



West Lindsey District Council

Monthly Investment Analysis Review

March 2026

West Lindsey District Council

Monthly Economic Summary

General Economy

Following the outbreak of conflict in the Middle East, the last month has seen investors focus on the impact of energy price rises upon monetary and (to a lesser extent) fiscal policy. With that in mind, whilst the Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 3.75% during the month, investors noted the following comments from the Committee highlighting the impact of energy price rises on inflation and GDP growth: "The MPC is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting, the risk of which will be greater the longer higher energy prices persist. The MPC is also assessing the implications for inflation of the weakening in economic activity that is likely to result from higher energy costs." The MPC also stated that "It stands ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target in the medium term." By month's end, the market anticipated that the MPC would raise Bank Rate by at least 0.5% by year end, sharply contrasting the pre-conflict view that Bank Rate would be cut by the same amount through the remainder of 2026. Both MUFG Corporate Markets and Capital Economics also updated their respective Bank Rate forecasts, anticipating that the MPC will now leave Bank Rate unchanged in 2026 before lowering it in 2027.

The first insight into how the conflict might affect UK growth and inflation was provided by the fall in the UK Composite PMI to 51.0 in March from 53.7. The decline was seen across sectors, with the manufacturing PMI dropping from 52.5 to 50.1, whilst the Services PMI fell from 53.9 to 51.2. As Capital Economics noted, these figures are broadly consistent with GDP not growing at the end of Q1 and going into Q2. Among the sub-indices, it was notable that the rise in the manufacturing input price balance from 56.0 to 70.2 was the largest observed since 1992. Whilst the rise in the manufacturing output price balance from 51.9 to 56.8 was smaller, it reached its highest level since May last year. Such readings are consistent with core goods inflation accelerating from 0.8% y/y in January to about 1.5% in six months' time. The rise in the services output prices balance from 55.2 to 57.4, meanwhile, is consistent with services CPI inflation rising from 4.4% to 5.0%. Rounding out the month's PMI releases, the Construction PMI fell to 44.5 in February from 46.4 January – indicating a deepening of contraction in the construction activity during the month ahead of events unfolding in the Middle East.

February's CPI data, meanwhile, confirmed that the economy entered the conflict with headline inflation remaining at the 3% y/y rate recorded in January, matching forecasts. Notably, inflation slowed for transport (2.4% y/y compared to 2.7% in January), as the average price of petrol fell during the month. On a monthly basis, the CPI rose 0.4% as expected, reversing a 0.5% fall in January. Annual core inflation (which excludes which excludes volatile items like unprocessed food and energy) unexpectedly edged up to 3.2% from 3.1%.

News that real GDP grew by just 0.1% q/q in Q4 of last year confirmed that the economic backdrop is much weaker now than the last time energy prices surged in 2022 following the outbreak of conflict in Ukraine. This was also highlighted by Bank Governor Bailey following the MPC meeting, when he cautioned about markets pricing in a series of Bank Rate hikes in 2026. This perception was reinforced by the failure of the economy to grow in January this year, compared to forecasts of 0.2% m/m growth. This left economic output just 0.8% larger than a year ago. Services output did not grow during the month, whilst the manufacturing and construction sectors grew 0.1% m/m and 0.2% m/m respectively, suggesting that weakness was broad-based. On the trade front, the UK recorded a surplus of £3.92 billion in January, which represented a sharp reversal from a £4.34 billion deficit in December. This marked the first surplus since September 2024 as exports rose 7.2% m/m to a record £82.51 billion, while imports fell 3.3% to a one-year low of £78.59 billion.

Mirroring the weakness of the UK's economy, the unemployment rate remained unchanged at 5.2% in the three months to January, staying at its highest level since the three months to February 2021, albeit marginally below expectations of 5.3%. However, the 20,000 rise in payroll employment in the month of February and upward revisions to January's and December's data did suggest that the worst of the falls in employment due to the rise in labour costs in April 2025 are in the past. The number of job vacancies however continued to decline, from 730,000 in the three months to January to 721,000 in February. The wider loosening of labour market conditions was also underlined by the fall in average earning growth (including bonuses) to 3.9% y/y in the three months to January compared to 4.2% in the three months to

December. Notably, private sector wage growth cooled to 3.5% y/y from 3.8%, its weakest pace since early 2021, while public sector pay gains moderated from 7.0% to 5.9%. Finally, average earnings growth excluding bonuses fell similarly, to 3.8% y/y from 4.1%.

