



Shropshire Council

Monthly Investment Analysis Review

June 2020

Monthly Economic Summary

General Economy

The “Flash” (i.e. provisional) Manufacturing UK PMI rose to 50.1 in June from May’s final release of 40.7, suggesting there was a stabilisation in manufacturing activity following the downturn recorded in the previous three months as a result of the coronavirus pandemic. In a similar vein, the “Flash” Services PMI rose to 47.0 in June from 29.0 in May, signalling the slowest pace of contraction in service sector output since the start of the downturn in March. As a result, the Flash Composite PMI reached 47.6 in June compared to 30.0 in May. This was the largest monthly increase since the series began in 1998 and exceeding market forecasts of a rise to 41. In the process, the Composite PMI illustrated that the easing of restrictions related to the coronavirus has had a favourable impact on economic activity, with business operations gradually resuming in a number of sectors and staff brought back from furlough. Meanwhile, the Construction PMI, which is released on a different timescale, rose to 28.9 in May from an all-time low of 8.2 in April, reflecting a gradual reopening of construction sites following lockdown measures being eased in the UK.

The final reading of first quarter GDP was confirmed at 2.2% q/q and 1.7% y/y, which was marginally lower than preliminary estimates, as the coronavirus lockdown weighed on activity. More timely GDP data for April, however, confirmed that the economy shrank 20.4% m/m compared to March, as government restrictions on movement dramatically reduced economic activity. As a result, GDP fell by 10.4% in the three months to April and 24.5% y/y – both of which were record declines. A 26.2% m/m fall in imports, meanwhile, saw the UK record a £0.3 billion trade surplus during April, compared to a downwardly revised £3.96 billion deficit in March.

Against this backdrop, the unemployment rate remained at 3.9% in the three months to April, confounding market expectations of a rise to 4.7%, as the government’s Coronavirus Job Retention Scheme helped fund employees’ wages during lockdown. As a result, the number of people out of work surprisingly fell by 8,000 to 1.34 million, whilst the number of people in work rose by 6,000. Consistent with job vacancies dropping at a record 476,000 in the three months to May, average earnings excluding bonuses rose just 1.7% y/y in the three months to April, down from 2.7% y/y in the three months to March.

Consumer Price Inflation dropped to 0.5% y/y in May from 0.8% y/y in April, matching market expectations – reaching its lowest rate since June 2016 as a result of the pandemic hitting demand and oil prices. Similarly, the core inflation rate – which strips out the more volatile components - eased to 1.2% y/y in May from 1.4% y/y in April, registering the softest pace of price rises seen since October 2016 and below market expectations of a 1.3% rise. With inflation well below its 2% target, it was no surprise to see the Bank of England’s Monetary Policy Committee leave Bank Rate at 0.1% at their June meeting - and also increase the stock of government bonds purchased via their quantitative easing program by £100 billion to £745 billion, as the Bank attempts to support economic recovery.

