



Shropshire Council

Monthly Investment Analysis Review

September 2021

Monthly Economic Summary

General Economy

The Flash (i.e. provisional) UK Manufacturing PMI dropped to 56.3 in September from 60.3 in August, somewhat lower than market forecasts of 59.0. Although it signalled the weakest pace of expansion in the sector since February, due to supply chain delays, slower new order growth and rising material and labour shortages, the survey remained at levels historically consistent with robust economic growth. Similarly, the Flash Services PMI eased to 54.6 in September from 55.0 in August, also pointing to the slowest growth in the services sector in seven months. Notably, respondents reported that input price inflation accelerated amid reports of higher wage costs, product shortages and increased transportation costs - and that companies raised their own charges at the fastest pace since the series began in 1996. As a result of the falls in both indices, the Flash Composite PMI (which incorporates both sectors), eased to 54.1 in September, from 54.8 in August. Mirroring these developments, the Construction PMI (which is released one month behind), also fell to 55.2 in August from 58.7 in July and below market expectations of 56.9 as a restricted supply of materials, labour and transport began to weigh on overall activity. Input cost inflation, meanwhile, accelerated to the second-fastest rate in the 24-year history of the survey.

The combination of supply chain delays, slower order growth and rising material and labour shortages noted in the PMI surveys may also have weighed on GDP, which expanded by just 0.1% m/m in July compared to forecasts of a 0.7% rise. However, upward revisions to previous releases meant that the economic output was now forecast to be around 1% less than prior to the pandemic compared to 2% previously. Product and labour shortages may also have contributed to the 0.1% m/m decline in exports in July, which caused the UK trade deficit to widen to £3.1 billion compared to £2.5 billion in June.

Unemployment data, meanwhile, also confirmed the tightening of the labour market reported in the PMI surveys. Employment rose by 183,000 in the three months to July, which was the largest rise since January 2020 – and occurred despite firms having to start paying 10% of the wages of their furloughed workers. A fall of 86,000 in unemployed workers, meanwhile, allowed the unemployment rate to ease to 4.6% in July from 4.7% in June. More timely data revealed that PAYE employment increased by a further 241,000 during August, suggesting that labour market strength may continue – although the end of the furlough scheme in September represents a future source of uncertainty. The rise in vacancies to a record 1,034,000, 249,000 above their pre-pandemic level, suggests that labour shortages intensified during August. Against this backdrop, average earnings growth (excluding bonuses) eased to 6.8% y/y in the three months to July compared to 7.3% y/y in the three months to June as compositional and base effects began to fade. However, the Monetary Policy Committee (MPC) noted this month private sector regular pay growth had been around 4%, after accounting for these factors.

UK inflation, as measured by the Consumer Price Index, increased to 3.2% y/y in August from 2% in July and above market forecasts of 2.9%. However, base effects – including last year's Eat Out to Help Out scheme (which artificially depressed prices) - accounted for the majority of the rise. That said, the MPC noted at this month's policy meeting that the scheduled rise in utility prices and further base effects will likely contribute to inflation rising to slightly above 4% later in the year. Against this backdrop, the Committee judged that its existing monetary policy remained appropriate. However, the MPC also noted that some developments since the August Monetary Policy Report appeared to have strengthened the case for a modest tightening of monetary policy. As a result, Gilt yields rose as month-end approached and investors increased the probability attached to Bank Rate being raised in 2022.

Judging by the 0.9% m/m fall in August retail sales, the stalling of the UK's economic recovery in July highlighted by the GDP data has likely continued. However, some of the fall may also be explained by households changing their spending patterns following the expiration of lockdown. As a result, retail sales are now unchanged compared to a year ago. The prospect of looming energy price rises, food costs and tax rises, meanwhile, saw the GfK Consumer Confidence index decline to -13 in September from -8 in August.

The UK's public sector net borrowing (excluding public sector banks) was estimated to have been £20.5 billion in August - the second-highest August borrowing since monthly records began in 1993 - but £5.5 billion less than in August 2020. Although public sector net borrowing was estimated to have been £93.8 billion in the financial year-to-August 2021, this is £88.9 billion less than in the same period last year and £31.9 billion below that forecast by the OBR.

In the US, non-farm payrolls rose 235,000 in August, the lowest in 7 months and well below forecasts of 750,000 as a surge in COVID-19 infections may have discouraged companies from hiring and workers from actively looking for a job. Nevertheless, the gain saw the unemployment rate fall to 5.2% from 5.4% in July. The US economy, meanwhile, was confirmed to have grown at a 6.7% annualised rate in Q2 compared to the first estimate of 6.3%. Against this backdrop, the Federal Reserve forecast at its September policy meeting that core inflation would remain above 2% until 2023. As a result, the central bank judged that "a moderation in the pace of asset purchases may soon be warranted" and increased their median interest rate projections to 0.3% in 2022 (from 0.1% previously) and 1% in 2023 (from 0.6%).