Whilst retail sales fell 0.4% m/m in February against this backdrop, news that January's gain was revised up from 1.8% m/m to 2% m/m indicated that activity held up relatively well ahead of the conflict. However, the fall in GfK consumer confidence from -19 in February to an 11 month low of -21 in March was the second consecutive monthly decline, suggesting that the twin threats of higher inflation and weaker activity have begun to hit household sentiment.

Elsewhere, UK public sector net borrowing (excluding public sector banks) rose to £14.3 billion in February from £12.1 billion in the same month last year, exceeding expectations of £8.5 billion. Whilst missing forecasts, the borrowing overshoot was mainly due to timing effects relating to the government's debt interest payments, which led to a 12.3% y/y leap in spending. That said, the prospect of weaker real GDP growth, higher inflation, higher interest rates and higher gilt yields is likely to erode at least some of the Chancellor's £23.6bn fiscal headroom. Further, it may limit the scope for a large-scale fiscal support package like that seen when energy prices surged in 2022, as already indicated by the targeted measures announced to date.

US Economy

At its March meeting, the US Federal Reserve left the Federal Funds Rate target range unchanged at 3.5%–3.75% for a 2nd consecutive meeting. Policymakers noted that the implications of the war with Iran were uncertain, although PCE (Personal Consumption Expenditure) inflation forecasts were revised higher. Fed Chair Powell noted subsequently that the Fed's projections for a rate cut were conditional on "progress on inflation". Prior to the outbreak of conflict, the annual Consumer Price Index inflation rate in the US was reported at 2.4% in February, unchanged from January. Meanwhile, the second estimate confirmed that the US economy expanded an annualised 0.7% in Q4 2025, well below 1.4% in the advance estimate, following downward revisions to consumer spending, investment, government spending and exports.

EU Economy

Reflecting the impact of higher energy costs (which rose 4.9% y/y), Eurozone annual inflation climbed to 2.5% in March, up from 1.9% in February – albeit slightly below market expectations of 2.6%. Meanwhile, Q4 GDP growth was revised slightly lower, to 0.2% q/q and 1.2% y/y from 0.3% and 1.4% respectively. The European Central Bank kept interest rates unchanged at its March meeting, reaffirming its commitment to stabilising inflation at 2% in the medium term. Policymakers highlighted that the Middle East war has significantly increased uncertainty, creating upside risks for inflation (forecasts for which were raised) and downside risks for growth (forecasts for which were lowered).

Housing

The Halifax House Price Index rose 0.3% m/m in February, matching expectations and slowing from a revised 0.8% gain in January. On a yearly basis, prices rose 1.3% compared to 1.1% in January. The Nationwide House Price Index also rose 0.3% m/m in February, matching both expectations and January's monthly increase. On a yearly basis, prices rose 1%, matching January's increase.

Currency

Over the month, Sterling fell against the Dollar and rose marginally against the Euro.

March	Start	End	High	Low
GBP/USD	\$1.3445	\$1.3187	\$1.3457	\$1.3187
GBP/EUR	€1.1387	€1.1445	€1.1603	€1.1387

Interest Rate Forecast

As noted above, both MUFG Corporate Markets and Capital Economics revised their Bank Rate forecasts during the month.

