LINK Asset Services

Torridge District Council

Monthly Investment Analysis Review

September 2019

Monthly Economic Summary

General Economy

September's economic data began with the August Markit/CIPS Manufacturing PMI figure falling to 47.4, from 48.0 the previous month. The latest reading pointed to the steepest month of contraction in the manufacturing sector since July 2012 as new orders fell the most in over seven years, amid ongoing global trade tensions, slower world economic growth and Brexit uncertainty. The Construction PMI, meanwhile, fell by 0.3 points to 45.0. The latest reading pointed to the fourth consecutive month of contraction in the construction sector, led by the sharpest reduction in new work since March 2009. Rounding out the set of activity surveys for July, the Services PMI fell to 50.6 from July's figure of 51.4, leaving the Composite figure at 50.2, indicating the UK economy expanded slightly last month.

The UK posted a trade deficit of £0.22 billion in July compared to a downwardly revised £0.13 billion deficit in the prior month. Imports rose 2.7% while exports grew at a slower 2.5% rate. GDP data, meanwhile, showed that the UK economy stagnated in the three months to July, improving on the contraction in the three months to June. The stagnation reflected subdued growth in the services sector of just 0.2% and contraction in both the production and construction sectors of 0.5% and 0.8% respectively. However, year-on-year GDP growth remained steady at 1% during July.

The UK's unemployment rate fell to 3.8% in the three months to July, back at its joint lowest in the last 44 years, slightly below market expectations of 3.9%. Unemployment declined by 11,000 to 1.294 million and employment jumped by 31,000 to 32.777 million, below forecasts of a 53,000 increase. Average earnings excluding bonuses, meanwhile, rose by 3.8% in the three months to July, after a 3.9% increase in the previous period, which matched market expectations.

On an annual basis, CPI inflation fell to 1.7% y/y in 2019 from 2.1% y/y in July, below market expectation of 1.9% and the Bank of England's 2% target. This was the lowest inflation rate since December 2016, amid a slowdown in cost of transport and fall in clothing and footwear prices. The Core CPI figure (which strips out the more volatile components), decreased to 1.5% in August from 1.9% in July, the lowest figure since November 2016.Retail sales fell by 0.2% m/m in August, following an upwardly revised rise of 0.4% in the previous month and compared to market forecasts of no change. Much of the decline was attributable to a 3.2% fall in non-store (predominately online) sales. Year-on-year retail sales growth eased to 2.7%, down from 3.4% in July and below market forecasts of 2.9% growth.

The number of mortgages approved for house purchases in the UK dropped to 65,545 in August, from an 18-month high of 67,011 in July and below market expectations of 66,400. In addition, the number of approved loans secured on dwellings for remortgaging rose to 48,515 from 47,110 in July, while the number of loans for other purposes increased to 14,635 from 13,965. Net mortgage lending rose by £3.85 billion in August, missing the market's consensus of a £4.2 billion rise. The Confederation of British Industry's monthly retail sales balance jumped 33 points from a month earlier to -16 in September, recovering from a near 11-year low. It was also well above market expectations of -25. Still, the latest reading pointed to the fifth consecutive month of decline in retail sales, amid a weaker pound, concerns about potential tariffs and supply issues in the event of a no-deal Brexit. The GfK Consumer Confidence index, meanwhile, rose by 2 points to -12 last month, beating the market forecast of -14, as all five sub-indices recorded gains.

Against the backdrop, the Bank of England's Monetary Policy Committee voted unanimously to hold the bank rate at 0.75% during its September policy meeting, as was widely expected. The bank also reaffirmed its pledge to enact gradual and limited rate rises, assuming a smooth Brexit and some recovery in global growth levels.
In the US, nonfarm payrolls increased by 130,000 in August, following a downwardly revised 159,000 in July and below market expectations of 158,000. Job gains were recorded in the public sector (largely reflecting the hiring of temporary workers for the 2020 Census), health care and financial activities. Average hourly earnings for all employees increased by 0.4% m/m and 3.2% y/y. The unemployment rate remained at the 3.7% rate recorded in July, which was expected by the market.
US CPI rose by 1.7% y/y in August, marginally below consensus forecasts of a 1.8% y/y rise, largely the result of a fall in energy prices. Excluding the more volatile items, such as food and energy prices, core inflation rose to 2.4% in August, the highest this year and above market expectation of a 2.3% gain. The US economy grew at a 2.3% annual rate in the second quarter, down from the 3.1% expansion recorded in the first quarter.The Euro Area unemployment rate reduced slightly to 7.4% in August, the lowest since May 2008 and slightly below market expectations of 7.5%, as the number of unemployed continued to decline. Compared with July, the number of people unemployed in the Euro Area decreased by 115,000 to 12.169 million.

Housing

The Halifax House Price Index in the UK increased 1.8 percent year-on-year in the three months to August of 2019, following a downwardly revised 1.5 percent rise in the previous month and below market expectations of 3.4 percent.