As in the US, Q2 growth in the Eurozone was also revised higher during the month, to 2.2% q/q from 2% previously. Inflation, meanwhile, was confirmed at 3% y/y in August compared to 2.2% in July and its highest since November 2011. However, the ECB judged at its policy meeting that most of this year's increase in inflation will prove temporary. As expected, the central bank left rates unchanged and, in light of the bloc's recovery, elected to plan PEPP purchases at a "moderately lower pace...than in the previous two quarters."

Housing

Nationwide reported that house price growth eased to 10% y/y this month compared to 11% y/y in August. On the month, prices rose 0.1%. The Halifax survey, meanwhile, confirmed that prices rose 7.1% y/y and 0.7% m/m in August. According to the Nationwide, house prices are now around 13% higher than when the pandemic began.

Currency

The prospect of above target inflation and anaemic economic growth saw Sterling fall against both the US Dollar and the Euro this month.

September	Start	End	High	Low
GBP/USD	\$1.3786	\$1.3484	\$1.3872	\$1.3425
GBP/EUR	€1.1630	€1.1635	€1.1727	€1.1558

Forecast

In light of the hawkish nature of the minutes from September's MPC meeting, Link Group has revised its forecast for Bank Rate to bring forward its first rate rise to June 2022.

Bank Rate	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	-

Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Handelsbanken Plc	20,000,000	0.01%		Call	AA-	0.000%
Santander UK PLC	15,000,000	0.40%		Call	A	0.000%
MMF Aberdeen Standard Investments	15,000,000	0.01%		MMF	AAAm	
Dover District Council	6,000,000	0.03%	06/07/2021	06/10/2021	AA-	0.000%
DMO	4,000,000	0.01%	30/09/2021	08/10/2021	AA-	0.001%
Highland Council	5,000,000	0.30%	11/11/2020	11/10/2021	AA-	0.001%
DMO	3,000,000	0.01%	15/09/2021	18/10/2021	AA-	0.001%
Barclays Bank Plc (NRFB)	1,000,000	0.03%	15/07/2021	22/10/2021	A	0.003%
DMO	1,500,000	0.01%	10/09/2021	22/10/2021	AA-	0.001%
Lloyds Bank Plc (RFB)	3,000,000	0.01%	15/09/2021	22/10/2021	A+	0.003%
Goldman Sachs International Bank	5,000,000	0.23%	04/05/2021	27/10/2021	A+	0.003%
Telford & Wrekin Council	3,000,000	0.33%	29/10/2020	27/10/2021	AA-	0.002%
DMO	2,000,000	0.01%	22/09/2021	29/10/2021	AA-	0.002%
Lloyds Bank Plc (RFB)	3,000,000	0.01%	15/09/2021	29/10/2021	A+	0.004%
Goldman Sachs International Bank	5,000,000	0.20%	18/05/2021	18/11/2021	A+	0.006%
Kingston Upon Hull City Council	5,000,000	0.06%	20/05/2021	22/11/2021	AA-	0.003%
Highland Council	5,000,000	0.28%	15/01/2021	23/11/2021	AA-	0.003%
Barclays Bank Plc (NRFB)	4,000,000	0.08%	30/06/2021	30/11/2021	A	0.008%
Nationwide Building Society	5,000,000	0.07%	09/06/2021	08/12/2021	A	0.009%
Nationwide Building Society	5,000,000	0.07%	15/06/2021	13/12/2021	A	0.010%
Barclays Bank Plc (NRFB)	5,000,000	0.07%	01/07/2021	20/12/2021	A	0.010%
Lloyds Bank Plc (RFB)	2,000,000	0.02%	06/07/2021	05/01/2022	A+	0.013%
Lloyds Bank Plc (RFB)	5,000,000	0.02%	15/07/2021	14/01/2022	A+	0.014%
Lloyds Bank Plc (RFB)	2,000,000	0.02%	03/08/2021	17/01/2022	A+	0.014%
Lloyds Bank Plc (RFB)	5,000,000	0.02%	23/07/2021	21/01/2022	A+	0.015%
Plymouth City Council	5,000,000	0.11%	26/02/2021	26/01/2022	AA-	0.008%
Plymouth City Council	5,000,000	0.10%	14/07/2021	29/01/2022	AA-	0.008%
National Westminster Bank Plc (RFB)	5,000,000	0.09%	05/02/2021	04/02/2022	A	0.016%
National Westminster Bank Plc (RFB)	2,000,000	0.13%	18/05/2021	18/02/2022	A	0.018%
Coventry Building Society	5,000,000	0.05%	31/08/2021	28/02/2022	A-	0.020%
Slough Borough Council	3,000,000	0.20%	12/04/2021	23/03/2022	AA-	0.011%
Cheltenham Borough Council	1,000,000	0.05%	05/08/2021	20/04/2022	AA-	0.013%
National Westminster Bank Plc (RFB)	5,000,000	0.16%	01/06/2021	31/05/2022	A	0.031%
Kingston Upon Hull City Council	2,000,000	0.08%	17/09/2021	22/08/2022	AA-	0.021%
National Westminster Bank Plc (RFB)	5,000,000	0.20%	24/08/2021	23/08/2022	A	0.042%
National Westminster Bank Plc (RFB)	2,000,000	0.22%	20/09/2021	19/09/2022	A	0.046%
Total Investments	£174,500,000	0.11%				0.008%

