Current Market Update – November 2023

Secured Funding:

Bank loans	5 years	7 years	10 years	15 years +
Amount	£1.5m - £50.0m			
Margin to Sonia	1.50%	1.75%	1.85%	2.10%
Commitment Commission	40% of margin			
Up-front fee	0.50%	0.70%	0.70%	1.00%
Security	EUV - 105% MVT – 115%			
All-in cost floating rate fully drawn	6.79%	7.04%	7.11%	7.35%
Swap cost (before credit charges)	4.27%	4.14%	4.10%	4.11%
Credit charges	0.15%	0.20%	0.25%	0.25%
All-in cost fixed rate fully drawn	6.02%	6.19%	6.27%	6.53%

Private Placement	15 years	20 years	30 years
Amount	£15.0m - £100m		
Margin to Gilts	1.30%	1.40%	1.50%
Gilt yield	4.57%	4.68%	4.72%
Up-front fee	0.50%	0.50%	0.50%
Security	EUV - 110% MVT – 115%		
All in cost	5.90%	6.11%	6.23%

Aggregator loan	THFC 2043	GBSH 2038	GBSH 2047
Amount	Minimum £10m	Down to £2.5m	Down to £2.5m
Fixed rate	5.87%	5.99%	6.45%
Up-front fee	1.00%	0.75%	0.75%
Annual platform cost	25bps	30bps	30bps
All in cost	6.17%	6.29%	6.75%
Security	EUV - 1.05%, MVT – 1.15%	Variable	Variable

Unsecured Funding:

Retail Charitable Bond (RCB)	5 Year	7 Year	10 Year
Amount	Minimum of £10m		
Coupon	7.125%	7.25%	7.50%
Up-front fee	0.85%	0.85%	0.85%
Annual platform cost	0.10%	0.10%	0.10%
All-in cost	7.40%	7.35%	7.60%
Security	No security	No security	No security

Scottish Charitable Bond:

Scottish Charitable Bond (SCB)	5 Year	7 Year	9 Year	10 Year	15 Year
Amount	Minimum of £1m				
Margin to Gilts	0.90%	0.92%	0.94%	0.95%	0.95%
Gilt Yield (09/11/2023)	4.25%	4.11%	4.16%	4.27%	4.58%
Security	Unsecured				
All-in cost	5.15%	5.03%	5.10%	5.22%	5.53%

- The all-in cost factors in the amortised upfront fee.
- Red denotes change from previous month.

Commentary on the market

a. Economic Background

The Bank of England voted in favour of keeping interest rates unchanged at 5.25% for the second consecutive meeting, with a 6-3 vote compared to 5-4 in September. Headline inflation remained unchanged with CPI at 6.7% for September, even though Core CPI fell to 6.1% from 6.2% in August.

The vote took place against the background of unchanged rates in the US and Europe and reflects:

- Growing pessimism on growth in the UK from the BoE
- A weakening employment market, and
- Expectations of a further fall in inflation for October

The Swap and Gilt markets are now suggesting rates have peaked, with rate cuts now expected to commence in early 2024. As a consequence, Gilt yield have fallen by between 35-40bps over the last two weeks of the month across all maturities.

