LINK Asset Services

Shropshire Council

Monthly Investment Analysis Review

March 2019

Monthly Economic Summary

General Economy

March began with Manufacturing PMI which fell to 52 in February, from 52.6 the previous month. Construction PMI dropped into negative figures, falling to 49.5 from 50.6 the month before, caused by Brexit uncertainty and the slowing housing market delaying new building projects. Services PMI rounded the figures off with a rising score of 51.3 in February, from a previous 50.1. This left the Composite figure at 50.3 from 51.5.

The UK's trade deficit continued to rise in January; the trade deficit in goods rose to £13.08bn, and the overall deficit rose to £3.83bn, well above the forecasted £2.6bn.

One of the key economic indicators, CPI inflation, rose slightly in February to 1.9% y/y from 1.8% the previous month, moving closer to the Bank of England's 2% target. However, core inflation, which strips out the more volatile components, edged down to 1.8%. Month-on-month, CPI rose to 0.5% from -0.8% previously, marginally below forecasts.

The UK's labour market continued to defy forecasts; the unemployment rate fell to 3.9%, with employment increasing by 220,000, above expectations of 150,000. Meanwhile, wage growth excluding bonuses maintained its 3.4% y/y figure, with the overall figure falling from 3.5% to 3.4%. British consumers are currently enjoying a period of relief as "real wages" continue to be maintained, as wage growth is well above inflation.

A warm month of February caused retail sales figures to unexpectedly keep up their good start to 2019; retail sales y/y growth slowed slightly to 4% from January's 4.1% figure, well above forecasts of 3.3%, and showing that consumer spending continues to be a source of strength for the British economy at a time when Brexit uncertainty is looming over the nation. Prospects for retail sales continue to look strong as wage growth continues to exceed the pace of inflation. In another measure of nationwide consumer sentiment, GfK Consumer Confidence remained at -13.

On the 21st March, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep the base rate on hold at 0.75%. Governor Mark Carney has remained dovish due to the prospect of Brexit, but did imply in his press conference that in case of a long Brexit extension, the MPC may move to raise rates in the summer.

The UK's public finances were once again stronger than expected, as the resilient labour market boosted income tax revenue. Public borrowing for February fell to £0.2bn from £1.2bn a year earlier, below forecasts of £0.6bn. With just one month remaining of the financial year, government borrowing totals £21.3bn, down 44% from the same point in the previous tax year, and the government is broadly on track to meet its fiscal targets. Alongside this, Chancellor Hammond suggested in his Spring Statement that spending on public services will be increased if an orderly Brexit can be achieved. The Confederation of British Industry (CBI) data for the month was weaker than expected; the CBI Distributive Trades survey fell from 0 in February to -18 in March, despite being expected to rise to 5. The Industrial Trends survey also suffered a drop, from 6 in February to 1 in March.

To end the month, the final estimate of Q4 GDP growth showed a fall to 1.4% y/y from 1.6% in Q3, however this is higher than the 1.3% earlier estimated. On the quarter, the UK achieved a final estimate of 0.2% growth, a fall from Q3's 0.7%.

In the USA, February's Nonfarm Payrolls figure came in at just 20,000, a massive drop from 311,000 in January, and below forecasts of 190,000. These numbers were amid a contraction in payrolls in construction among other sectors, raising concerns about a sharp slowdown in activity. This was also reflected in the final Q4 GDP estimate, which came in at 2.2%, a further downward revision and down from 3.4% in Q3. The Federal Reserve's Open Market Committee (FOMC) chose to keep rates on hold, as signs of a global slowdown start to take hold.
The Eurozone's unemployment rate remained at 7.8% in January, below predictions of a rise to 7.9%. In terms of growth, the 3rd estimate of Eurozone Q4 GDP growth came in at 1.1% y/y, a sharp drop from Q3's 1.6% figure, partly caused by the largest economy in the bloc, Germany, falling to nearly zero growth.

Housing

According to Nationwide's index, house prices rose 0.4% y/y in February, up from 0.1% in January, however they fell 0.1% m/m, down from 0.2%. Halifax's index showed a 2.8% rise in house prices y/y, well above forecasts of 1.1% and above the 0.8% previous figure. Meanwhile, prices rose 5.9% m/m, up markedly from January's -3% figure.

Currency

Sterling began February at $1.33 and €1.14 against the dollar and euro respectively, and finished the month at $1.30 and €1.16.

Forecast

Link Asset Services suggest that the next interest rate rise will be in the third quarter of 2019, followed by further hikes in Q2 2020 and Q1 2021, reaching 2.00% in Q1 2022. Capital Economics also expect the next rate rise will be in Q3 2019, followed by further regular rises, reaching 1.50% in Q4 2020.

