Shropshire Council

Monthly Investment Analysis Review

September 2024

Monthly Economic Summary

General Economy

The preliminary reading of the UK Manufacturing PMI fell to 51.5 in September from 52.5 in August, below market expectations. While still indicative of expansion, the slower growth was attributed to a wait-and-see approach that respondents took ahead of the Autumn Statement. Job cuts increased, and subdued demand led to leaner inventory strategies. Furthermore, delivery times have lengthened to the greatest extent since April, with freight delays being attributed to the ongoing Red Sea crisis. On the price front, purchase price inflation hit its highest level since January 2023. Meanwhile, the UK services PMI dropped to 52.8 in September from 53.7 in August in its preliminary reading, missing market expectations of 53.5. Despite the slowdown in growth, this marked the eleventh consecutive monthly expansion, supported by steady inflows of new business. On the price front, input cost inflation rose on the month due to increased labour and shipping costs. Combined, these saw the preliminary UK composite PMI headline rate fall to 52.9 in September from 53.8 in the previous month, also below market expectations of 53.5. Separately, the UK Construction PMI fell to 53.6 in August from 55.3 in July (it is released on a one-month lag to other sector reports), below forecasts of 54.9. Nevertheless, as with other readings, it still indicated expansion in the sector, with output volumes underpinned by robust new order growth and a more supportive economic backdrop.

The UK economy stalled once again in July, mirroring June’s performance, and below market expectations of a 0.2% increase. Services output rose by 0.1% but this was offset by industrial production output falling 0.8% and construction output dropping 0.4% on the month. Elsewhere, the UK’s trade deficit increased to £7.51 billion in July from £5.32 in June. Imports shrank 1.5%, while exports fell by a larger 4.7%, marking the largest trade gap since April.

The UK recorded a 265k rise in jobs in the three months to July, following the 97k increase in the previous period. This marked the largest growth in job creation since November 2022, and it was the third consecutive period of growth, largely driven by an increase in full-time employees. Meanwhile, average weekly earnings (including bonuses) increased 4% y/y in the three months to July, compared to the upwardly revised 4.6% in the previous period. The unemployment rate fell to 4.1% between May and July, matching market expectations.

The monthly Consumer Price Index (CPI) rose by 0.3% in August, and in line with market expectations, leaving the headline annual rate unchanged at 2.2%, matching market forecasts. The largest upward contribution came from air fares, while the largest offsetting contributions came from motor fuels.

The Bank of England kept Bank Rate unchanged at 5% during its September meeting. This decision met market expectations, though one member favoured a further 0.25 percentage point cut to 4.75%. In addition to the 8-1 vote, a more moderate expected pace of rate cuts was evidenced by the tweak in the accompanying statement, which said "...in the absence of material developments, a gradual approach to removing policy restraint remains appropriate." In the retail sector, overall sales rose by 1% in August, after an upwardly revised 0.7% rise in July. This was materially higher than markets had expected, with sales jumped 1.8% in food stores, while those at non-food stores increased by 0.4%.

Meanwhile, the GfK Consumer Confidence indicator fell sharply to -20 in September, missing forecast for a third straight reading of -13. Elsewhere, public sector borrowing, excluding public sector banks, rose to £13.7 billion in August compared to market expectations of £12.4 billion. Total public sector spending increased by £7 billion, driven by rising central government expenditure on public services and benefits. While receipts also rose, the gain of £3.8 billion was modest compared to outflows.

US Economy

The US economy added 142k jobs in August, more than a downwardly revised 89k in July and below market expectations of 165k. The main areas of gain were construction, healthcare, government and social assistance, while manufacturing lost jobs. The US economy expanded an annualised 3% in Q2, up from an upwardly revised 1.6% increase in Q1 and matching market expectations. The US inflation rate fell for a fifth consecutive month to 2.5% in August, the lowest since February 2021, and below market forecasts. On the monetary policy front, the Fed delivered a 50bps rate cut, its first since 2020 and above market expectations of a 25bps move, with the central bank seemingly placing more emphasis on supporting growth, especially the labour market, than concerns over inflation.

EU Economy

Eurozone's inflation rate eased to 2.2% in August, from 2.6% in July. This matched market expectations and was the lowest rate since July 2021. Meanwhile, the core rate, excluding food and energy prices, slowed to 2.8% from 2.9% in the previous month. GDP in the bloc expanded by 0.2% in Q2, matching market forecasts. Across the key economies France, Italy and Spain all expanded while Germany contracted. Away from data releases, the ECB cut its Deposit Facility Rate by 25 bps to 3.5%, following up the first move it made in its downcycle in June.