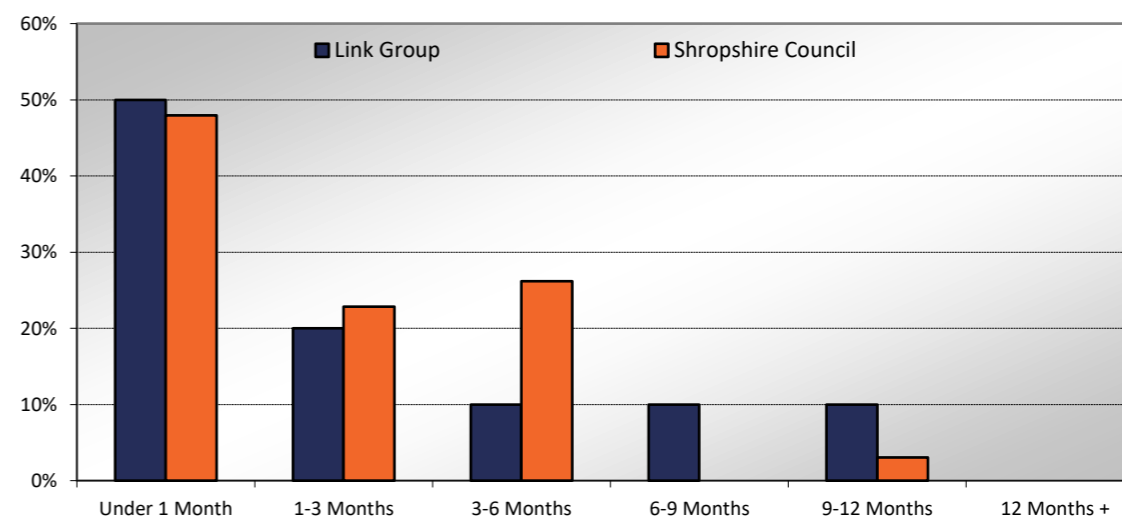
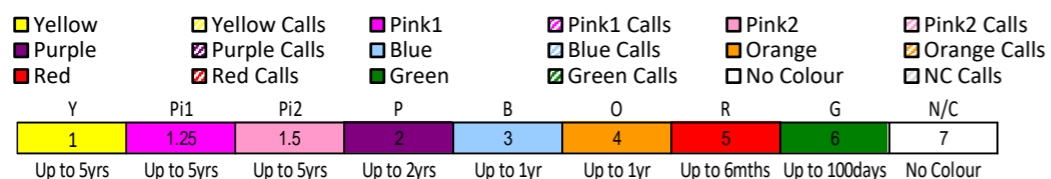
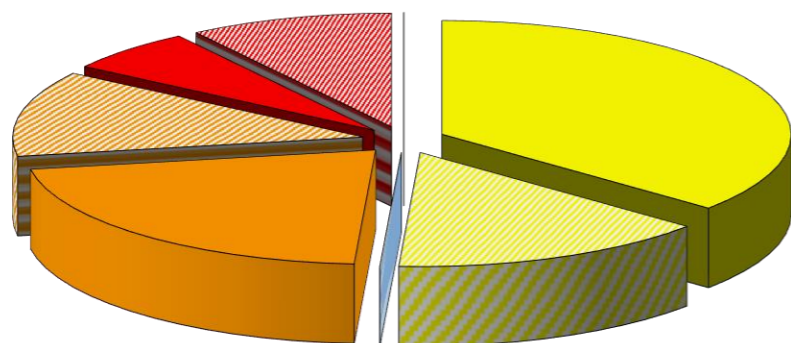
Buoyed by a 42% increase in household goods sales, retail sales jumped a record 12% m/m during May, at least partly reversing the 18% m/m fall recorded in April. The proportion of sales occurring online soared to a record high 33.4%. Despite

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Handelsbanken Plc	20,000,000	0.25%		Call	AA-	0.000%
MMF Insight	9,200,000	0.19%		MMF	AAA	0.000%
MMF Aberdeen Standard Investments	15,000,000	0.25%		MMF	AAA	0.000%
Thurrock Borough Council	5,000,000	0.50%	01/04/2020	01/07/2020	AA-	0.000%
Nationwide Building Society	3,000,000	0.25%	01/04/2020	01/07/2020	A	0.000%
Nationwide Building Society	5,000,000	0.79%	08/01/2020	08/07/2020	A	0.001%
Lloyds Bank Plc (RFB)	5,000,000	1.25%	12/07/2019	10/07/2020	A+	0.001%
Thurrock Borough Council	5,000,000	0.92%	12/08/2019	10/07/2020	AA-	0.001%
Lloyds Bank Plc (RFB)	5,000,000	1.25%	15/07/2019	13/07/2020	A+	0.002%
Blaenau Gwent County Borough Council	1,500,000	0.90%	21/01/2020	21/07/2020	AA-	0.001%
Lloyds Bank Plc (RFB)	5,000,000	1.25%	25/07/2019	24/07/2020	A+	0.003%
Barclays Bank Plc (NRFB)	500,000	0.10%		Call32	A	0.005%
Calderdale Metropolitan Borough Council	2,000,000	1.00%	14/02/2020	17/08/2020	AA-	0.003%
Surrey Heath Borough Council	4,000,000	0.90%	17/02/2020	17/08/2020	AA-	0.003%
Kingston Upon Hull City Council	4,000,000	0.93%	25/02/2020	25/08/2020	AA-	0.004%
Falkirk Council	5,000,000	1.00%	02/03/2020	02/09/2020	AA-	0.004%
Nationwide Building Society	2,000,000	0.20%	15/06/2020	18/09/2020	A	0.012%
HSBC UK Bank Plc (RFB)	20,000,000	0.41%	25/06/2020	25/09/2020	A+	0.013%
Santander UK Plc	15,000,000	0.45%		Call95	A	0.014%
Plymouth City Council	5,000,000	0.97%	14/02/2020	14/10/2020	AA-	0.007%
Slough Borough Council	5,000,000	0.85%	20/04/2020	20/10/2020	AA-	0.007%
South Somerset District Council	5,000,000	0.85%	20/04/2020	20/10/2020	AA-	0.007%
Plymouth City Council	5,000,000	0.33%	26/06/2020	20/11/2020	AA-	0.009%
North Tyneside Metropolitan Borough Council	3,000,000	0.95%	25/11/2019	23/11/2020	AA-	0.010%
Suffolk County Council	5,000,000	0.40%	09/06/2020	09/12/2020	AA-	0.011%
Woking Borough Council	5,000,000	0.70%	17/06/2020	09/06/2021	AA-	0.023%
Total Investments	£164,200,000	0.58%				0.006%

