Shropshire Council

Monthly Investment Analysis Review

June 2024

Monthly Economic Summary

General Economy

The UK Manufacturing PMI fell to 50.9 in June from 51.2 in May, below market expectations of 51.4. However, this pointed to continued expansion in the manufacturing sector (ie a reading above 50) as output and new orders expanded for the second consecutive month. In contrast, stocks of purchases and employment both decreased and an upswing in cost inflationary pressures saw input prices rising at the quickest pace since January 2023. Meanwhile, the UK Services PMI fell to 51.2 in June from 52.9 in April, beneath market expectations of 53. This was the second consecutive month of slowing growth for service firms as business activity rose at its weakest pace in seven months. The general election was seen to delay spending decisions, which countered the higher customer demand that boosted activity levels. On the price front, input cost inflation accelerated with global shipping constraints and wages remaining the main driver of service cost inflation. Consequently, the UK composite PMI dropped to 51.7 in June, a fall from 53.0 in May, and below market expectations of 53.1, recording its weakest growth since November 2023. Meanwhile, the UK Construction PMI increased to 54.7 in May from 53 the previous month (it is released on a one-month lag to other sector reports), its highest since May 2022 with activity, new business and purchasing activity all rising quicker as the sector recovered from its recent weather-induced lull.

The UK economy was stagnant in April with a reading of 0% m/m, after a 0.4% rise in March, but still slightly ahead of market expectations. Nevertheless, this was still the poorest performance in four months with falls in industrial output and construction offsetting gains in services, which grew for the fourth consecutive month. Elsewhere, the UK’s trade deficit widened to a near two-year high of £6.75 billion in April, rising from £1.1 billion in March. Imports rose by 7.2% to an almost one-year high, while exports fell by 0.7%.

The UK recorded a further 139,000 drop in jobs in the three months prior to April, easing from the 177,000 decline in the previous period, but above market expectations of a 100,000 decrease. Meanwhile, average weekly earnings (including bonuses) increased 5.9% y/y in the three months to April, beating market expectations of 5.7%. The unemployment rate edged up to 4.4% between February and April, its highest figure since the three months to September 2021, and just above 4.3% in the previous period and market expectations of remaining steady at 4.3%.

Regarding inflation, the monthly Consumer Price Index (CPI) rose by 0.3% on the month in May, the same as April, and below market expectations of 0.4%. However, base effect means the headline annual rate dropped to 2% in May, its lowest since July 2021, from 2.3% in April and in line with market expectations. The return to the Bank of England’s 2% target, was led by a slowdown in cost of food, while prices also eased for restaurants and hotels and recreation and culture.

The Bank of England decided to keep the Bank rate at 5.25% in its June meeting as, despite the fall to the target of 2%, as upside surprises in CPI service inflation and ongoing wage growth saw the Committee continue to take a cautious approach to policy. The Monetary Policy Committee voted 7-2 in favour of keeping the rates unchanged, with two members voting for a 25-basis point decrease.

In the retail sector, sales jumped to 2.9% in May, from an upwardly revised 1.8% decline in April and significantly better than market expectations of a 1.5% gain. This was the biggest increase in retail sales in four months, with sales in non-food stores rising 3.5%, the most since April 2021. Meanwhile, the GfK Consumer Confidence Indicator improved to -14 in June from -17 in May, its third consecutive rise and highest reading since November 2021 and better than market expectations of -16. Elsewhere, public sector net borrowing, excluding public sector banks, increased to £15 billion in May, compared to market expectations of £15.7 billion. Total public spending increased by £2.3 billion, as the closure of energy support schemes were surpassed by spending on public services and benefits, and receipts grew by £1.5 billion, driven by a rise in central government tax receipts.

US Economy

The US economy added 272,000 jobs in May, the most in 5 months, in comparison to the downwardly revised 165,000 in April and well above market expectations of a 185,000 increase. The main areas of gain were the healthcare sector, while government and leisure and hospitality also saw improvements. The US economy expanded an annualised 1.4% in Q1 2024, just above the 1.3% in the second estimate, but still pointing towards the lowest growth since the contractions in the first half of 2022. The US inflation rate eased to 3.3% in May, the lowest in three months, compared to 3.4% in April and less than market expectations of remaining at 3.4%.

EU Economy

In In the Euro area, the inflation rate increased to 2.6% in May, from 2.4% in the two previous months. Meanwhile, the core rate, excluding food and energy prices, hit 2.9% after hitting an over two-year low of 2.7% in the previous month. GDP in the Euro area expanded by 0.3% in the first quarter of 2024, recovering from a 0.1% contraction in the two previous quarters, and in line with initial estimates. It was its largest expansion since Q3 2022, driven by net trade as exports rose 1.4% compared to the previous 0.2% rise in Q4 2023.

