



Shropshire Council

Monthly Investment Analysis Review

June 2025

Monthly Economic Summary

General Economy

The S&P Global UK Manufacturing PMI rose to 47.7 in June 2025 from 46.4 in May, surpassing market expectations of 46.6 and, indicating the lowest pace of contraction in five months. Despite the improvement, the sector continued to face headwinds, with another decline in export orders. Largely driven by the impact of US tariffs, heightened geopolitical uncertainty, and strong global price competition. On the cost side, input prices continued to rise sharply, though the pace of increase eased and business sentiment remained among the weakest in over two and a half years. Meanwhile, the UK Services PMI rose to 51.3 in June 2025, from 50.9 in May and in line with forecasts, according to flash estimates. The latest data indicated another expansion in the country's dominant sector that was the strongest in three months. There was a rebound in new business intakes, but the rise was only slight, while exports continued to fall. Consequently, the S&P Global UK Composite PMI rose to 50.7 in June of 2025 from 50.3 in the previous month, slightly above market expectations of 50.5 to mark the second consecutive period of expansion in British private sector activity, according to the flash estimate.

The British economy contracted by 0.3% mom in April 2025, marking the first decline in six months and the sharpest drop since October 2023. This follows a 0.2% expansion in March and exceeded expectations of a 0.1% decline. Several factors contributed to the downturn in April, including higher energy bills and regulated service costs, the implementation of increased employers' National Insurance contributions, a rise in Stamp Duty Land Tax rates. On a broader basis the announcement of US import tariffs also weighed, having previously seen companies expand operations to front-run their imposition earlier in the year. Elsewhere, the UK's trade deficit widened sharply to £7.03 billion in April 2025 from £3.70 billion in March, marking the largest trade gap since June 2022, as exports fell while imports rose. Again, this reflected the reversal of activity by UK exporters when the tariffs were first mooted in early 2025.

The UK recorded an 89k rise in employment in the three months to April, following a 112k rise in the previous period. This marked the smallest employment gain so far this year, attributed to moderating wage growth following significant increases in payroll taxes and a 6.7% hike in the national minimum wage. Meanwhile, average weekly earnings (including bonuses) rose 5.3% y/y to £720 per week in the three months to April 2025, the least in seven months, compared with 5.6% in the previous period and forecasts of 5.5%.

The Bank of England voted 6-3 to keep the Bank Rate steady at 4.25% at its June meeting, navigating a challenging backdrop of heightened global uncertainty and persistent inflationary pressure. Three members favoured a 0.25 percentage point cut to 4%, while investors had expected a 7-2 split. The central bank noted that consumer price inflation is likely to remain broadly at current rates for the rest of the year before easing back toward the target next year.

The Consumer Price Index in the United Kingdom increased 0.2% m/m in May 2025, following a 1.2% rise in the previous month and matching market forecasts. The headline annual rate edged down to 3.4% in May, from 3.5% previously, also matching expectations. The largest downward contribution came from transport prices (0.7% vs 3.3%), reflecting falls in air fares (-5%) largely due to the timing of Easter and the associated school holidays, as well as falling motor fuel prices.

In the retail sector, overall sales dropped by 2.7% month-over-month in May 2025, a sharper decline than the expected 0.5% fall, following an upwardly revised 1.3% increase in April. This was the steepest monthly drop since December 2023, driven largely by a 5% fall in food store sales—the biggest decline since May 2021—due to reduced supermarket sales. Meanwhile, the GfK Consumer Confidence Index for the United Kingdom increased by 2 points to -18 in June 2025, marking its second consecutive monthly gain after readings of -23 in April and -20 in May. Elsewhere, public sector net borrowing (excluding public sector banks) in the UK rose to £17.7 billion in May 2025, slightly above £17.0 billion a year earlier and exceeding market expectations of £17.1 billion. Total public sector spending increased by £6.4 billion from a year ago, driven by higher spending on public services and benefits, partially offset by a £0.7 billion reduction in debt interest.

US Economy

The US economy added 139K in May 2025, a small slowdown from April's downwardly revised 147K, but slightly above forecasts of 130K. Meanwhile, the US economy contracted at an annualised rate of 0.5% in Q1 2025, a sharper decline than the second estimate of a 0.2% drop and the first quarterly contraction in three years. The weaker GDP figure was largely driven by significant downward revisions to consumer spending and exports. Finally, the annual inflation rate in the US rose for the first time in four months to 2.4% in May 2025 from April's 2.3%, the lowest since 2021, but came in below expectations of 2.5%.