Currency

Over the month of September, the pound moved significantly against the dollar, increasing from $1.213 to $1.256 in mid-late September, but ultimately fell back to finish at $1.231. Likewise against the Euro, the pound started the month at €1.105, peaked at €1.136 and ultimately ended the month at €1.125. The pound’s volatility during the month resulted from the ever changing UK political and Brexit outlooks, as well as increasing signs of a global slowdown.

Forecast

The domestic economy remains unsettled in the run up to the Brexit deadline while the global economy follows suit (US economic figures have actually shown a decline in the past month). Link Asset Services do not expect a base rate rise until Q4 2020.

Bank Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	1.00%	1.00%	-

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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
Lloyds Bank Plc (RFB)	3,198,000	0.65%		Call	A+	0.000%
Goldman Sachs International Bank	2,000,000	1.32%	13/12/2018	12/12/2019	A	0.011%
Lloyds Bank Plc (RFB)	1,000,000	1.00%	17/07/2019	17/01/2020	A+	0.016%
Lloyds Bank Plc (RFB)	1,000,000	0.85%	27/08/2019	27/02/2020	A+	0.022%
Barclays Bank Plc (NRFB)	1,000,000	0.80%	11/06/2019	11/03/2020	A	0.024%
Leeds Building Society	1,000,000	0.79%	17/09/2019	17/03/2020	A-	0.024%
Lloyds Bank Plc (RFB)	1,000,000	1.25%	26/04/2019	26/04/2020	A+	0.030%
Lloyds Bank Plc (RFB)	2,000,000	1.25%	11/06/2019	11/06/2020	A+	0.037%
Goldman Sachs International Bank	2,000,000	0.97%	08/07/2019	06/07/2020	A	0.040%
Total Investments	**£14,198,000**	**0.97%**				0.021%

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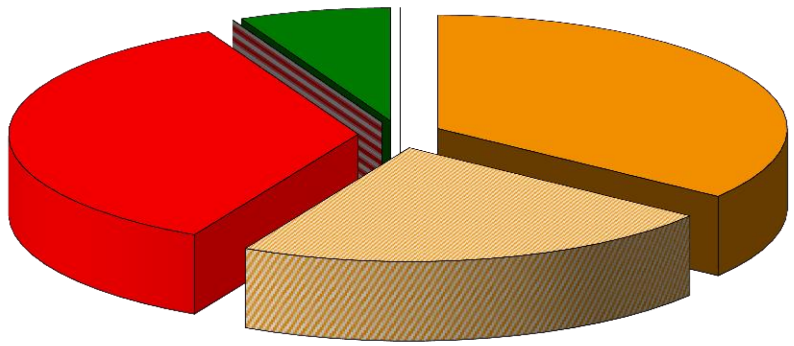
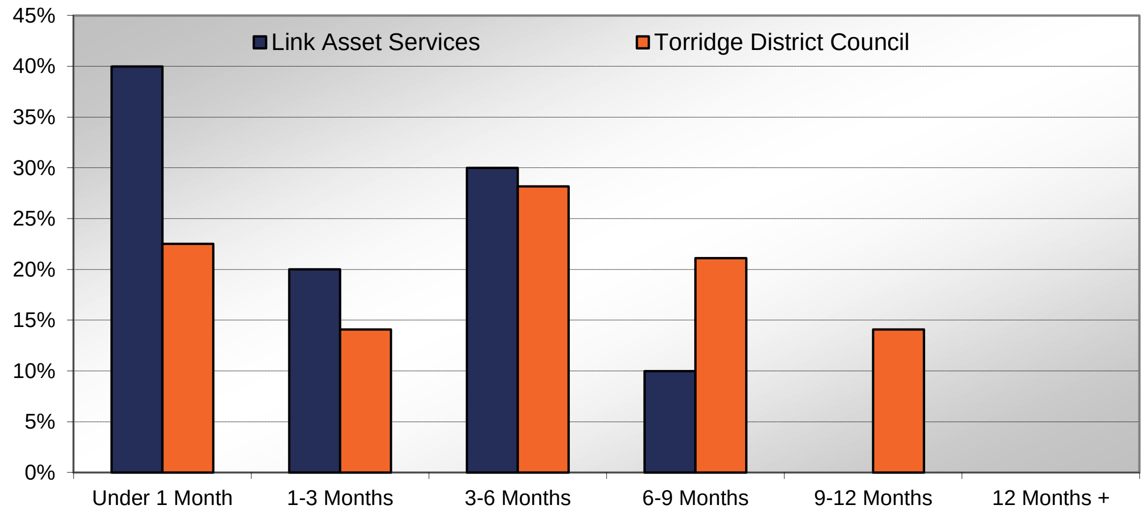
Portfolio Composition by Link Asset Services' Suggested Lending Criteria





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 = 4.49

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	0.00%	£0	0.00%	£0	0.00%	0.00%	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	57.74%	£8,198,000	39.01%	£3,198,000	22.52%	0.94%	119	179	196	293
Red	35.22%	£5,000,000	0.00%	£0	0.00%	1.07%	174	346	174	346
Green	7.04%	£1,000,000	0.00%	£0	0.00%	0.79%	169	182	169	182
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	**£14,198,000**	**22.52%**	**£3,198,000**	**22.52%**	**0.97%**	**142**	**238**	**183**	**307**