The ECB lowered interest rates by 25 basis points in its June meeting to 3.75%, the first shift in rates in nine months, as it looks to take advantage of decreasing inflationary pressures. However, the ECB revised its forecasts slightly upwards for both headline and core inflation for next year, both measures estimating to average to 2.2%, implying the future path of rate cuts may be a little slower than previously expected.

Housing

The Halifax House Price index rose 1.5% y/y in May, a sixth consecutive monthly increase, accelerating from a 1.1% growth in April and above market expectations of 1.2%. Meanwhile, the Nationwide House Price Index increased 1.5% y/y in June compared to market expectations of a 1.1% rise, which marked its fifth straight price rise.

Currency

Sterling appreciated against the Euro and depreciated against the Dollar over the month.

May	Start	End	High	Low
GBP/USD	$1.2774	$1.2641	$1.2841	$1.2624
GBP/EUR	€1.1752	€1.1795	€1.1855	€1.1741

Interest Rate Forecasts

Link Group and Capital Economics still hold that Bank Rate will peak at 5.25% in this cycle.

Bank Rate	Now	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Link Group	**5.25%**	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%	3.00%
Capital Economics	**5.25%**	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%	3.00%	-	-	-

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
MMF Aberdeen Standard Investments	5,900,000	5.22%		MMF	AAAm		
MMF Insight	15,000,000	5.24%		MMF	AAAm		
Total Investments	**£20,900,000**	**5.23%**				-	-

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.

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 1990-2023 for Fitch, 1983-2023 for Moody's and 1981 to 2023 for S&P.

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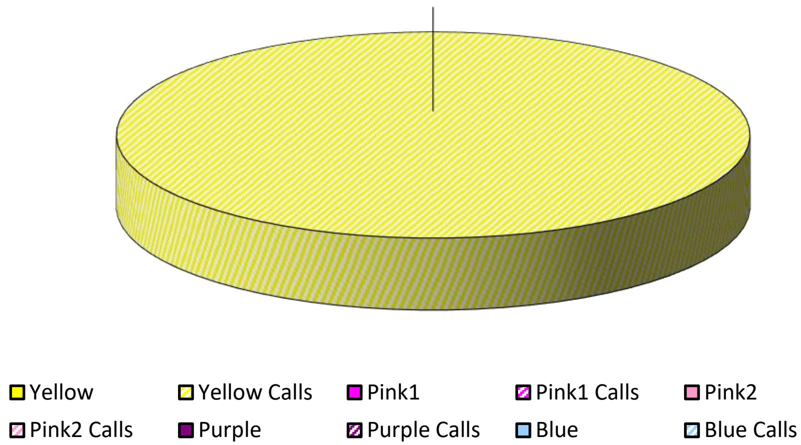
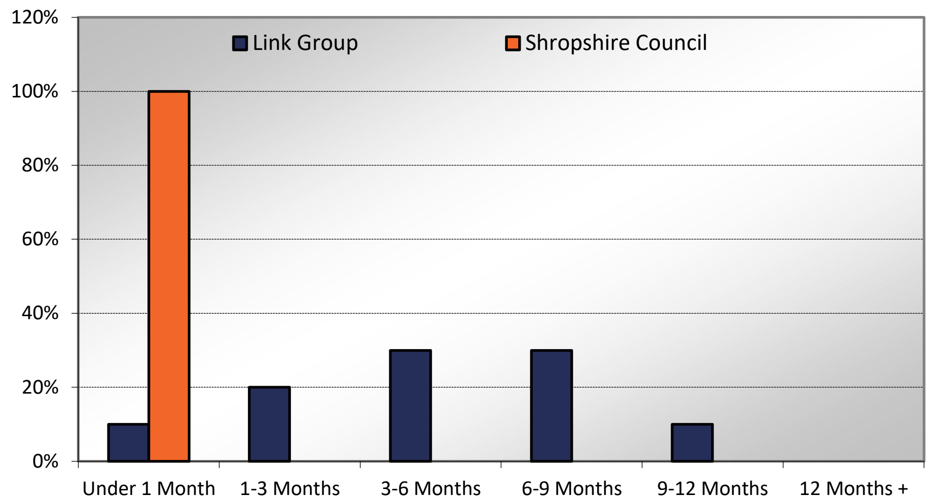
Portfolio Composition by Link Group's Suggested Lending Criteria





Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Portfolios weighted average risk number = 1.00