Bank Rate	Now	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
MUFG Corporate Markets	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%
Capital Economics	3.75%	3.75%	3.75%	3.75%	3.75%	3.50%	3.25%	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 (£)
Lloyds Bank Plc (RFB)	200,000	3.65%		Call	A+	0.000%	0
MMF CCLA	5,500,000	3.74%		MMF	AAAm		
MMF LGIM	6,945,000	3.78%		MMF	AAAm		
Blackpool Borough Council	2,000,000	4.33%	09/01/2026	09/04/2026	AA-	0.001%	0
Surrey County Council	1,500,000	6.00%	20/03/2026	20/04/2026	AA-	0.001%	0
Blackpool Borough Council	1,000,000	4.75%	02/03/2026	27/04/2026	AA-	0.002%	0
Harlow District Council	1,500,000	6.30%	26/03/2026	26/05/2026	AA-	0.003%	0
Borrower - Funds	Principal (£)	Interest Rate	Start Date	Maturity Date			
CCLA - The Local Authorities Property Fund	1,000,000	5.70%					
Total Investments	£19,645,000	4.33%					
Total Investments - excluding Funds	£18,645,000	4.26%				0.002%	£0
Total Investments - Funds Only	£1,000,000	5.70%					

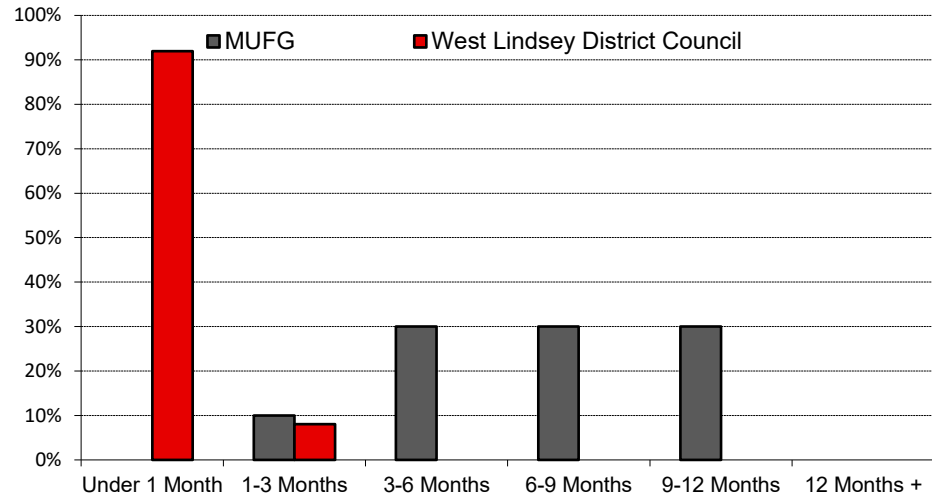
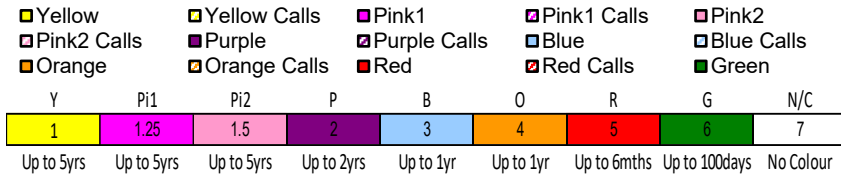
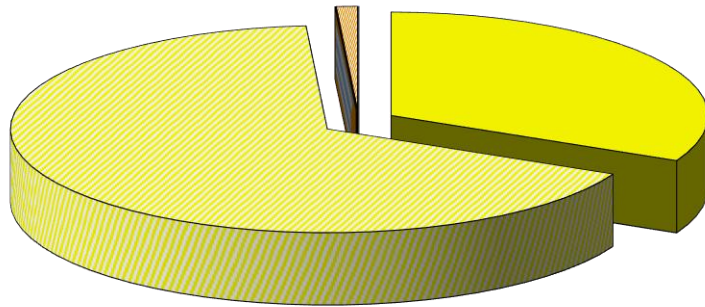
Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to 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 1990-2025 for Fitch, 1983-2025 for Moody's and 1981-2025 for S&P.

Where MUFG Corporate Markets have provided a return for a property fund, that return covers the 12 months to December 2025, which are the latest returns currently available.

