



## Shropshire Council

### Monthly Investment Analysis Review

March 2022

## Monthly Economic Summary

**General Economy**

The Flash (i.e. provisional) Manufacturing PMI edged down to 55.2 in March, from 58.0 the previous month. However, the Flash Services PMI increased to 61.0 in March of 2022 from 60.5 in February and above forecasts of a decline to 58. The Services PMI rate of expansion was fastest expansion in the services sector in nine months, amid the further reopening of the economy from COVID-19 containment measures. The Flash Composite PMI eased to 59.7 in March from 59.9 in February, above market forecasts of 57.8. The Construction PMI, meanwhile, registered 59.1 in February, up from 56.3 in January to signal the strongest rise in output since mid-2021.

UK GDP expanded 1.1% in the three months to January, better than forecasts of 0.8%. Figures came slightly better than market forecasts of a 1% rise. Services was the main contributor (0.8 percentage points), while production and construction both also contributed positively (0.1 and 0.2 percentage points respectively). The UK trade deficit widened to a record £16.159bn in January from £2.337bn in December. Exports tumbled 8.3% as good sales fell 15.8%, dragged down by a 22.2% fall in exports to EU countries and a 9.6% decrease in those to non-EU countries. Meanwhile, imports rose 16% as good purchases surged 21.8% amid increases from both EU countries and non-EU countries.

The UK's unemployment rate declined to 3.9% in the 3-months to January, the lowest in two years and below market expectations of 4%. The labour market report also showed the number of employees on payroll was up 275,324 to an all-time high of 29.67 million in February, while job vacancies hit a new record of 1.318 million. Average weekly earnings including bonuses in the UK increased 4.8% y/y in the three months to January, above 4.6% in the previous period and market forecasts of an unchanged rate. Similarly, average weekly earnings excluding bonuses rose 3.8%, also above 3.7% in the three months to December, and expectations also of 3.7%.

UK inflation, as measured by the Consumer Price Index, increased to 6.2% y/y in February from 5.5% in January and above market forecasts of 5.9%. This represents the highest inflation rate since 1992, as the rising cost of energy and food continues to squeeze household incomes. Against this backdrop, the Monetary Policy Committee voted by a majority of 8-1 to raise Bank Rate by 25bps to 0.75% at its March 2022 meeting, in line with expectations. The Committee judged that some further modest tightening in monetary policy may be appropriate in the coming months, in particular as the invasion of Ukraine by Russia is likely to accentuate both the peak and longevity of above target inflation and the expected adverse impact on activity.

Meanwhile, retail sales unexpectedly fell 0.3% m/m in February, partly reversing a 1.9% rise in January and compared to market forecasts of a 0.6% increase. Compared to pre-pandemic levels of February 2020, retail sales have increased 3.7%. Meanwhile, the GfK Consumer Confidence index dropped to its lowest level in 16 months at -31 in March, amid mounting concerns about surging inflation, higher interest rates and the Ukraine conflict. This followed a reading of -26 in February and was slightly lower than expectations of -30.

The UK government recorded a £13.1 billion deficit in its public finances in February, much higher than market expectations of £8.1 billion. This represented the second-highest February borrowing since monthly records began in 1993. As a result, borrowing reached £138.4 billion in the financial year-to-February. This was the third-highest financial year-to-February borrowing since monthly records began in 1993 but less than half of the £290.9 billion borrowed in the same period last year.

The US economy added 678,000 payrolls in February, the most in seven months and well above market forecasts of 400,000. As a result, the US unemployment rate edged down to 3.8% from 4% previously, representing a new pandemic low and below market expectations of 3.9%. The US economy expanded an annualised 6.9% on quarter in the last three months of 2021, 0.1% lower than in the second estimate. Against this backdrop, price growth (as measured by the Federal Reserve's preferred Personal Consumption Expenditure deflator) accelerated to 7.9% in February, the highest since January 1982, matching market expectations. Following its February decision to make no policy change, the Fed raised the target for its Fed Funds rate by a quarter-point to 0.25%-0.5% at its March meeting. This was the first hike for three years with the following press conference and associated "dot plot" of Fed member expectations signalling that this was likely the first of a series of policy tightening measures. While the Fed stated that conditions at the time of meetings would determine any action, the forecasts now sees rate hikes at each of the six remaining meetings this year.

