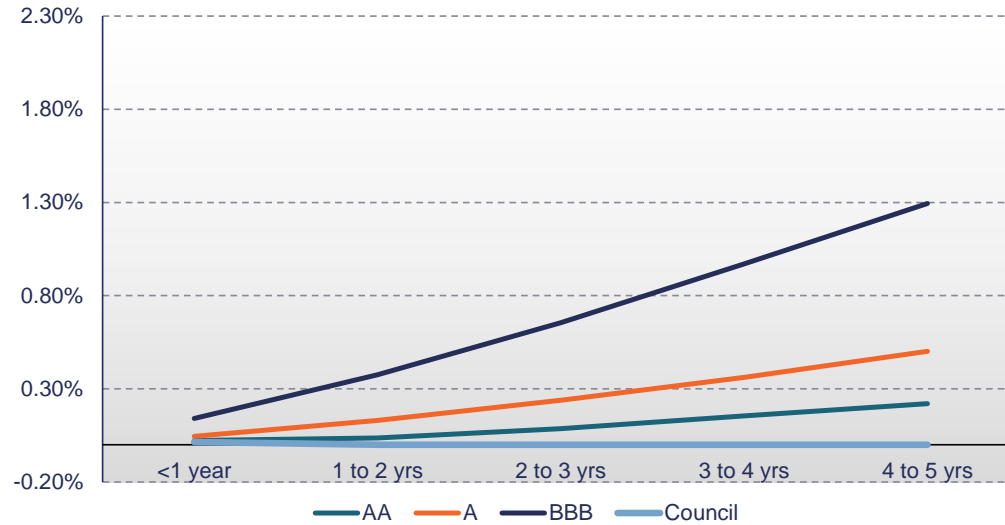
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	13.41%	£33,735,000	85.18%	£28,735,000	11.42%	5.12%	25	54	170	364
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	74.67%	£187,900,000	0.00%	£0	0.00%	5.18%	156	351	156	351
Red	11.92%	£30,000,000	0.00%	£0	0.00%	5.06%	50	184	50	184
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%	£251,635,000	11.42%	£28,735,000	11.42%	5.16%	126	291	142	328

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Investment Risk and Rating Exposure

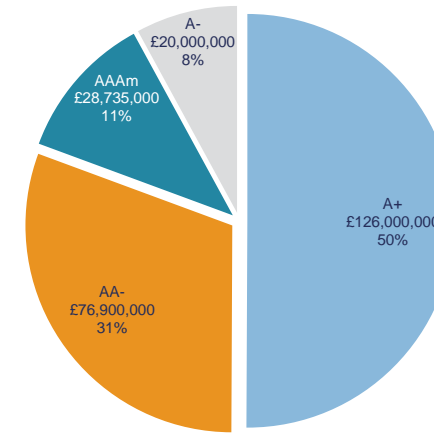
Investment Risk Vs. Rating Categories



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	0.01%	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
27/09/2023	1988	DNB Bank ASA	Norway	The Long-Term Rating was upgraded to 'Aa1' from 'Aa2'; The Long Term Outlook changed to Stable from Positive.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
15/09/2023	1987	Danske Bank AS	Denmark	The Long-Term Rating was upgraded to 'A+' from 'A'; The Long Term Outlook is Stable.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action

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