Shropshire Council

Monthly Investment Analysis Review

September 2025

Shropshire Council

Monthly Economic Summary

General Economy

The UK Manufacturing PMI fell to 46.2 in September, down from 47.0 in August and below market expectations of 47.1 signalling the steepest contraction in the sector since April. Firms cited weak domestic and export orders, including specific disruptions in the automotive supply chain due to plant stoppages at Jaguar Land Rover. Employment continued to decline whilst factory gate price inflation eased to its lowest level since December 2024, reflecting intense competitive pressures. Despite the contraction, business confidence reached its highest level since February, supported by increased investment and hopes for a rebound in order books. The S&P Global Flash UK Services PMI fell to 51.9 in September from 54.2 in August which was the highest since April 2024, and well below forecasts of 53.5. Strong business and consumer spending was not enough to overcome subdued UK economic conditions and heightened economic uncertainty. Service providers again recorded a particularly steep rise in their operating expenses, which was attributed to elevated wage pressures and efforts by suppliers to pass on higher payroll costs. There were also reports of rising energy bills, food prices and technology costs.

Combining the above left the UK Composite PMI at 51 in September, down from the one-year high of 53.5 in the previous month and missing the market consensus of 53 to reflect the slowest pace of expansion in private sector activity since May. New work at the aggregate level inched higher amid subdued export sales to the US and EU, as firms reported a lack of willingness-to-spend by clients, driving firms to depend on backlogs to sustain output. In the meantime, cost burdens rose sharply in the period due to wage pressures that have risen on more contributions to National Insurance, driving firms to increase their prices charged. Consequently, the employment subcomponent decreased for an eleventh straight month. Separately, the UK Construction PMI rose to 45.5 in August, from an over five-year low of 44.3 in July and slightly above market forecasts of 45. A slower contraction in commercial building helped offset sharper falls in residential and civil engineering work, with housing activity posting its steepest drop since February and civil engineering its worst since October 2020.

The UK economy stalled in July, in line with expectations, after expanding 0.4% in June. Services edged up 0.1% and construction also rose 0.2%. These gains were countered by a 0.9% fall in production with manufacturing down 1.3%. On the year, GDP grew 1.4%, the same pace as in June but slightly below expectations of 1.5%. Elsewhere, the UK's trade deficit widened to £5.3 billion in July, up from £5.01 billion in June and marked the largest gap since February. Exports rose by 2.3% m/m to £76.5 billion, while imports grew by 2.4% to a record high of £81.71 billion. Goods exports increased by 6.6%, supported by a 4.6% rise in shipments to the EU primarily due to a surge in aircraft exports to Germany. On the import side, goods activity advanced by 3.9% to a 13-month high of £50.9 billion, mainly due to increased imports of ships from South Korea and aircraft and cars from Germany. Meanwhile, services imports edged down by 0.1% to £28.8 billion.

The UK recorded a 232k rise in employment in the three months to July, coming above forecasts of 220k largely supported by full-time positions. The employment rate for those aged 16 to 64 edged up by 0.1 percentage points to 75.2%. The number of people holding second jobs also grew, reaching 1.301 million, equivalent to 3.8% of total employment. Meanwhile, total average weekly earnings (including bonuses) rose 4.7% y/y to £727 per week in the three months to July 2025 in line with forecasts. Private sector wage growth eased, and a small slowdown was also seen for the public sector. Adjusted for inflation, total earnings increased 0.5%, the same as in the previous period.

The Consumer Price Index increased 0.3% m/m in August, after a 0.1% rise in July and matching market expectations. The UK's annual inflation rate held steady at 3.8% in August, remaining near the highs last seen in January 2024. Inflation slowed for transport, with prices for air fares falling 3.5% and making the largest downward contribution…reversing the spike higher seen earlier in the summer due to the timing of this year's school holidays. Inflation was also lower for services, recreation and culture, clothing and footwear and steadied for housing and utilities. On the other hand, the largest upward contribution came from motor fuels.

The GfK Consumer Confidence Index slipped to -19 in September from -17 in August, as worries over looming tax hikes weighed on sentiment. All five borrowing in the UK increased to £18.0 billion in August from £2.8 billion in July, the highest recorded borrowing for August since 2020. This was primarily due to a sharp fall in tax revenue, from £76.7 billion in July to £62.2 billion in August, which is typically at this stage of the fiscal year. Conversely, Government spending increased to £150 billion, with total public sector spending increased by £8.4 billion, driven by higher costs of public services, benefits, and debt interest.

US Economy

The US economy added 54k jobs in August, following an upwardly revised 106k in July and below forecasts of 65k. Meanwhile, the US economy grew at a 3.0% annualised rate in Q2, rebounding from a 0.5% contraction in Q1 which had been the first quarterly decline in three years. The annual inflation rate accelerated to 2.9% in August, the highest since January, after holding at 2.7% in both June and July. Prices rose at a faster pace for food, used cars and trucks, and new vehicles. Also, energy costs increased for the first time in seven months with prices for gasoline and fuel oil decreasing less and natural gas prices remaining elevated at 13.8%. Core consumer prices, which exclude food and energy, rose by 0.3% from the previous month in August of 2025. Finally, food price inflation in the US picked up to 3.2% in August, the steepest since October 2023, from 2.9% in July, driven by an acceleration in food-at-home prices.