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MME or USDRE for which the rating agencies

Shropshire Council

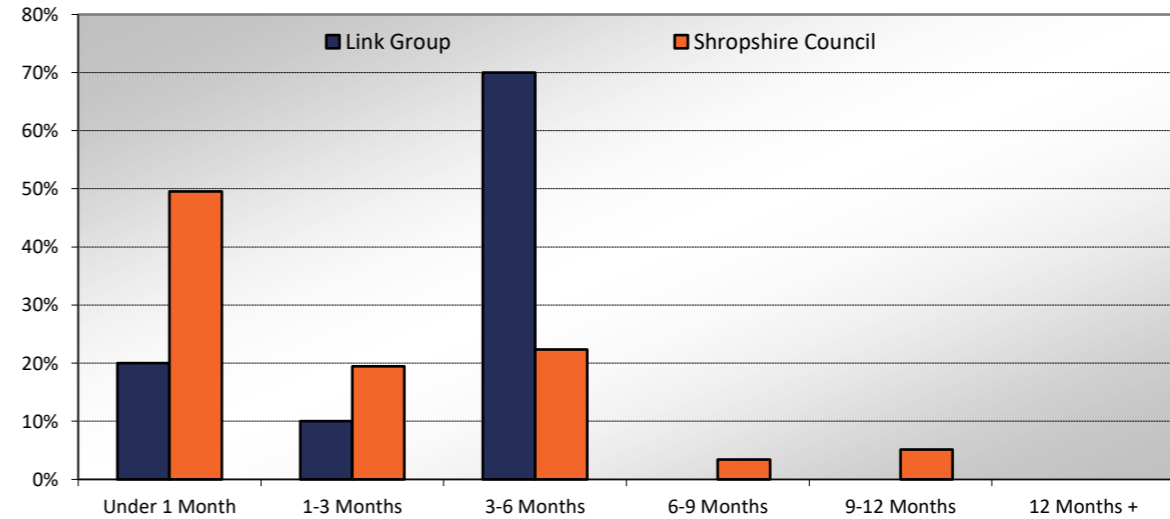
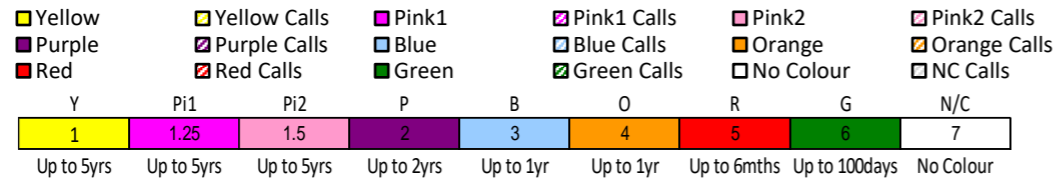
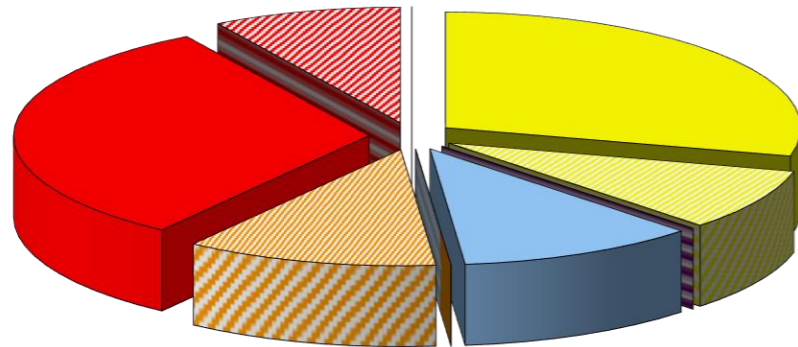
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
----------	---------------	---------------	------------	---------------	-------------------------	--------------------------

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an ILMIF 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.