EU Economy

The annual inflation rate in the Eurozone confirmed at 1.9% year-on-year in May 2025, down from 2.2% in April and dipping below the European Central Bank's 2.0% target for the first time since September 2024. Meanwhile, the core inflation rate, which excludes volatile food and energy prices, fell to 2.3% in May 2025 from 2.7% in the previous month, aligned with preliminary estimates and below the initial market expectations of 2.5%. The Eurozone economy expanded 1.5% year-on-year in the first quarter of 2025, higher than 1.2% in the previous estimates, and the strongest annual performance since Q4 2022. It follows a 1.2% rise in Q4 2024. Gross fixed capital formation rebounded (1.9% vs -1.8%) and both exports (2.3% vs 1.2%) and imports (3.3% vs 1.3%) rose faster. In contrast, a small slowdown was seen for household (1.3% vs 1.6%) and government (2.1% vs 2.4%) spending. Among the bloc's largest economies, the German GDP stalled, but expansions were recorded in France (0.6%), Italy (0.7%), Spain (2.8%), and Netherlands (2%).

Housing

The Halifax House Price Index in the UK increased 2.5% y/y in May 2025, the smallest gain in ten months, easing from a 3.2% rise in April. The Nationwide House Price Index rose by 3.5% y/y in May 2025, following a 3.4% increase in April and above market expectations of a 2.9% rise.

Currency

Sterling appreciated against the Dollar, but depreciated against the Euro.

June	Start	End	High	Low
GBP/USD	\$1.3554	\$1.3704	\$1.3734	\$1.3427
GBP/EUR	€1.1852	€1.1674	€1.1877	€1.1674

Interest Rate Forecasts

MUFG Corporate Markets and Capital Economics maintained their current forecasts.

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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	15,000,000	4.29%		MMF	AAA		
MMF Insight	15,000,000	4.29%		MMF	AAA		
DMO	4,300,000	4.21%	30/06/2025	11/07/2025	AA-	0.001%	0
East Dunbartonshire Council	5,000,000	4.26%	20/06/2025	31/07/2025	AA-	0.002%	0
Total Investments	£39,300,000	4.28%				0.001%	£0

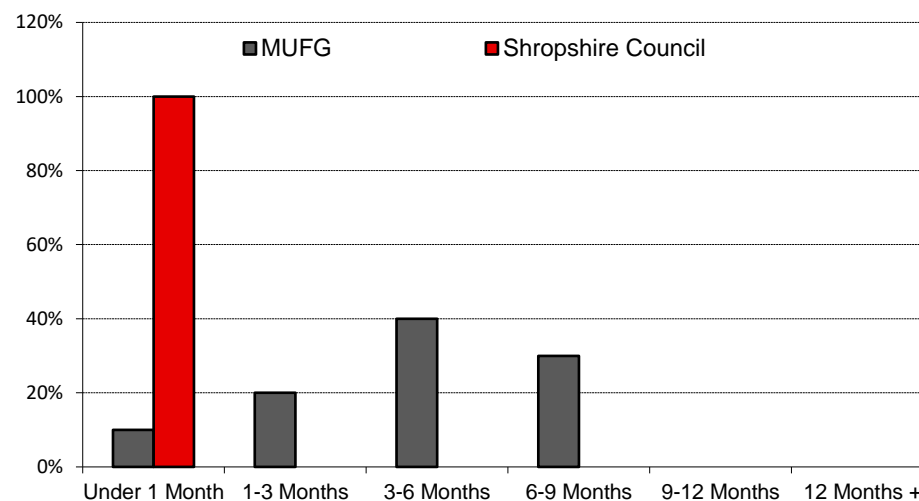
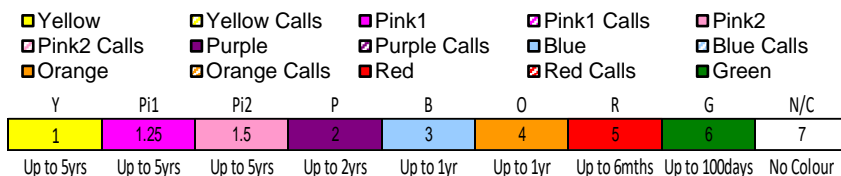
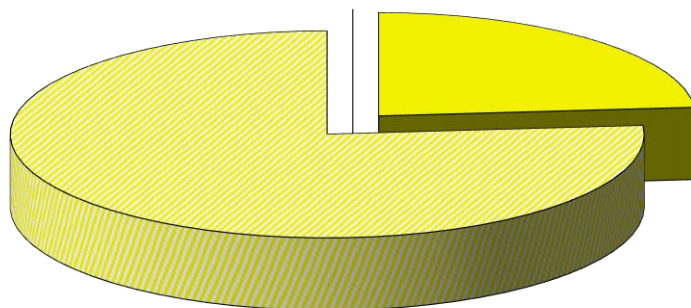
Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to 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 1990-2024 for Fitch, 1983-2024 for Moody's and 1981-2024 for S&P.