Housing

The Halifax House Price index rose 4.3% y/y in August, the biggest rise since November 2022, above the upwardly revised 2.4% rise in July. The Nationwide House Price Index rose by 3.2% y/y in September 2024, the fastest pace since November 2022 and above the 2.4% increase in August.

Currency

Sterling appreciated against the Euro and Dollar over the month.

September	Start	End	High	Low
GBP/USD	$1.3153	$1.3414	$1.3414	$1.3015
GBP/EUR	€1.1882	€1.2019	€1.2019	€1.1821

Interest Rate Forecasts

Link Group did not revise their forecasts, however Capital Economics now forecast a slower pace of rate cuts to a low of 3.00%.

Bank Rate	Now	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Link Group	5.00%	4.50%	4.00%	3.50%	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%	3.00%
Capital Economics	5.00%	4.75%	4.50%	4.25%	3.75%	3.25%	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 (£)
Aberdeen City Council	7,000,000	5.02%		Call	AA-	0.000%	0
MMF Insight	15,000,000	5.02%		Call	AAAm		
Total Investments	**£22,000,000**	**5.02%**				0.000%	£0

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.

Where Link Group have provided a return for a property fund, that return covers the 12 months to June 2024, which are the latest returns currently available.

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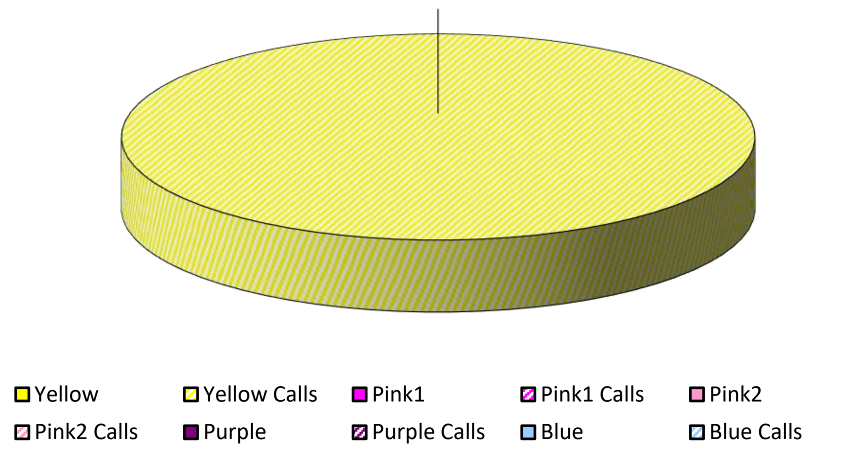
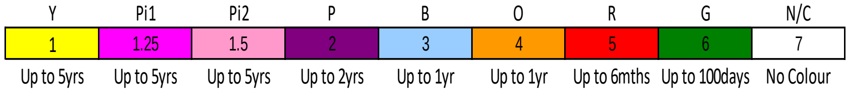
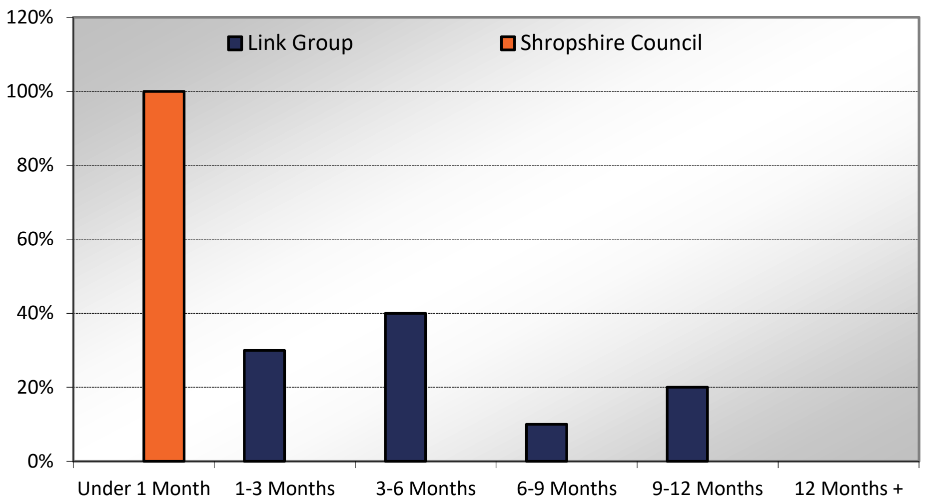
Portfolio Composition by Link Group's Suggested Lending Criteria