Shropshire Council

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.17**

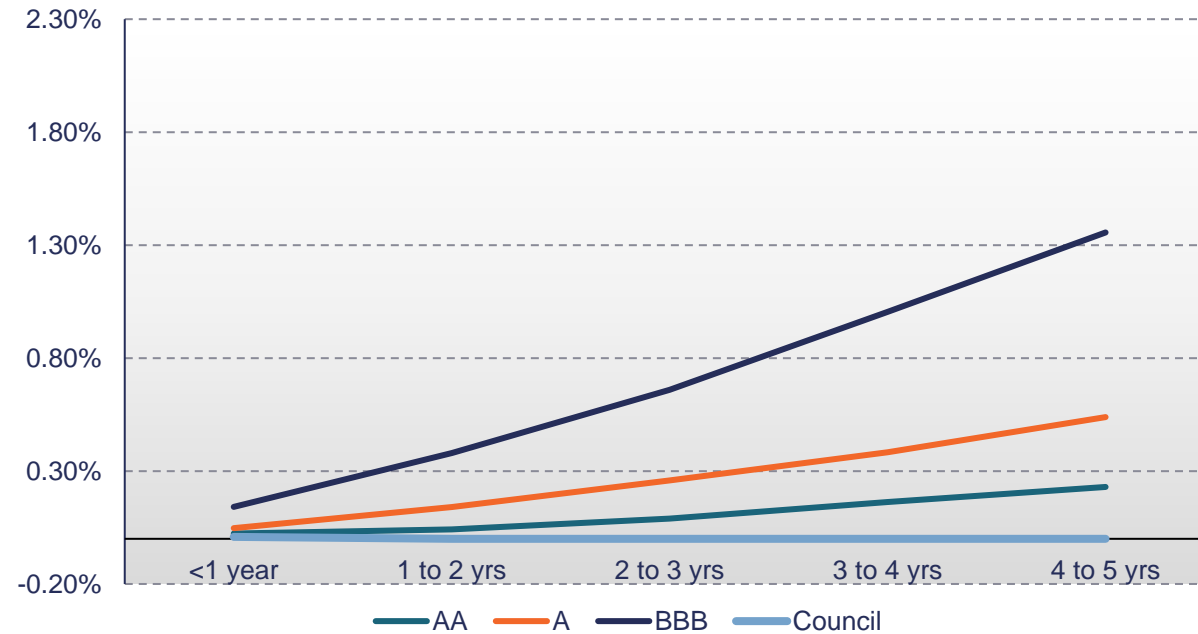
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	37.54%	£65,500,000	22.90%	£15,000,000	8.60%	0.10%	53	163	68	212
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	10.89%	£19,000,000	0.00%	£0	0.00%	0.16%	236	355	236	355
Orange	11.46%	£20,000,000	100.00%	£20,000,000	11.46%	0.01%	0	0	0	0
Red	40.11%	£70,000,000	21.43%	£15,000,000	8.60%	0.14%	60	127	76	161
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%	£174,500,000	28.65%	£50,000,000	28.65%	0.11%	69	151	97	211

Shropshire Council

Investment Risk and Rating Exposure

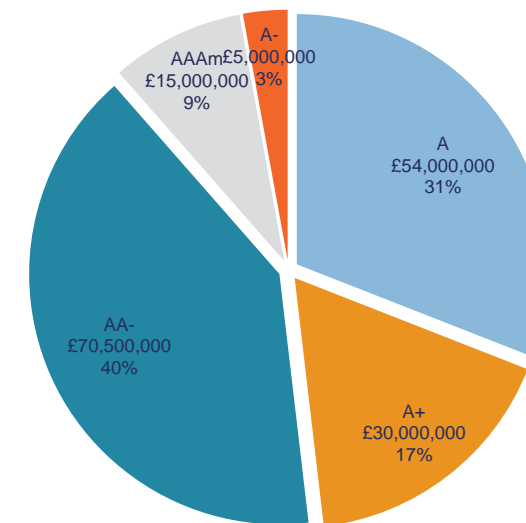
Investment Risk Vs. Rating Categories



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.

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.

Shropshire Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
24/09/2021	1844	Deutsche Bank AG	Germany	The Long Term Rating was upgraded to 'BBB+' from 'BBB'. At the same time, the Viability Rating was upgraded to 'bbb+' from 'bbb'
24/09/2021	1845	BNP Paribas	France	The Outlook on the Long Term Rating was changed to Stable from Negative.
24/09/2021	1846	Belgium Sovereign Rating	Belgium	The Outlook on the Sovereign Rating was changed to Stable from Negative.

Shropshire Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
				There were no rating changes to report.

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
				There were no rating changes to report.

Whilst Link Group makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Link Group should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Link Group is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ.