LINK Group

West Lindsey District Council

Monthly Investment Analysis Review

May 2023

Monthly Economic Summary

General Economy

The preliminary (i.e. Flash) UK Manufacturing PMI fell to 46.9 in May from 47.8 in April, and below market expectations of 48. The latest reading pointed to the steepest deterioration in activity in the sector for five months, as output declined for a third consecutive month due in part to subdued order books and customer destocking. The UK Services PMI also fell, to 55.1 in May from 55.9 in April and below the market consensus of 55.5. However, by remaining above 50, the survey indicated that service sector activity grew in May – with respondents also noting that they experienced the fastest rise in their cost burdens for three months. The UK Construction PMI (which is released one month behind) meanwhile, edged higher to 51.1 in April from 50.7 in March, marking a third consecutive increase in construction activity, and compared to forecasts of 51. Rising volumes of commercial work and civil engineering activity helped to offset the steepest decline in residential construction output since May 2020.

The UK economy's GDP shrank 0.3% m/m in March, following a flat reading in February and worse than market forecasts of no growth. Details of the report revealed that government spending, foreign trade and inventory destocking drove the contraction, whilst consumer spending (in real terms) was unchanged on the month. Considering the three months to March, GDP grew by 0.1%. Whilst foreign trade acted as a break on growth, the UK trade deficit actually shrank to £2.86 billion in March from a downwardly revised £3.35 billion in February. This was the smallest trade shortfall in four months, as imports slipped 1.8% m/m to a 15-month low of £69.8 billion while exports fell at a slower 1.2% rate to a nine-month low of £66.9 billion. Goods imports fell 2.8% due to a decline in purchases from non-EU countries.

UK employment rose by 182,000 in the three months to March, more than market forecasts of 160,000 growth and up from a 169,000 rise in the previous period. Although this marked the highest advance in ten months, employment in March as a single month fell by 444,000, reversing much of February's huge 504,000 gain. Vacancies also fell slightly to 1.083m from 1.114m in February. Ultimately, a decline in inactivity (which sees people look for work) caused the unemployment rate to rise by 0.1%, reaching 3.9% in the first quarter of 2023. This marked the highest level since the period between November 2021 and January 2022, and slightly higher than the consensus forecast of 3.8%. Alongside this marginal loosening of the labour market, average weekly earnings, including bonuses in the UK, rose 5.8% y/y in the three months to March, the same as in January and in line with market forecasts. Meanwhile, regular pay which excludes bonus payments, rose 6.7%, slightly higher than 6.6% in the previous period but below forecasts of 6.8%.

The annual consumer price inflation rate in the UK fell to 8.7% y/y in April, the lowest since March 2022, due to a sharp slowdown in electricity and gas prices. Still, the inflation rate exceeded both market expectations of 8.2% and the Bank of England's forecast of 8.4% - and remained well above the Bank of England's target of 2.0%. Meanwhile, the core inflation rate, which excludes food and energy, jumped to 6.8%, the highest since March 1992 and well above consensus forecasts of 6.2%. Although the Bank of England had matched expectations by raising Bank Rate to 4.5% earlier in the month, the market responded to this data by pencilling in further rate rises across the bulk of the remainder of this year.

Retail sales volumes in the UK rose by 0.5% m/m in April, partly reversing March's weather related 1.2% decline and exceeding market expectations of 0.3% growth. The improvement in retail sales was mirrored in the GfK Consumer Confidence indicator, which rose to -27 in May from -30 in April, matching consensus forecasts. This represented the fourth consecutive rise in the series as British households became more optimistic about the economy and their finances, despite elevated inflation pressures.

Public sector net borrowing (PSNB ex) was £25.6 billion in April, £11.9 billion more than in April 2022 and the second-highest April borrowing since monthly records began in 1993. Although receipts rose, spending grew by 14.1% courtesy of the additional costs of the energy support schemes, increases in benefit payments and higher debt interest payable.