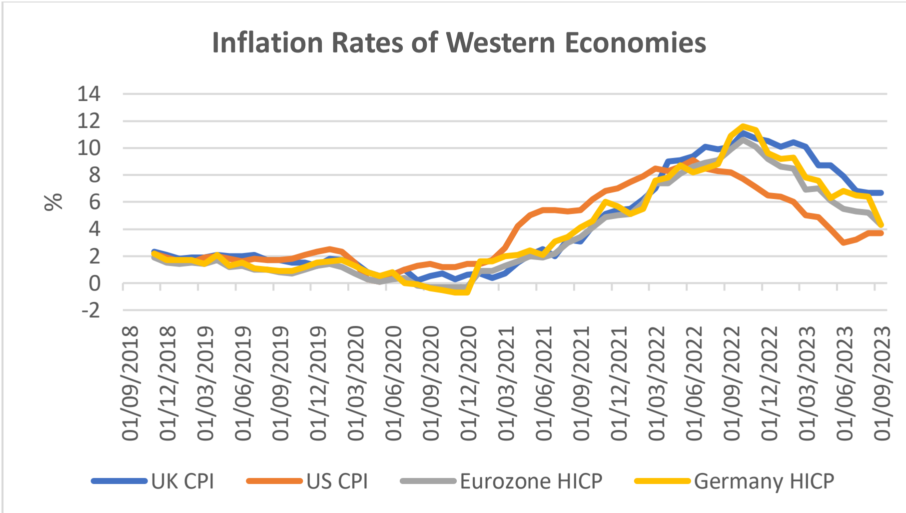
<u>The Financial Markets:</u>

1. Improving prospects on inflation

UK CPI for September remained unchanged at 6.7%, against expectations of a fall to 6.6%. At the same time, Core CPI fell to 6.1%, from 6.2% the previous month.

	2022				2023				
	Q1	Q2	Q3	Q4	Q1	Q2	July	August	September
UK - CPI	7.0%	9.4%	10.1%	10.5%	10.1%	7.9%	6.8%	6.7%	6.7%
UK - Core CPI	5.7%	5.8%	6.5%	6.3%	6.2%	6.9%	6.9%	6.2%	6.1%
US	8.5%	9.1%	8.2%	6.5%	5.0%	3.0%	3.2%	3.7%	3.6%
Eurozone	7.4%	8.6%	9.9%	9.2%	6.9%	5.5%	5.3%	5.2%	4.3%
Germany	7.3%	7.6%	10.0%	8.6%	7.4%	6.4%	6.2%	6.1%	4.5%

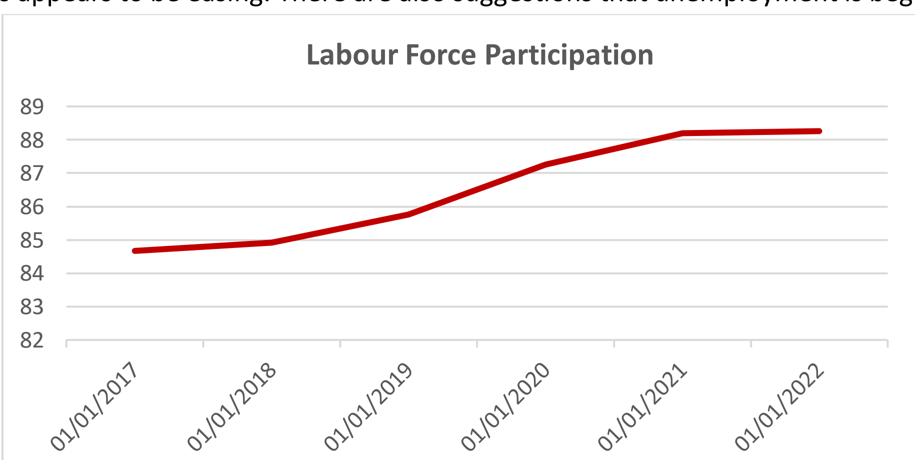
This took place against reductions in both Eurozone and US inflation to 4.3% and 3.6%, respectively. UK CPI now remains significantly above other Western economies, however, a further fall is expected for October, taking CPI to below 6%, while economists are forecasting that CPI will fall to 4.6% in Q4 2023.