Bank Rate	Now	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Link Asset Services	**0.75%**	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default	Expected Credit Loss
MMF Insight	200,000	0.75%		MMF	AAA	0.000%	0.22
MMF Aberdeen Standard Investments	8,010,000	0.79%		MMF	AAA	0.000%	8.89
HSBC UK Bank Plc (RFB)	20,000,000	1.05%		Call	AA-	0.000%	13.22
Barclays Bank Plc (NRFB)	500,000	0.82%		Call	A	0.000%	0.72
Santander UK Plc	15,000,000	0.85%		Call	A	0.000%	21.66
Goldman Sachs International Bank	5,000,000	0.86%	03/10/2018	03/04/2019	A	0.000%	21.66
Telford & Wrekin Council	5,000,000	0.90%	05/10/2018	05/04/2019	AA	0.000%	0.00
Lancashire County Council	5,000,000	0.98%	14/05/2018	16/04/2019	AA	0.000%	0.00
North Lanarkshire Council	5,000,000	0.95%	15/11/2018	15/05/2019	AA	0.000%	0.00
Lloyds Bank Plc (RFB)	5,000,000	1.00%	05/06/2018	05/06/2019	A+	0.010%	476.48
Goldman Sachs International Bank	5,000,000	1.06%	07/12/2018	07/06/2019	A	0.010%	490.91
Lloyds Bank Plc (RFB)	5,000,000	1.00%	15/06/2018	14/06/2019	A+	0.011%	541.45
Nationwide Building Society	5,000,000	1.05%	08/01/2019	08/07/2019	A	0.014%	714.71
Lloyds Bank Plc (RFB)	5,000,000	1.00%	13/07/2018	12/07/2019	A+	0.015%	743.59
Thurrock Borough Council	5,000,000	0.98%	16/01/2019	16/07/2019	AA	0.000%	0.00
Barclays Bank Plc (NRFB)	5,450,000	0.96%	16/01/2019	16/07/2019	A	0.015%	841.99
Coventry Building Society	5,000,000	0.95%	17/01/2019	17/07/2019	A	0.016%	779.69
Barclays Bank Plc (NRFB)	4,550,000	0.95%	17/01/2019	17/07/2019	A	0.016%	709.52
Lloyds Bank Plc (RFB)	5,000,000	1.00%	25/01/2019	25/07/2019	A+	0.017%	837.44
Thurrock Borough Council	5,000,000	1.00%	11/02/2019	12/08/2019	AA	0.000%	0.00
Bury Metropolitan Borough Council	3,000,000	1.05%	31/08/2018	30/08/2019	AA	0.000%	0.00
Falkirk Council	5,000,000	1.09%	15/02/2019	20/01/2020	AA	0.000%	0.00
Total Investments	**£126,710,000**	**0.97%**				0.005%	**£6,202.15**

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 2009-2018 for Fitch, Moody's and S&P.

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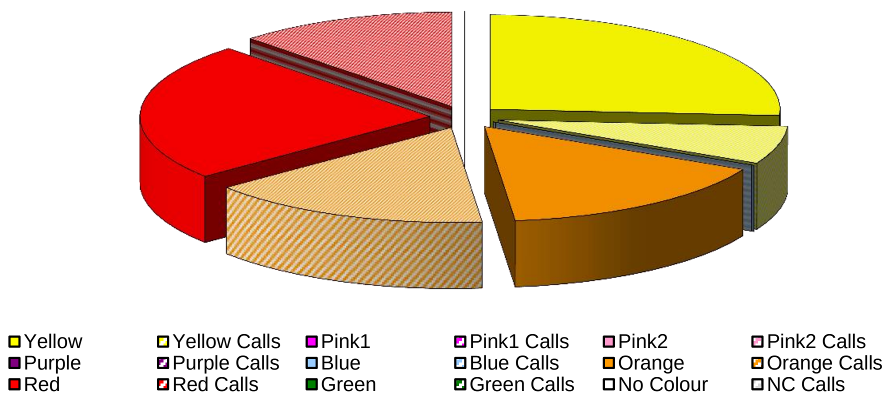
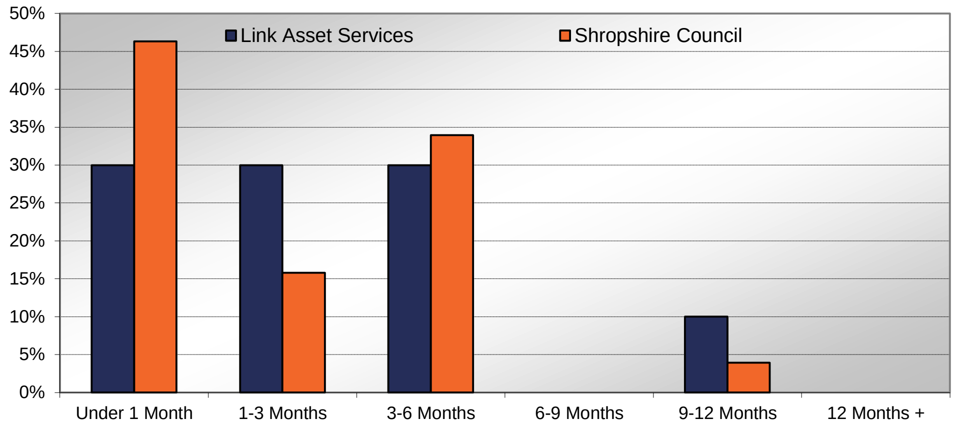
Portfolio Composition by Link Asset Services' Suggested Lending Criteria