EU Economy

The annual inflation rate in the Eurozone rose to 2.2% in September, up from 2.0% in the previous three months, moving slightly above the European Central Bank’s 2.0% target. Meanwhile, the annual core inflation rate, which excludes prices of food, energy, and tobacco, was at 2.3% for a fifth consecutive month. The Eurozone economy expanded by 0.1% in Q2 2025. Despite beating market expectations of flat growth, it marked the weakest pace of expansion since late 2023. The slowdown reflects growing caution among businesses and households, as they weigh easing inflation and lower borrowing costs against rising trade uncertainty, particularly due to US tariffs. Among the bloc’s major economies, Spain and France outperformed with growth of 0.7% and 0.3%, respectively. The Netherlands posted modest growth of 0.1%, while both Germany and Italy slipped into contraction, each shrinking by 0.1%.

Housing

The Halifax House Price Index in the UK rose 0.3% m/m in September easing from 0.4% in August, leaving the annual rate at 2.2%. The UK Nationwide House Price index grew 0.5% m/m in September, beating forecasts of 0.2%, leaving the annual rate also at 2.2%.

Currency

Sterling depreciated against both the Dollar and the Euro.

September	Start	End	High	Low
GBP/USD	$1.3550	$1.3463	$1.3660	$1.3349
GBP/EUR	€1.1570	€1.1458	€1.1570	€1.1432

Interest Rate Forecasts

MUFG Corporate Markets maintained its current forecast. Capital Economics revised its forecast up 25bps from the end of Q4 2025 to end of Q3 2024

Bank Rate	NOW	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
MUFG Corporate Markets	**4.00%**	4.00%	4.00%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%
Capital Economics	**4.00%**	4.00%	4.00%	3.75%	3.50%	3.25%	3.00%	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 (£)
MMF Aberdeen Standard Investments	15,000,000	4.07%		MMF	AAAm		
MMF Insight	15,000,000	4.06%		MMF	AAAm		
National Westminster Bank Plc (RFB)	2,300,000	4.01%	10/09/2025	30/10/2025	A+	0.004%	87
DMO	2,900,000	3.95%	26/09/2025	02/10/2025	AA-	0.000%	0
DMO	2,300,000	3.95%	29/09/2025	06/10/2025	AA-	0.000%	0
DMO	6,600,000	3.95%	30/09/2025	01/10/2025	AA-	0.000%	0
Total Investments	**£44,100,000**	**4.03%**					£87

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 June 2025, which are the latest returns currently available.

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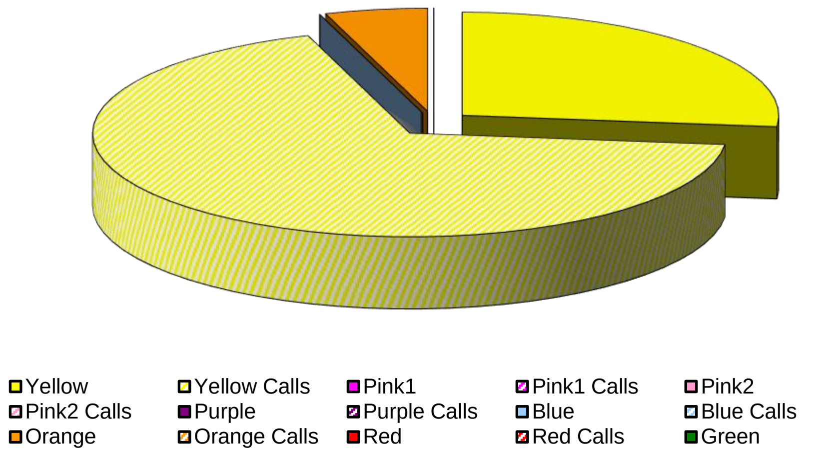
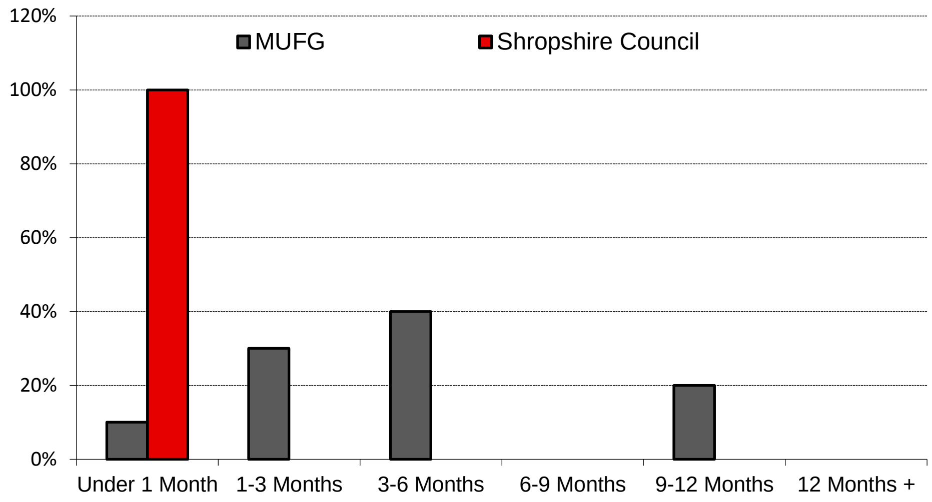
Portfolio Composition by MUFG's Suggested Lending Criteria