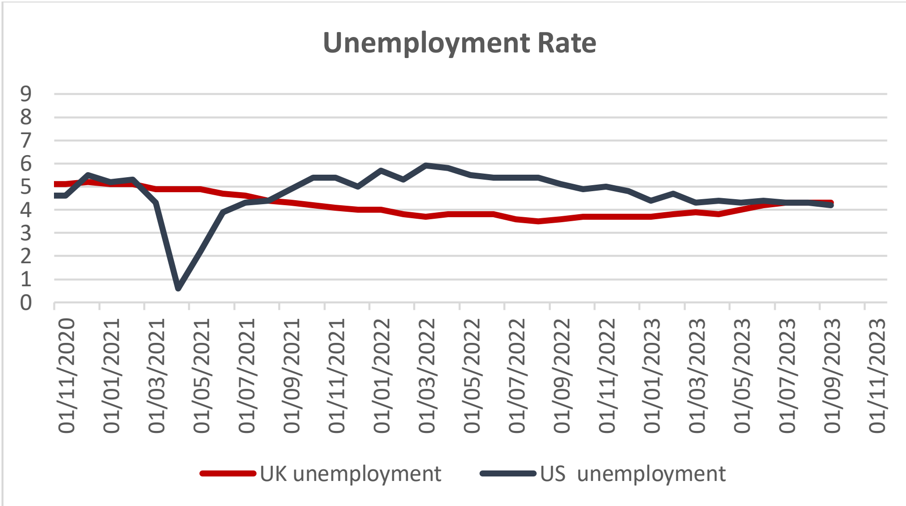


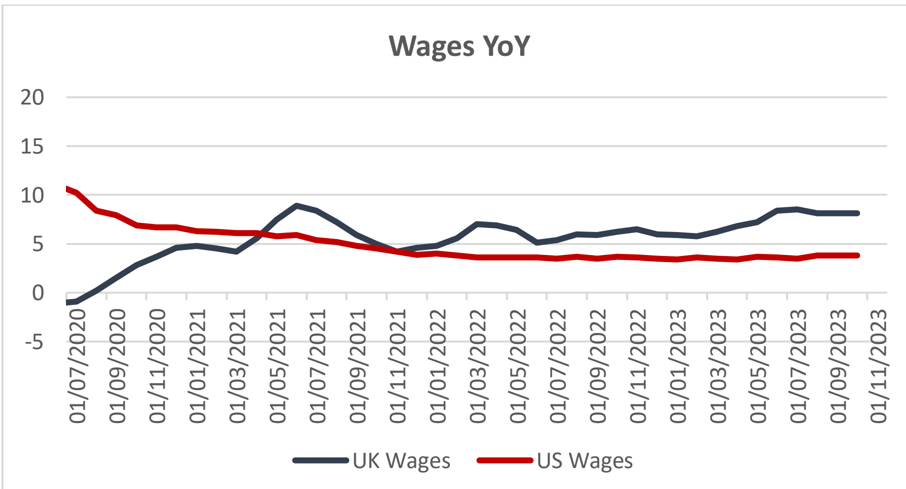
BoE rate decisions appear impacted by two key areas; shop price inflation and earnings.
UK shop price inflation is now showing sharp improvements in both food and non-food inflation, falling to its lowest levels since August 2022.

	Overall SPI		Food		Non-Food	
% Change	On last year	On last month	On last year	On last month	On last year	On last month
October 2023	5.2%	0.3%	8.8%	0.4%	3.4%	0.2%
September 2023	6.2%	0.0%	9.9%	-0.1%	4.4%	0.1%

The British Retail Consortium (BRC) shop price inflation fell to 5.2% in October from 6.2% in September. This suggests there have been limited rises in underlying prices. Fresh food prices are now materially below their peak of 17.8% in April of this year, reducing pressure on the BoE to raise rates further, and indicating there could be a significant fall in CPI in October.
Meanwhile on earnings, concerns are starting to emerge over the accuracy of the data, while anecdotally, pressure on wages appears to be easing. There are also suggestions that unemployment is beginning to rise.