Portfolios weighted average risk number = 1.00

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	Excluding Calls/MMFs/USDBFs WAM at Execution
Yellow	100.00%	£22,000,000	100.00%	£22,000,000	100.00%	5.02%	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%	**£22,000,000**	**100.00%**	**£22,000,000**	**100.00%**	**5.02%**	**0**	**0**	**0**	**0**

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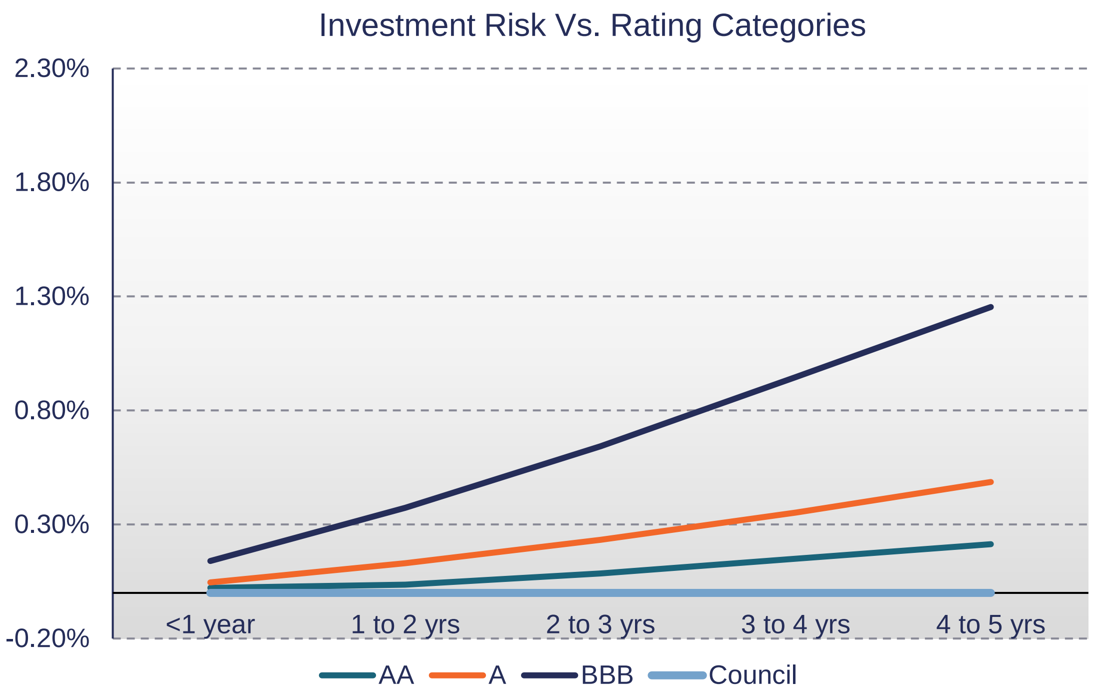
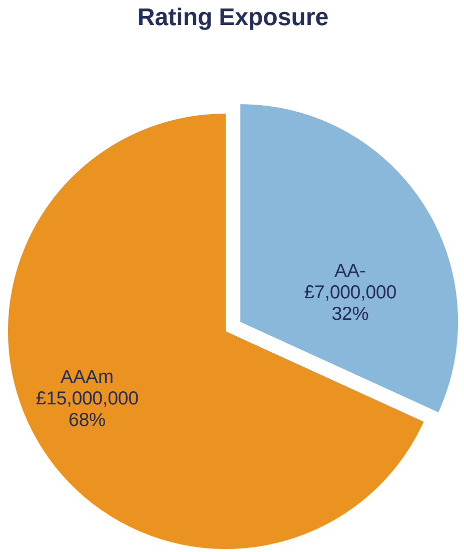
Investment Risk and Rating Exposure





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%	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

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
09/09/2024	2041	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was Upgraded to A1 from A3 and the Short Term Rating was Upgraded to P-1 from P-2. The Positive Watches were removed and replaced with Stable Outlooks.
09/09/2024	2042	Standard Chartered Bank	United Kingdom	The Long Term Rating and Short Term Rating Outlooks were changed to Positive from Stable.
25/09/2024	2044	National Bank of Canada	Canada	The Positive Outlook on both Long Term and Short Term Rating were replaced by Positive Watch.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
20/09/2024	2043	Swedbank	Sweden	The Outlook on both Long Term and Short Term Ratings were Upgraded to Positive from Stable.

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