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 = 3.38

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	32.52%	£41,210,000	19.92%	£8,210,000	6.48%	0.95%	84	197	105	246
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	31.57%	£40,000,000	50.00%	£20,000,000	15.78%	1.03%	45	159	90	319
Red	35.91%	£45,500,000	34.07%	£15,500,000	12.23%	0.93%	54	120	82	181
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%	**£126,710,000**	**34.50%**	**£43,710,000**	**34.50%**	**0.97%**	**61**	**157**	**93**	**240**

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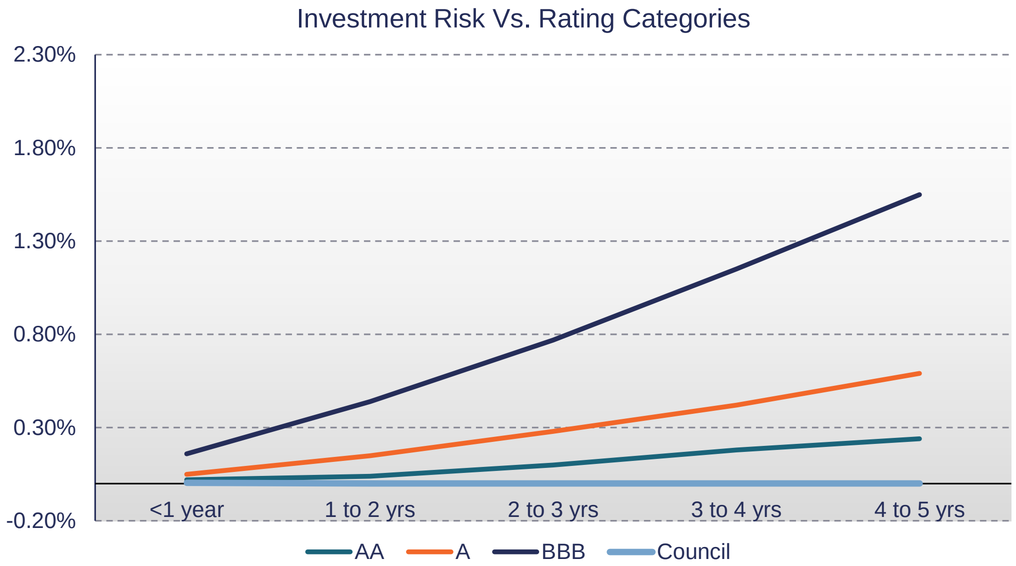
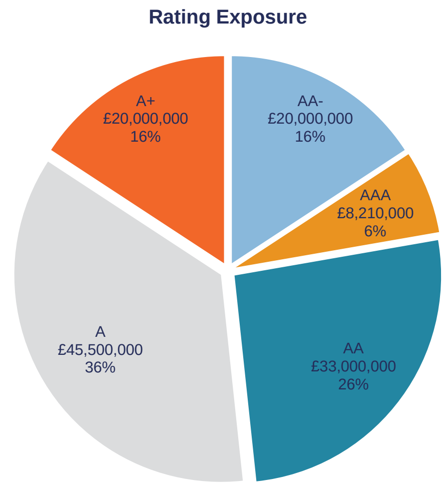
Investment Risk and Rating Exposure





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%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.005%	0.000%	0.000%	0.000%	0.000%

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.

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
04/03/2019	1671	Abbey National Treasury Services PLC	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Barclays Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Barclays Bank UK PLC (RFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Close Brothers Ltd	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Lloyds Bank Corporate Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Lloyds Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	NatWest Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	Santander UK PLC	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	National Westminster Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1671	The Royal Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1672	Coventry Building Society	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1672	Leeds Building Society	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1672	Nationwide Building Society	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.

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Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
04/03/2019	1672	Principality Building Society	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1672	Skipton Building Society	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1672	Yorkshire Building Society	United Kingdom	The Long Term Rating was removed from Stable Outlook and placed on Negative Watch.
04/03/2019	1673	UBS Ltd.	United Kingdom	Ratings withdrawn as a result of changes to the UBS banking group.

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
04/03/2019	1673	UBS Ltd.	United Kingdom	Ratings withdrawn as result of changes to the UBS banking group.
07/03/2019	1674	Bank of America N.A.	United States	The Long Term Rating was upgraded to 'Aa2' from 'Aa3' and the Short Term Rating was affirmed. At the same time, the Long Term Rating was removed from Positive Watch and placed on Stable Outlook.
28/03/2019	1675	Bank Nederlandse Gemeenten N.V.	Netherlands	The Long Term Rating was upgraded to 'AAA' from 'AA+'. At the same time, the Short Term Rating and Viability Rating were affirmed.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
04/03/2019	1673	UBS Ltd.	United Kingdom	Ratings withdrawn as result of changes to the UBS banking group.