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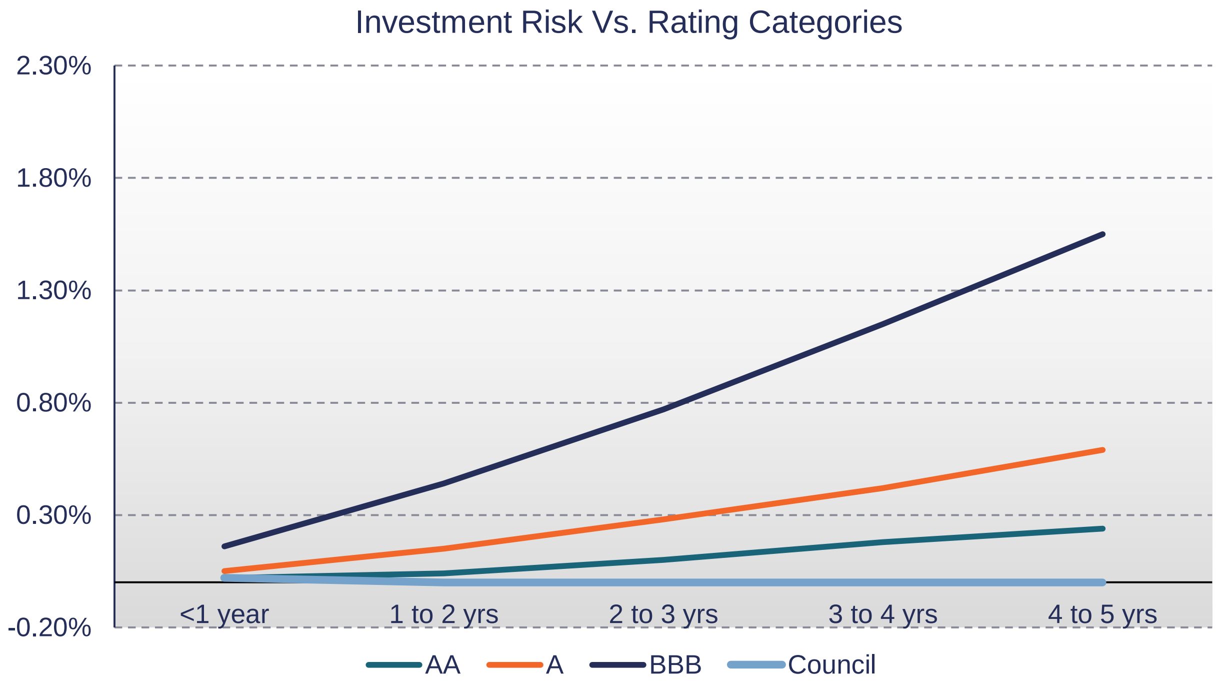
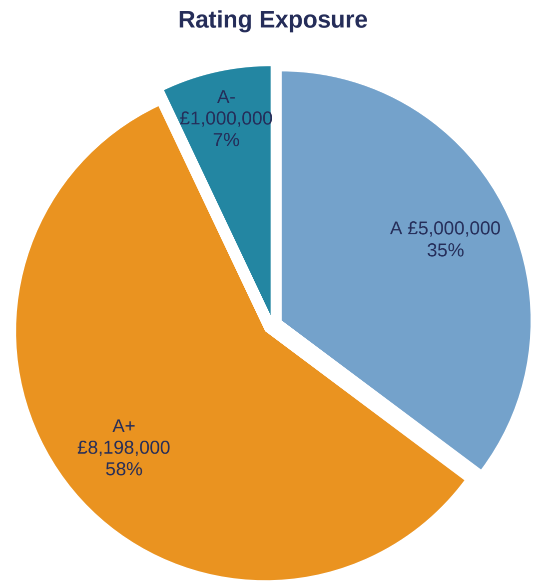
Investment Risk and Rating Exposure





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	0.021%	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.

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Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
06/09/2019	1693	Commerzbank AG	Germany	The Short Term Rating was upgraded to 'F1' from 'F2'.

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Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
20/09/2019	1696	Credit Agricole Corporate and Investment Bank	France	The Long Term Rating was upgraded to 'Aa3' from 'A1' and the Outlook was changed to Stable from Positive.
20/09/2019	1696	Credit Agricole S.A.	France	The Long Term Rating was upgraded to 'Aa3' from 'A1' and the Outlook was changed to Stable from Positive.

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Monthly Credit Rating Changes
S&P

Date	Update Number	Institution	Country	Rating Action
16/09/2019	1694	NRW.BANK	Germany	The Long Term Rating was upgraded to 'AA' from 'AA-' and the Outlook was changed to Stable from Positive.
18/09/2019	1695	DZ Bank AG Deutsche Zentral Genossenschaftsbank	Germany	The Outlook on the Long Term Rating was changed to Negative from Stable.
27/09/2019	1697	Swedbank AB	Sweden	The Long Term Rating was removed from Negative Watch and placed on Negative Outlook.