The Eurozone economy advanced 0.3% on quarter in the last three months of 2021, matching flash estimates, as the Omicron variant's spread across the continent later in the year brought about restrictions which hurt the services sector, as well as labour shortages. The annual inflation rate in the Euro Area rose to a fresh record high of 5.9% y/y in February from 5.1% in January. Energy continued to record the biggest source of price increases. Core inflation, which excludes prices of energy, food, alcohol and tobacco, accelerated to 2.7% in February from 2.3% in January. The ECB voted to maintain interest rates at its March meeting. However, the ECB surprisingly sped up the asset purchase schedule for the coming months and said that the asset purchase program could end in the third quarter if the medium-term inflation outlook did not weaken. The Bank also confirmed that monthly net asset purchases would amount to €40 billion in Q2, €30 billion in Q3 and €20 billion from October onwards and for as long as necessary to reinforce the accommodative impact of its policy rates.

### Housing

The Nationwide House Price Index jumped 14.3% y/y in March, the strongest increase since November 2004, and above forecasts of 13.5%. On a monthly basis, prices increased 1.1%, also above forecasts of 0.8%, the eighth consecutive monthly increase. The price of a typical UK home climbed to a new record high. According to Nationwide, prices are now 21% higher than before the pandemic struck in early 2020.

### Currency

Sterling depreciated against both the US dollar and Euro this month amid the ongoing war in Ukraine and surging commodity prices, which raised the prospect of slowing growth and high inflation in the UK.

| March   | Start    | End      | High     | Low      |
|---------|----------|----------|----------|----------|
| GBP/USD | \$1.3938 | \$1.3797 | \$1.3991 | \$1.3712 |
| GBP/EUR | €1.1565  | €1.1739  | €1.1739  | €1.1565  |

### Forecast

The Bank of England 's Monetary Policy Committee increased the Bank Rate by 0.25% to 0.75% at its March meeting, which was in line with Link Group's forecast.

| Bank Rate         | Now   | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|-------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Link Group        | 0.75% | 1.00%  | 1.00%  | 1.25%  | 1.25%  | 1.25%  | 1.25%  | 1.25%  | 1.25%  | 1.25%  | 1.25%  | 1.25%  |
| Capital Economics | 0.75% | 1.00%  | 1.25%  | 1.25%  | 1.50%  | 1.75%  | 2.00%  | 2.00%  | -      | -      | -      | -      |