Where MUFG Corporate Markets have provided a return for a property fund, that return covers the 12 months to March 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 = 1.00

WARoR = Weighted Average Rate of Return

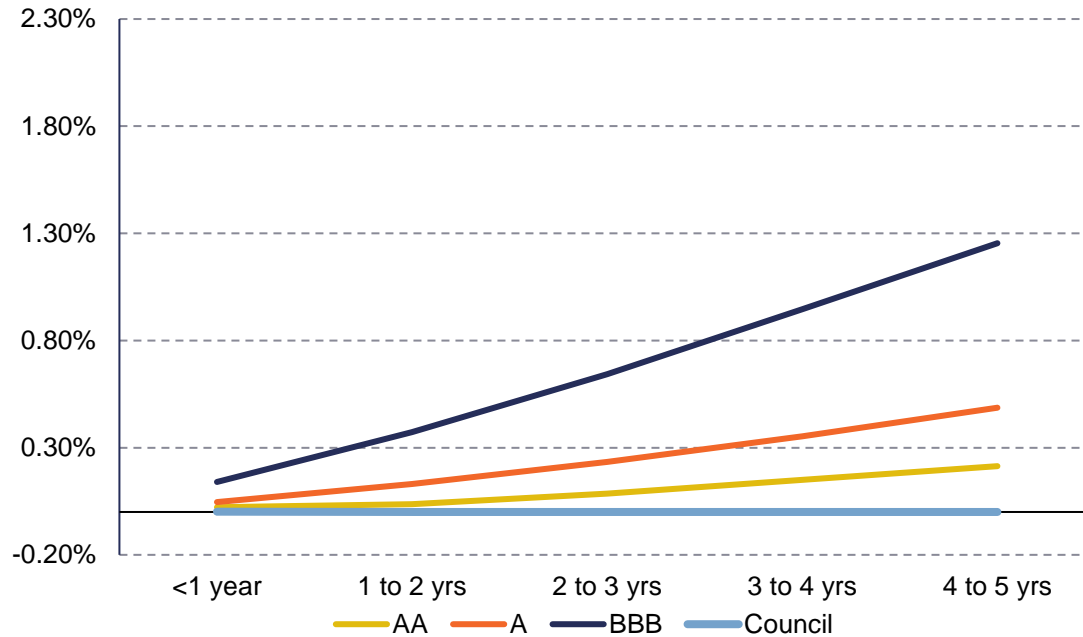
WAM = Weighted Average Time to Maturity

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%	£39,300,000	76.34%	£30,000,000	76.34%	4.28%	5	6	22	27
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
Total	100.00%	£39,300,000	76.34%	£30,000,000	76.34%	4.28%	5	6	22	27

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Investment Risk and Rating Exposure

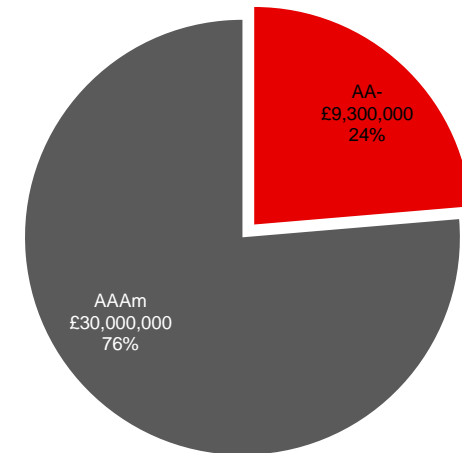
Investment Risk Vs. Rating Categories



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%	0.09%	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%

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
03/06/2025	2080	Deutsche Bank AG	Germany	The Short Term Rating was upgraded to F1 from F2.
12/06/2025	2081	Clydesdale Bank PLC	United Kingdom	The Stable Outlook on the Long Term Rating was removed and the Long Term Rating was placed on Positive Watch.
16/06/2025	2082	Belgium (Sovereign)	Belgium	The Sovereign Rating was downgraded to A+ from AA-.
27/06/2025	2084	National Westminster Bank PLC	United Kingdom	The Long Term Rating was upgraded to AA- from A+ and the Short Term Rating was upgraded to F1+ from F1. The Outlook on the Long Term Rating also was changed to Stable from Positive.
27/06/2025	2084	Natwest Markets Plc	United Kingdom	The Long Term Rating was upgraded to AA- from A+ and the Short Term Rating was upgraded to F1+ from F1. The Outlook on the Long Term Rating also was changed to Stable from Positive.
27/06/2025	2084	The Royal Bank of Scotland Plc	United Kingdom	The Long Term Rating was upgraded to AA- from A+ and the Short Term Rating was upgraded to F1+ from F1. The Outlook on the Long Term Rating also was changed to Stable from Positive.
30/06/2025	2085	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was upgraded to A from A-. The Positive Watch on the Long Term Rating was removed and the Long Term Rating was placed on Stable Outlook.

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Monthly Credit Rating Changes S&P

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

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
18/06/2025	2083	Principality Building Society	United Kingdom	The Outlook on the Long Term Rating was changed to Positive from Stable.

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MUFG Corporate Markets | 19th Floor | 51 Lime Street | London | EC3M 7DQ.