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 2.63

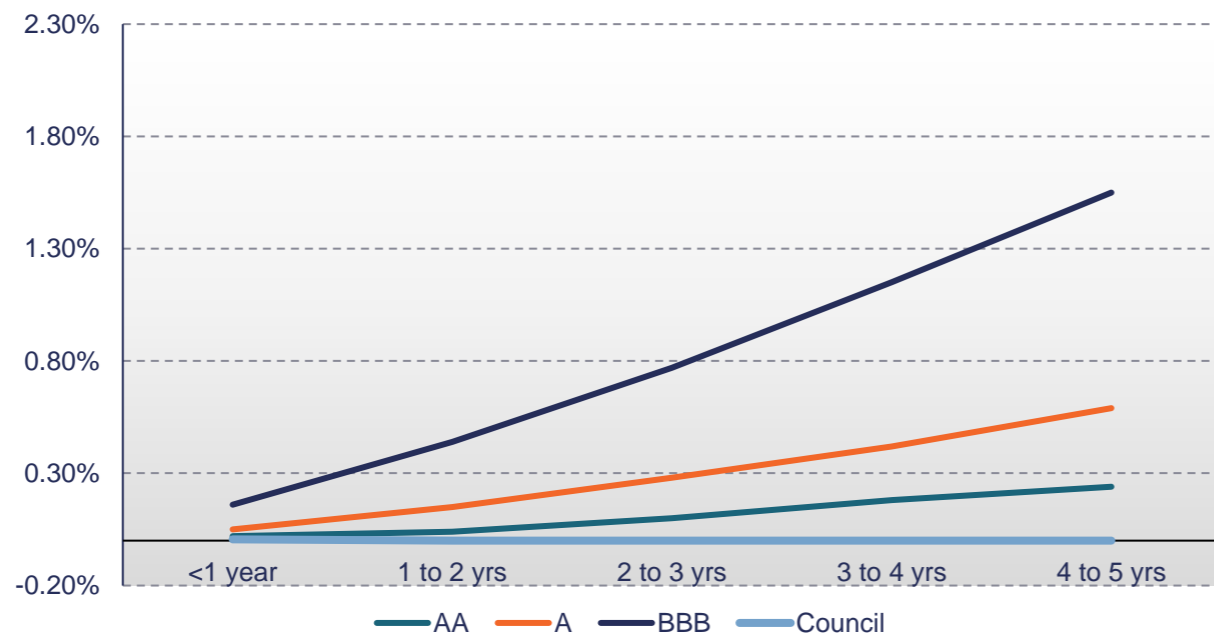
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	50.97%	£83,700,000	28.91%	£24,200,000	14.74%	0.62%	75	152	105	214
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	33.50%	£55,000,000	36.36%	£20,000,000	12.18%	0.58%	36	133	56	209
Red	15.53%	£25,500,000	60.78%	£15,500,000	9.44%	0.47%	64	110	20	137
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%	£164,200,000	36.36%	£59,700,000	36.36%	0.58%	60	139	81	205

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Investment Risk and Rating Exposure

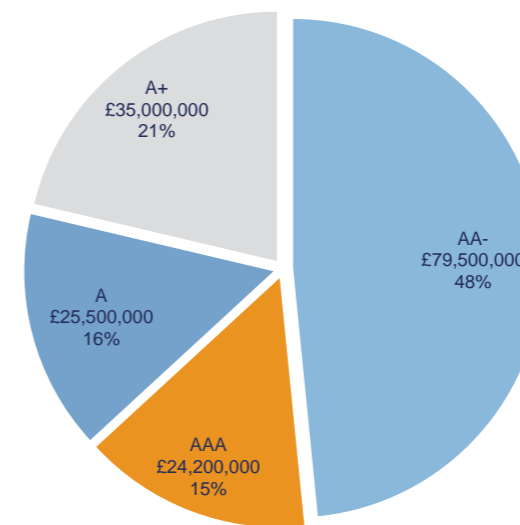
Investment Risk Vs. Rating Categories



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%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.006%	0.000%	0.000%	0.000%	0.000%

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 FITCH

Date	Update Number	Institution	Country	Rating Action
01/06/2020	1765	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Stable from Negative.
19/06/2020	1766	Danske Bank A/S	Denmark	The Long Term Rating was removed from Negative Watch and placed on Negative Outlook. At the same time, the Viability Rating was also removed from Negative Watch.
25/06/2020	1767	Canada Sovereign Rating	Canada	The Sovereign Rating was downgraded to 'AA+' from 'AAA'.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action

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