## Shropshire Council

### Current Investment List

| Borrower                            | Principal (£)       | Interest Rate | Start Date | Maturity Date | Lowest LT / Fund Rating | Historic Risk of Default | Expected Credit Loss (£) |
|-------------------------------------|---------------------|---------------|------------|---------------|-------------------------|--------------------------|--------------------------|
| DMO                                 | 2,600,000           | 0.50%         |            | Call          | AA-                     | 0.000%                   | 0                        |
| Handelsbanken Plc                   | 15,000,000          | 0.55%         |            | Call          | AA-                     | 0.000%                   | 9                        |
| MMF Aberdeen Standard Investments   | 7,600,000           | 0.39%         |            | MMF           | AAAm                    |                          |                          |
| MMF Insight                         | 15,000,000          | 0.39%         |            | Call          | AAAm                    |                          |                          |
| DMO                                 | 5,000,000           | 0.54%         | 31/03/2022 | 07/04/2022    | AA-                     | 0.000%                   | 0                        |
| DMO                                 | 3,000,000           | 0.55%         | 30/03/2022 | 14/04/2022    | AA-                     | 0.001%                   | 0                        |
| Cheltenham Borough Council          | 1,000,000           | 0.05%         | 05/08/2021 | 20/04/2022    | AA-                     | 0.001%                   | 0                        |
| DMO                                 | 1,500,000           | 0.55%         | 29/03/2022 | 20/04/2022    | AA-                     | 0.001%                   | 0                        |
| Barclays Bank Plc (NRFB)            | 1,000,000           | 0.41%         | 22/10/2021 | 22/04/2022    | A                       | 0.003%                   | 28                       |
| DMO                                 | 2,800,000           | 0.55%         | 30/03/2022 | 22/04/2022    | AA-                     | 0.001%                   | 0                        |
| DMO                                 | 5,000,000           | 0.55%         | 31/03/2022 | 22/04/2022    | AA-                     | 0.001%                   | 0                        |
| Goldman Sachs International Bank    | 5,000,000           | 0.41%         | 27/10/2021 | 26/04/2022    | A+                      | 0.003%                   | 164                      |
| DMO                                 | 2,000,000           | 0.55%         | 31/03/2022 | 29/04/2022    | AA-                     | 0.002%                   | 0                        |
| Goldman Sachs International Bank    | 5,000,000           | 0.35%         | 18/11/2021 | 18/05/2022    | A+                      | 0.006%                   | 303                      |
| Barclays Bank Plc (NRFB)            | 4,000,000           | 0.25%         | 30/11/2021 | 27/05/2022    | A                       | 0.007%                   | 288                      |
| National Westminster Bank Plc (RFB) | 5,000,000           | 0.16%         | 01/06/2021 | 31/05/2022    | A                       | 0.008%                   | 385                      |
| London Borough of Brent             | 5,000,000           | 0.80%         | 02/03/2022 | 06/06/2022    | AA-                     | 0.004%                   | 0                        |
| Nationwide Building Society         | 5,000,000           | 0.15%         | 08/12/2021 | 07/06/2022    | A                       | 0.009%                   | 430                      |
| Nationwide Building Society         | 5,000,000           | 0.15%         | 13/12/2021 | 10/06/2022    | A                       | 0.009%                   | 449                      |
| Barclays Bank Plc (NRFB)            | 5,000,000           | 0.25%         | 15/12/2021 | 14/06/2022    | A                       | 0.009%                   | 474                      |
| Barclays Bank Plc (NRFB)            | 5,000,000           | 0.36%         | 20/12/2021 | 20/06/2022    | A                       | 0.010%                   | 512                      |
| Plymouth City Council               | 5,000,000           | 0.10%         | 14/07/2021 | 29/06/2022    | AA-                     | 0.006%                   | 0                        |
| Kingston Upon Hull City Council     | 2,000,000           | 0.08%         | 17/09/2021 | 22/08/2022    | AA-                     | 0.009%                   | 0                        |
| National Westminster Bank Plc (RFB) | 5,000,000           | 0.20%         | 24/08/2021 | 23/08/2022    | A                       | 0.018%                   | 916                      |
| Oxford City Council                 | 5,000,000           | 0.95%         | 08/03/2022 | 08/09/2022    | AA-                     | 0.010%                   | 0                        |
| National Westminster Bank Plc (RFB) | 2,000,000           | 0.22%         | 20/09/2021 | 19/09/2022    | A                       | 0.022%                   | 435                      |
| Highland Council                    | 2,000,000           | 0.96%         | 24/03/2022 | 23/09/2022    | AA-                     | 0.011%                   | 0                        |
| Coventry Building Society           | 3,000,000           | 0.99%         | 30/03/2022 | 30/09/2022    | A-                      | 0.023%                   | 694                      |
| Highland Council                    | 5,000,000           | 0.10%         | 11/10/2021 | 04/10/2022    | AA-                     | 0.012%                   | 0                        |
| Coventry Building Society           | 5,000,000           | 1.15%         | 08/03/2022 | 08/11/2022    | A-                      | 0.028%                   | 1402                     |
| HSBC UK Bank Plc (RFB)              | 5,000,000           | 0.32%         | 09/12/2021 | 08/12/2022    | A+                      | 0.032%                   | 1592                     |
| HSBC UK Bank Plc (RFB)              | 5,000,000           | 0.51%         | 04/01/2022 | 03/01/2023    | A+                      | 0.035%                   | 1756                     |
| HSBC UK Bank Plc (RFB)              | 3,000,000           | 0.66%         | 26/01/2022 | 25/01/2023    | A+                      | 0.038%                   | 1137                     |
| National Westminster Bank Plc (RFB) | 5,000,000           | 0.94%         | 04/02/2022 | 25/01/2023    | A                       | 0.038%                   | 1895                     |
| National Westminster Bank Plc (RFB) | 2,000,000           | 1.00%         | 18/02/2022 | 01/02/2023    | A                       | 0.039%                   | 776                      |
| HSBC UK Bank Plc (RFB)              | 4,000,000           | 1.01%         | 08/02/2022 | 07/02/2023    | A+                      | 0.040%                   | 1582                     |
| <b>Total Investments</b>            | <b>£163,500,000</b> | <b>0.48%</b>  |            |               |                         | <b>0.012%</b>            | <b>£15,226</b>           |

Note: An historic risk of default and expected credit loss are only provided if a counterparty has a counterparty credit rating and are not provided for an MME or USDF, for which the rating