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

									Excluding Calls/MMFs/USDBFs	
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	100.00%	£20,900,000	100.00%	£20,900,000	100.00%	5.23%	0	0	0	0
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	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
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
	100.00%	**£20,900,000**	**100.00%**	**£20,900,000**	**100.00%**	**5.23%**	**0**	**0**	**0**	**0**

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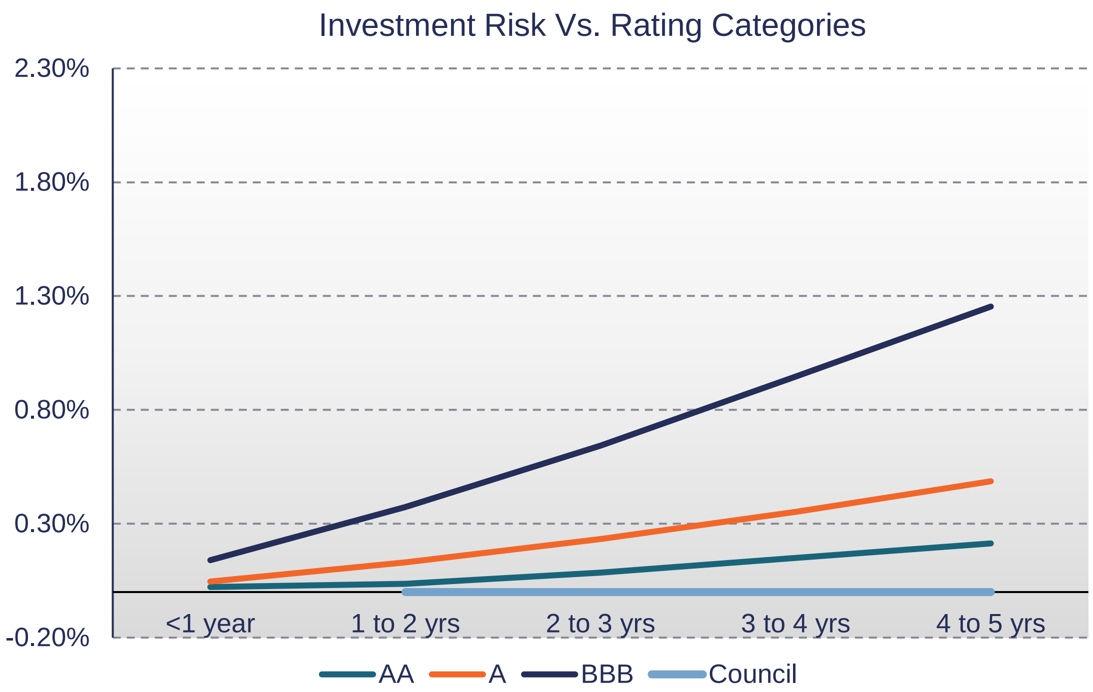
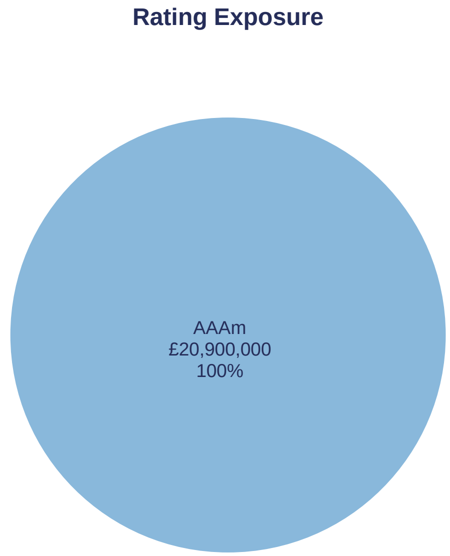
Investment Risk and Rating Exposure





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%	0.15%	0.21%
A	0.05%	0.13%	0.23%	0.35%	0.49%
BBB	0.14%	0.37%	0.64%	0.95%	1.25%
Council	-	0.00%	0.00%	0.00%	0.00%

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.

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Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
06/06/2024	2032	Clydesdale Bank PLC	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Positive.
13/06/2024	2035	Coventry Building Society	United Kingdom	The Negative Watch on the Long Term Rating was removed and the Outlook on the Long Term Rating was changed to Negative.

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/06/2024	2031	Societe Generale	France	The Outlook on the Long term Rating was changed to Negative from Stable.
10/06/2024	2033	Svenska Handelsbanken AB	Sweden	The Outlook on the Long term Rating was changed to Stable from Negative.
11/06/2024	2034	West Bromwich Building Society	United Kingdom	Moody's has Withdrawn all Ratings for its own business reasons.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
03/06/2024	2030	France (Sovereign Rating)	France	The Sovereign Rating was Downgraded to AA- from AA. The Outlook remains Stable.