The US economy unexpectedly added 253,000 jobs in April, above forecasts of 180,000 and following a downwardly revised 165,000 gain in March. As a result, the US unemployment rate fell to 3.4% compared to 3.5% in March. Q1 GDP growth, meanwhile, was revised to a 1.3% annualised rate compared to 1.1% according to the preliminary (advance) estimate. The inflation rate eased to 4.9% y/y in April compared to 5% in March as a result of further falls in energy prices and slower growth in food prices. However, the Federal Reserve raised the Fed Funds Rate by 0.25% to a range of 5%-5.25% during its May meeting, bringing borrowing costs to their highest level since September 2007.
The initial reading of the Eurozone's quarterly economic growth was confirmed at 0.1% during the first quarter of 2023, matching market expectations. The annual inflation rate in the Euro Area was confirmed at 7% in April compared to 6.9% in March. With inflation still above the central bank’s 2% target, it was no surprise to see the European Central Bank raise their key interest rate by 0.25% to 3.75% during their May meeting.

Housing

According to the Nationwide House Price Index, UK house prices fell for the third consecutive month in April, leaving them 2.7% lower than a year ago. Although house prices also fell during April according to the Halifax House Price Index, they remain 0.1% higher twelve months ago.

Currency

Sterling fell slightly against the Dollar but rose marginally against the Euro over the month.

May	Start	End	High	Low
GBP/USD	$1.2521	$1.2394	$1.2630	$1.2333
GBP/EUR	€1.1403	€1.1626	€1.1626	€1.1339

Forecast

Both Link and Capital Economics revised their Bank Rate forecasts in the wake of the stronger than expected UK inflation data, raising the forecast peak in Bank Rate to at least 5%.

Bank Rate	Now	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Link Group	**4.50%**	4.75%	5.00%	5.00%	4.75%	4.50%	4.00%	3.50%	3.25%	2.75%	2.50%	2.50%	2.50%
Capital Economics	**4.50%**	4.75%	5.25%	5.25%	5.25%	5.25%	4.75%	4.50%	4.00%	3.50%	3.25%	3.00%	-