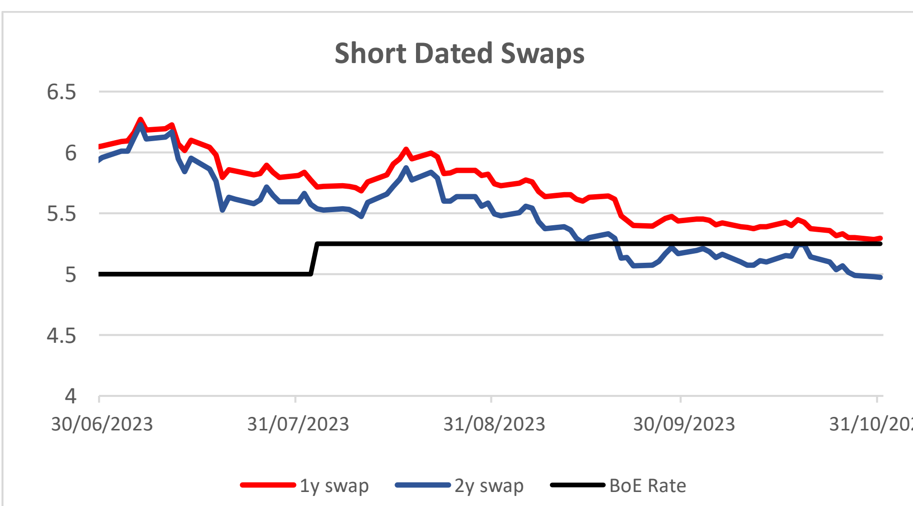




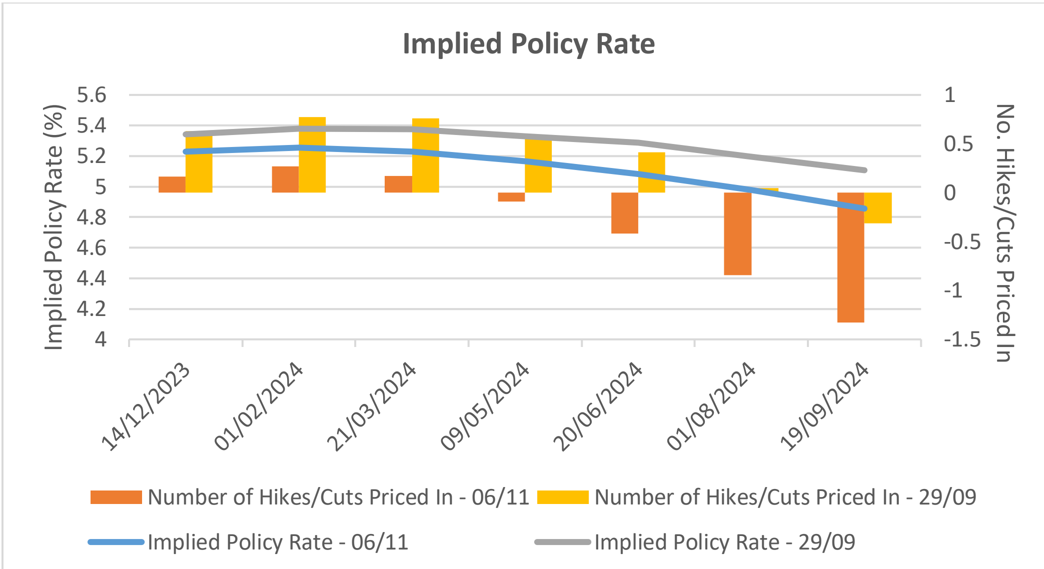


2. The impact on short term interest rates

There has been a major turnaround in future rate expectations as a result of the above. The markets now believe the BoE has hit peak rates, as can be seen by the steady fall in 1-2 year swaps by comparison with Bank Base Rate.



Base Rate is now forecast to remain at 5.25% until May 2024, at which point the Bank of England is expected to commence its rate cutting policy.



a. Bank lending

- There continues to be a lot of competition for new lending from the banks
  - With a wide range of maturities on offer
  - For floating rate loans linked to SONIA or Base Rate
- Fixed rate offers are more difficult to arrange
  - Banks have widened the credit spreads they are requesting
  - Many no longer offer embedded swaps
  - But the alternative of loan linked swaps
- Margins remain broadly unchanged for better quality credits
  - But they have widened for weaker credits
  - With offers slightly more difficult to obtain
- Our advice remains unchanged
  - If you want new debt, do not delay
- As funding could be more difficult in 2024

b. Private Placements

- The volume of issues in the Private Placement market has fallen sharply in 2023
  - With borrowers put off by the high all in cost of fixed rate debt
- This has left Private Placement providers keen to lend in Sterling
  - With terms competitive against the public market
- Spreads have been left unchanged
  - With the appetite to lend reflected in greater flexibility on covenants and business types
- In the current interest rate environment we continue to recommend waiting for lower all-in borrowing costs

c. Aggregator loans

- No material updates this month.

d. RCB

- Investors continue to buy RCB bond in the secondary market
  - Attracted by the higher yields on offer
- However they are aware of the rates offered on competing issues, while
  - Institutional investors are looking for higher yields
- We have left our indicative coupons unchanged over the month
  - And anticipate that issues can be launched successfully inside the secondary market
  - Supported by the current strength of retail interest

Contacts:

E: peter.freer@alliacc.com
T: 0141 442 0057

E: adrian.bell@alliacc.com
T: 020 3039 3451

E: alex.davis@alliacc.com
T: 0141 442 0083

W: alliacc.com