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Portfolio Composition by MUFG's Suggested Lending Criteria



Portfolios weighted average risk number = 1.03

WARoR = Weighted Average Rate of Return

WAM = Weighted Average Time to Maturity

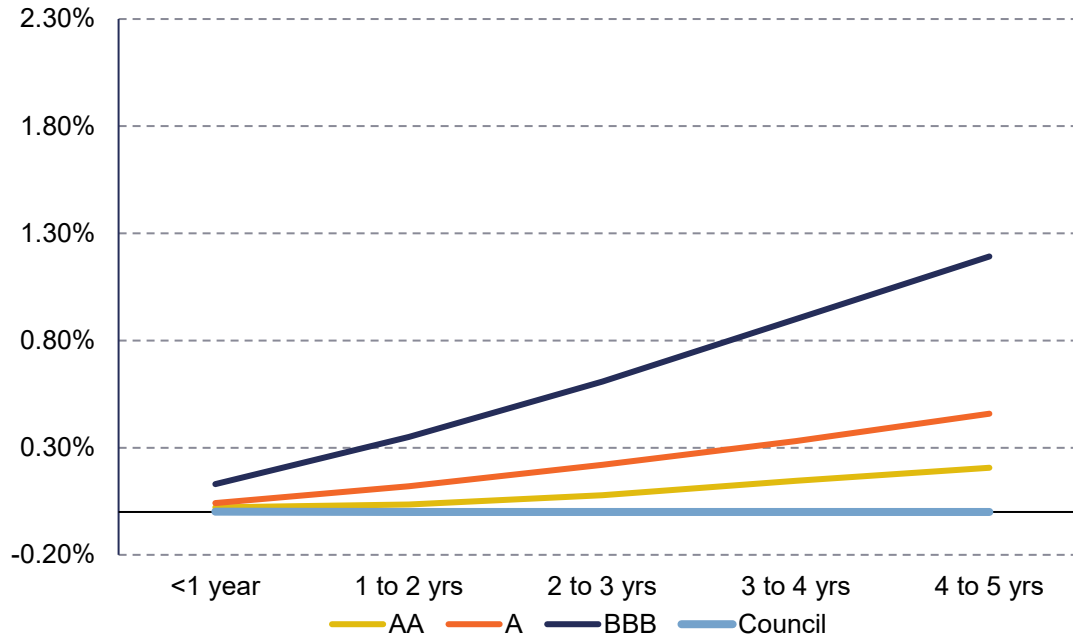
Excluding Calls/MMFs/USDBFs

	% 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	98.93%	£18,445,000	67.47%	£12,445,000	66.75%	4.27%	9	20	27	62
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	1.07%	£200,000	100.00%	£200,000	1.07%	3.65%	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%	£18,645,000	67.82%	£12,645,000	67.82%	4.26%	9	20	27	62	

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Investment Risk and Rating Exposure

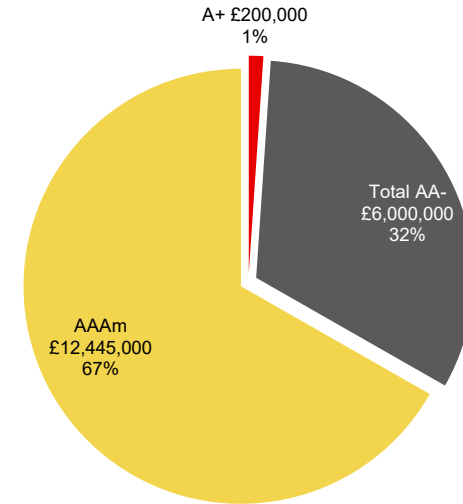
Investment Risk Vs. Rating Categories



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%	0.08%	0.15%	0.21%
A	0.04%	0.12%	0.22%	0.33%	0.46%
BBB	0.13%	0.35%	0.61%	0.90%	1.19%
Council	0.00%	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.

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
05/03/2026	2115	Commonwealth Bank of Australia (CBA)	Australia	The Long Term Rating was upgraded to 'AA' from 'AA-'. The Viability Rating was upgraded to 'aa-' from 'a+'. The Outlook on the Long Term Rating was changed to Stable from Positive.
31/03/2026	2116	Qatar	Qatar	The Sovereign Rating was placed on Negative Watch.

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
				No actions to report.

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
				No actions to report.

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