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 = 1.16

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	94.78%	£41,800,000	71.77%	£30,000,000	68.03%	4.03%	1	1	2	3
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	5.22%	£2,300,000	0.00%	£0	0.00%	4.01%	30	50	30	50
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%	**£44,100,000**	**68.03%**	**£30,000,000**	**68.03%**	**4.03%**	**2**	**4**	**7**	**11**

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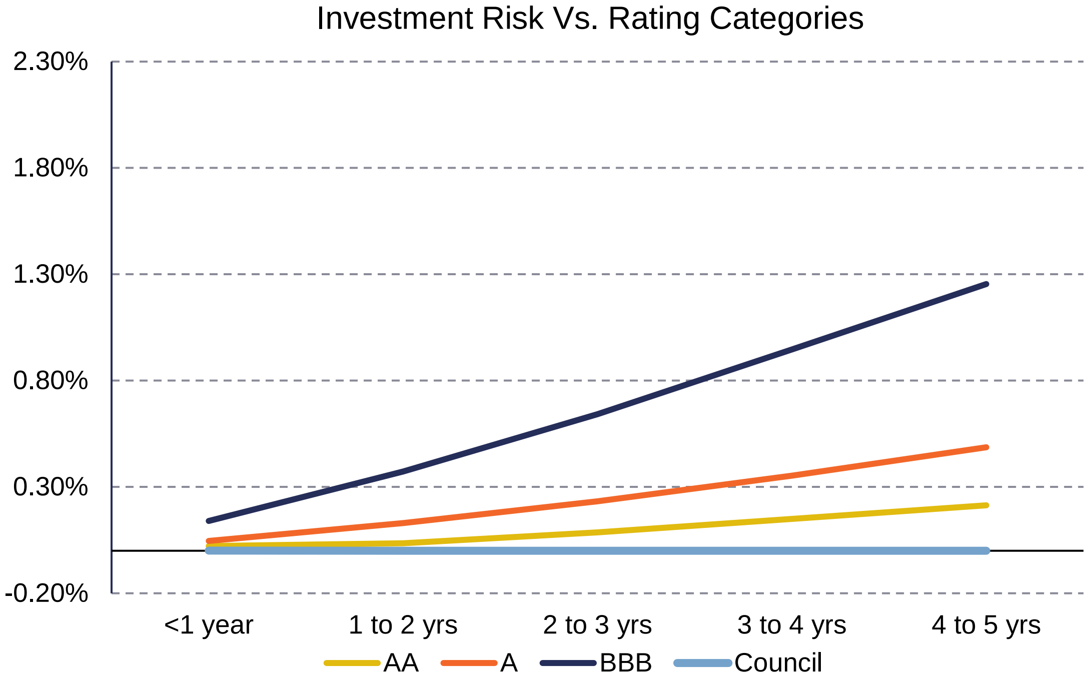
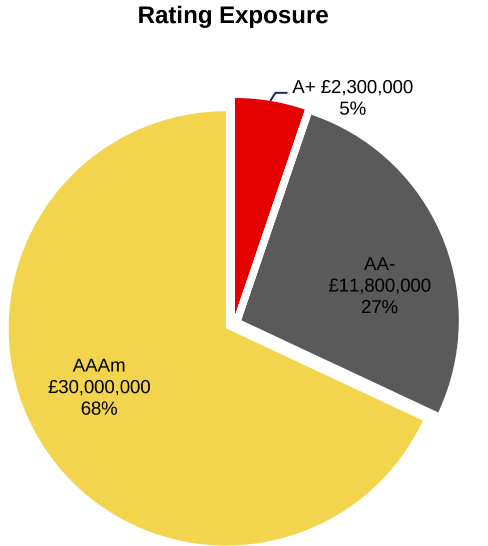
Investment Risk and Rating Exposure





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
15/09/2025	2093	France (Sovereign)	France	The Sovereign Rating was downgraded to 'A+' from 'AA-' and the Outlook on the Sovereign Rating was changed to Stable from Negative.
25/09/2025	2095	Coventry Building Society	United Kingdom	The Outlook on the Long Term Rating was changed to Stable from Negative.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
26/09/2025	2096	Swedbank AB	Sweden	The Long Term and Short Term Ratings were upgraded to ‘AA-’ from ‘A+’ and to ‘A-1+’ from ‘A-1’ respectively. The Outlook on the Long Term Rating was also changed to Stable from Positive.

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
16/09/2025	2094	Toronto-Dominion Bank	Canada	The Long Term Rating was upgraded to ‘Aa1’ from ‘Aa2’. The Long Term Rating was also placed on Stable Outlook and removed from Positive Watch.

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