West Lindsey District Council

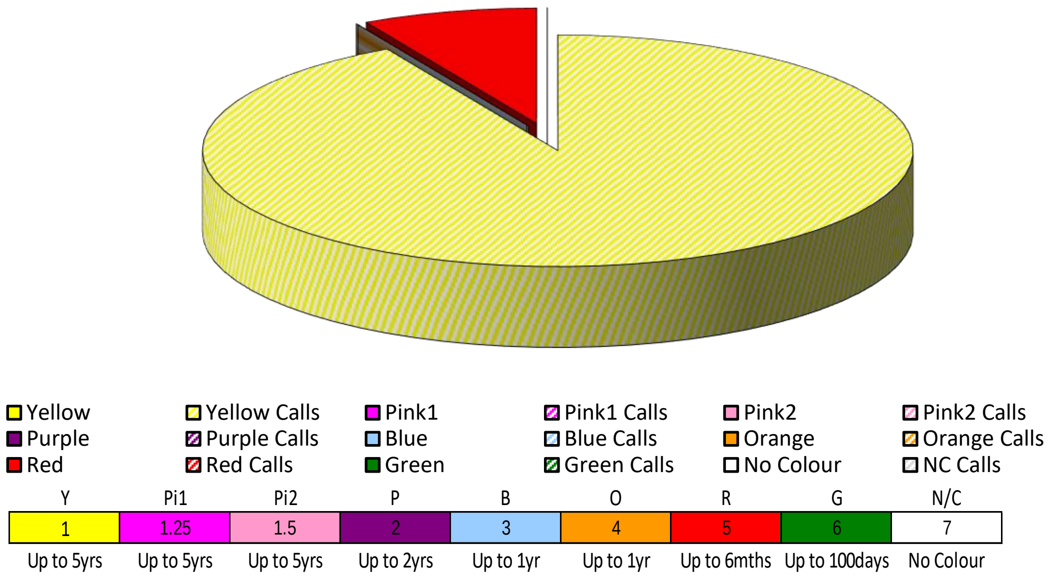
Current Investment List

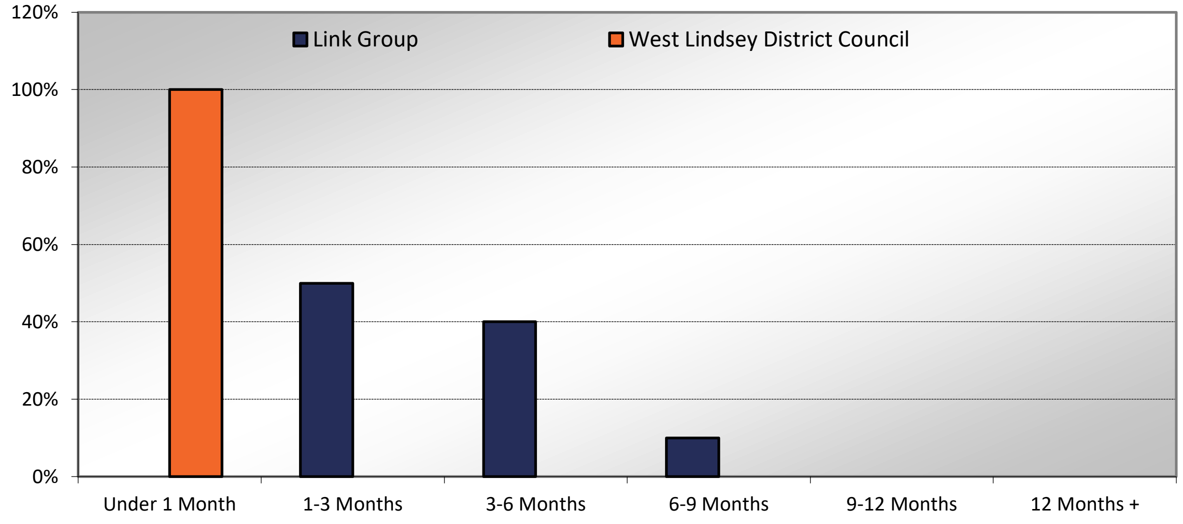
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
MMF Insight	7,500,000	4.28%		MMF	AAAm	
MMF LGIM	4,030,000	4.33%		MMF	AAAm	
Standard Chartered Bank (ESG)	1,000,000	4.45%	26/05/2023	26/06/2023	A+	0.003%
Borrower - Funds	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**		
CCLA Local Authority Property Fund	3,000,000	-13.30%				
Total Investments	**£15,530,000**	**0.91%**				
Total Investments - excluding Funds	**£12,530,000**	**4.31%**				0.003%
Total Investments - Funds Only	**£3,000,000**	**-13.30%**				

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.

West Lindsey District Council

Portfolio Composition by Link Group's Suggested Lending Criteria





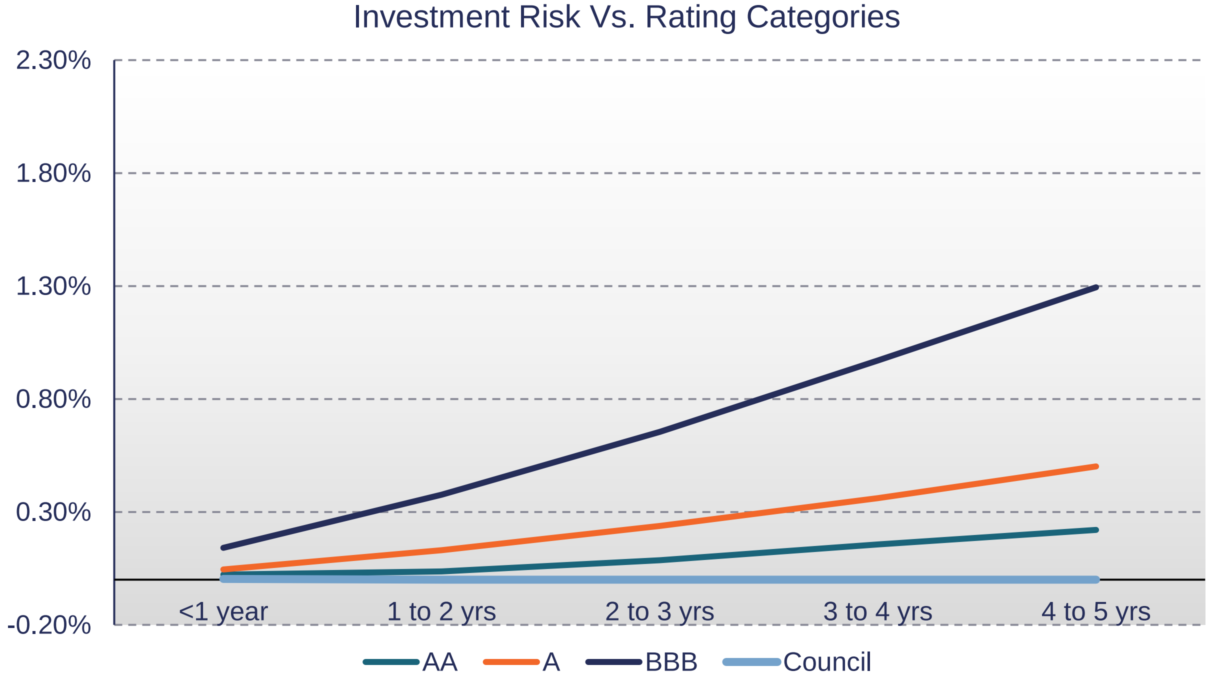
Portfolios weighted average risk number = 1.32