## Shropshire Council

### Current Investment List

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

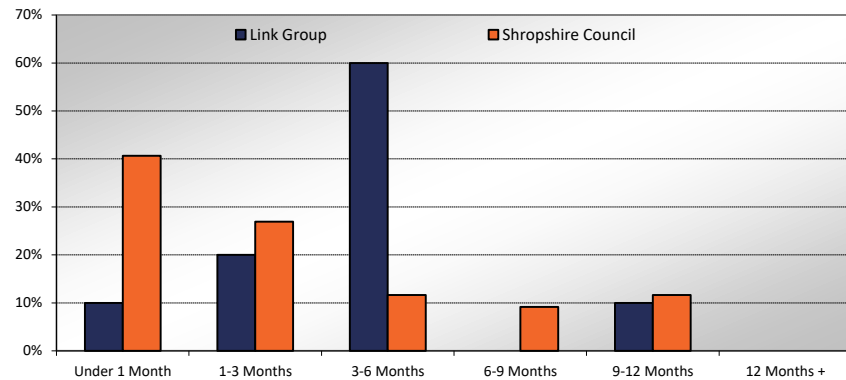
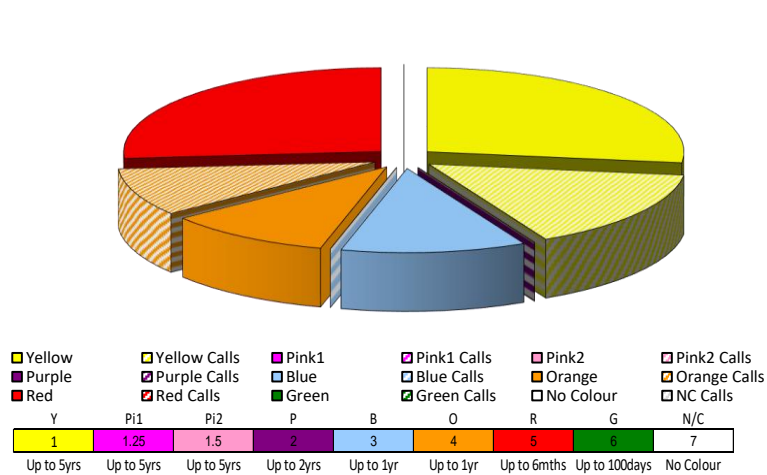
Note: An historic risk of default and expected credit loss are only provided if a counterparty has a counterparty credit rating and are not provided for an MVI or USBB, for which the rating agencies provide a fund rating. The portfolio's historic risk of default and expected credit loss therefore measure the historic risk of default and expected credit loss attached only to those investments for which a counterparty has a counterparty credit rating and also do not include investments which are not rated.

The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2021 for Fitch, 1983-2021 for Moody's and 1981-2021 for S&P.

Where Link Group have provided a return for a property fund, that return covers the 12 months to December 2021, which are the latest returns currently available.

## Shropshire Council

### Portfolio Composition by Link Group's Suggested Lending Criteria



**Portfolios weighted average risk number = 2.87**

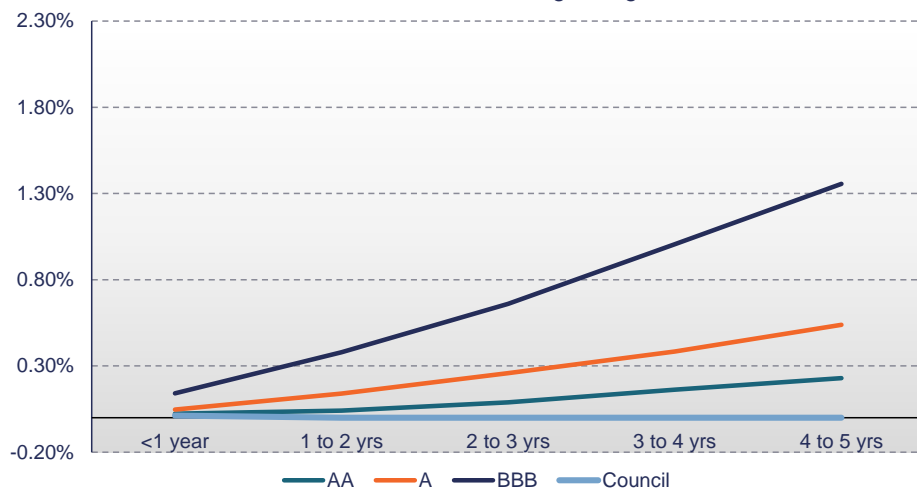
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

|                  | % 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 |
| <b>Yellow</b>    | 42.51%         | £69,500,000         | 36.26%        | £25,200,000        | 15.41%        | 0.47%        | 51                          | 95               | 79         | 149              |
| <b>Pink1</b>     | 0.00%          | £0                  | 0.00%         | £0                 | 0.00%         | 0.00%        | 0                           | 0                | 0          | 0                |
| <b>Pink2</b>     | 0.00%          | £0                  | 0.00%         | £0                 | 0.00%         | 0.00%        | 0                           | 0                | 0          | 0                |
| <b>Purple</b>    | 0.00%          | £0                  | 0.00%         | £0                 | 0.00%         | 0.00%        | 0                           | 0                | 0          | 0                |
| <b>Blue</b>      | 11.62%         | £19,000,000         | 0.00%         | £0                 | 0.00%         | 0.47%        | 184                         | 360              | 184        | 360              |
| <b>Orange</b>    | 19.57%         | £32,000,000         | 46.88%        | £15,000,000        | 9.17%         | 0.58%        | 150                         | 193              | 282        | 364              |
| <b>Red</b>       | 26.30%         | £43,000,000         | 0.00%         | £0                 | 0.00%         | 0.43%        | 87                          | 188              | 87         | 188              |
| <b>Green</b>     | 0.00%          | £0                  | 0.00%         | £0                 | 0.00%         | 0.00%        | 0                           | 0                | 0          | 0                |
| <b>No Colour</b> | 0.00%          | £0                  | 0.00%         | £0                 | 0.00%         | 0.00%        | 0                           | 0                | 0          | 0                |
| <b>Total</b>     | <b>100.00%</b> | <b>£163,500,000</b> | <b>24.59%</b> | <b>£40,200,000</b> | <b>24.59%</b> | <b>0.48%</b> | <b>95</b>                   | <b>169</b>       | <b>126</b> | <b>225</b>       |

# Shropshire Council

## Investment Risk and Rating Exposure

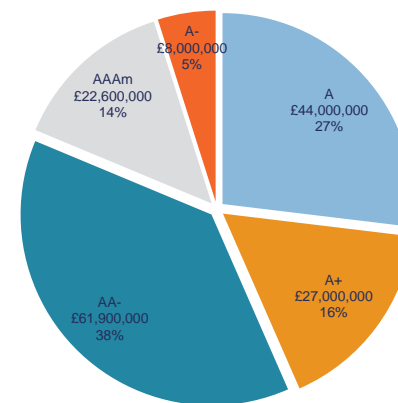
Investment Risk Vs. Rating Categories



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      | 0.012%  | 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.

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                     |
|------------|---------------|--|----------------|-----------------------------------|
| 17/03/2022 | 1884          | Bayerische Landesbank                        | Germany        | The Support Rating was withdrawn. |
| 18/03/2022 | 1885          | Landesbank Baden-Wuerttemberg                | Germany        | The Support Rating was withdrawn. |
| 25/03/2022 | 1887          | Co-operative Bank PLC (The)                  | United Kingdom | The Support Rating was withdrawn. |
| 28/03/2022 | 1888          | Australia and New Zealand Banking Group Ltd. | Australia      | The Support Rating was withdrawn. |
| 28/03/2022 | 1888          | Commonwealth Bank of Australia               | Australia      | The Support Rating was withdrawn. |
| 28/03/2022 | 1888          | National Australia Bank Ltd                  | Australia      | The Support Rating was withdrawn. |
| 28/03/2022 | 1888          | Westpac Banking Corp.                        | Australia      | The Support Rating was withdrawn. |



## Shropshire Council

### Monthly Credit Rating Changes MOODY'S

| Date       | Update Number | Institution | Country | Rating Action  |
|------------|---------------|-------------|---------|--|
| 01/03/2022 | 1883          | Swedbank AB | Sweden  | The Long Term Rating was placed on Negative Outlook and removed from Negative Watch. |

## Shropshire Council

### Monthly Credit Rating Changes S&P

| Date       | Update Number | Institution                                 | Country | Rating Action  |
|------------|---------------|---|---------|--|
| 22/03/2022 | 1886          | Landesbank Hessen-Thuringen<br>Girozentrale | Germany | The Long Term Rating was upgraded to 'A' from 'A-' and the Short Term Rating was upgraded to 'A-1' from 'A-2'. |

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