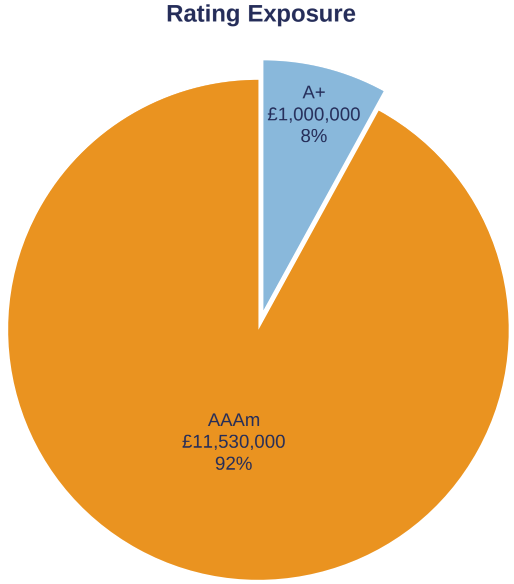
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% 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	92.02%	£11,530,000	100.00%	£11,530,000	92.02%	4.30%	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	7.98%	£1,000,000	0.00%	£0	0.00%	4.45%	26	31	26	31
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%	**£12,530,000**	**92.02%**	**£11,530,000**	**92.02%**	**4.31%**	**2**	**2**	**26**	**31**

West Lindsey District Council

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%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.29%
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.

West Lindsey District Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
04/05/2023	1969	Bank of America N.A.	United States	The Long Term Rating was upgraded to 'Aa1' from 'Aa2' and the Outlook on the Long Term Rating was changed to Stable and removed from Positive Watch.

West Lindsey District Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
02/05/2023	1968	France (Soverieign Rating)	France	The Sovereign Rating was downgraded to 'AA-' from 'AA' and the Outlook on the Sovereign Rating was changed to Stable from Negative.
25/05/2023	1972	United States (Soveriegn Rating)	United States	The Sovereign Rating was placed on Negative Watch and removed from Stable Outlook.
31/05/2023	1973	United Overseas Bank Ltd.	Singapore	The Outlook on the Long Term Rating was changed to Stable from Negative.

West Lindsey District Council

Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
17/05/2023	1970	Deutsche Bank AG	Germany	The Outlook on the Long Term Rating was changed to Positive from Stable.
19/05/2023	1971	Barclays Bank UK PLC (RFB)	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A' and the Outlook on the Long Term Rating was changed to Stable from Positive.
19/05/2023	1971	Barclays Bank PLC (NRFB)	United Kingdom	The Long Term Rating was upgraded to 'A+' from 'A' and the Outlook on the Long Term Rating was changed to Stable from Positive.

West Lindsey District Council