COTSWOLD
DISTRICT COUNCIL

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTE– 23 JULY 2024**
Subject	**TREASURY MANAGEMENT OUTTURN REPORT 2023/24**
Wards affected	N/A
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and S151 Officer Email: David.stanley@cotswold.gov.uk
Report authors	Sian Hannam, Treasury Accountant Email: sian.hannam@publicagroup.uk Michelle Burge, Chief Accountant Email: michelle.burge@publicagroup.uk
Summary/Purpose	To receive and discuss details of the Council's Treasury management performance for the period 01 April to 31 March 2024.
Annexes	Annex A – Economic Background
Recommendation(s)	That Audit and Governance Committee resolves to: 1. Consider the Council's Treasury Management performance for the period 1 April 2023 to 31 March 2024. 2. Agree any comments to be passed to full Council when considering this item.
Corporate priorities	The Council's Treasury Management Strategy underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely but will invest in the fabric and future of the district."
Key Decision	NO
Exempt	NO

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Consultees/ Consultation	Arlingclose Limited – Council's treasury advisors

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1. TREASURY MANAGEMENT - INTRODUCTION

1.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

1.3 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2023/24. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on investment management and long-term capital financing. They advise on investment trends, developments, and opportunities consistent with the Council's Treasury Management Strategy.

1.4 The Council's treasury management advisors have provided commentary on the economic background that prevailed during 2023/24. This commentary is provided within **Annex A**.

2. EXECUTIVE SUMMARY

2.1 This report covers the Treasury Management activity and performance of Cotswold District Council for the period 01 April to 31 March 2024.

2.2 During the year the Council operated within the treasury limits and prudential indicators as set out in the Treasury Management Strategy approved by Council on the 15 February 2023. Investment interest for 2023/24 has produced a net surplus of £0.967m against the original budget set in February 2023 of £0.719m largely due to sustained higher interest rates throughout the year and higher level of surplus cash balances available to invest than budgeted.

2.3 The Council's strategy has been to diversify investments into Pooled Funds in order to reduce risk and increase returns. Pooled Funds have maintained strong returns of dividends and returned over 4.72% (£0.492m) against the £12.5m invested in this area (further details provided in section 6). This compares to returns achieved of 4.98% for cash invested in money market funds and call accounts and 5.19% where cash is invested with the Government.

2.4 The capital values of the Pooled Funds increased by £24,123 from £11.528m to £11.551 during 2023/24.

2.5 The Council holds a £0.500m loan administered by Abundance Investments Limited for the purpose of Community Municipal Investments. The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors.

2.6 In July 2022, Cotswold District Council entered into an agreement with Cottsway 2, to provide an unsecured development loan of up to £3.753m in increments upon drawdown requests. The first request was received in June 2023 and the balance outstanding as at the 31st March 2024 is £1.696m.

2.7 Due to the rescinding of the Council's Recovery Investment Strategy and slippage in capital expenditure, the Council has continued to have no requirement to borrow or hold any further external debt as at 31 March 2024.

2.8 The treasury management position as at 31 March 2024 is set out in table 1 below together with the year-on-year movements.

Table 1: Treasury Management Summary

	31/3/2023 Actual £m	**2023/24 Movement £m**	**31/3/2024 Balance £m**	**31/3/2024 Rate %**
Short-term borrowing	0.451	(0.094)	0.357	2.20
Total borrowing	**0.451**	**(0.094)**	**0.357**	**2.20**
Long-term investments	11.528	0.03	11.552	4.72
Short-term investments	4.361	(3.14)	1.221	5.19
Cash and cash equivalents	12.083	0.055	12.138	4.98
Total investments	**27.972**	**(3.055)**	**24.911**	**4.98**
Net Investments	**27.521**	**(3.149)**	**24.554**	

3. BACKGROUND

3.1 In February 2011, the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). The CIPFA Code requires the Council to approve reports on treasury management activities at the end of the first half of the financial year and at the end of the financial year.

3.2 The Council's Treasury Management Strategy for 2023/24 was approved at the Council meeting on the 15 February 2023. The Council has invested substantial sums of money and is therefore exposed to financial risks including changes in capital value of funds, the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are central to the Council's treasury management strategy.

4. BORROWING

4.1 Local authorities can borrow from the Public Works Loan Board (PWLB) provided they can confirm they are not to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the S151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to re-finance existing loans or externalise internal borrowing.

4.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing debt and treasury management.

4.3 Competitive market alternatives are available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

4.4 The Council is not planning to purchase any investment assets primarily for yield and so is able to fully access the PWLB.

4.5 The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. As at the 31 March 2024 the Council therefore held a £0.357m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2%.

4.6 The Council has no further borrowing considerations. There are plans to borrow in the future to fund the Capital Programme. Any borrowing undertaken will be subject to approval by either Cabinet or Council as appropriate.

4.7 In order to determine whether the Council needs to borrow, the underlying need to borrow needs to be compared against the Council's internal borrowing capacity. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) which is total capital expenditure to be funded by borrowing less any revenue provision made for the Minimum Revenue Provision.

4.8 Whilst there may be an underlying need to borrow, the Council may not actually undertake external borrowing and may instead use its internal cash balances to fund the borrowing requirement which is known as "internal borrowing."

4.9 For Cotswold District Council, there is a small underlying need to borrow of £0.071m and significant internal borrowing capacity as set out in Table 2 below:

Table 2: Balance Sheet Summary

	31/3/2023 Actual £m	**2023/24 Movement £m**	**31/3/2024 Actual £m**
General Fund CFR	0.020	0.051	0.071
Less: External borrowing	(0.451)	0.094	(0.357)
Less: Usable reserves	(23.169)	0.325	(22.844)
Less: Working capital	(4.676)	2.045	(2.631)
Available for investment or internal borrowing*	**(28.276)**	**2.515**	**(25.761)**

*A positive figure would indicate a need to externally borrow

4.10 If interest rates were to rise by 1%, then investment income would average 5.98%, whilst borrowing costs (based on 20-year PWLB Loan) would be 5.04%. For every £1m borrowed there would be additional income of £9,400 per annum.

5. INVESTMENT PERFORMANCE

5.1 The Council invested funds representing income received in advance of expenditure plus balances and reserves held. During 2023/24, the Authority's investment balance ranged

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between £24.737m and £46.607mdue to timing differences between income and expenditure. The investment position is shown in table 3 below:

Table 3: Treasury Investment Position

	31/3/2023 Actual £m	2023/24 Movement £m	31/3/2024 Balance £m	31/3/2024 Rate %
Bank of England DMADF	4.283	(3.142)	1.141	5.19
Money Market Funds/Call Accounts	12.083	0.055	12.138	4.98
Real Estate Investment Trust (REIT)	1.007	(0.047)	0.953	2.85
Cash Plus Fund	1.096	0.057	1.153	N/A
Pooled Funds (1)	9.503	0.023	9.526	4.72
Net Investments	**27.972**	**(3.061)**	**24.911**	**4.98**

(1) See breakdown at Table 4 and 5 below.

5.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 High levels of cash were maintained throughout 2023/24, in part due to Capital Programme underspend, these balances were diversified over several counterparties and Money Market Funds to manage credit and liquidity risk.

5.4 The investment income budget for 2023/24 is £0.719m, as approved in February 2023, investment income of £1.686m was achieved. A sustained high Base Rate has fed through to higher short-term deposit and MMF interest rates. These have increased from 4.15% at the start of the year to over 5.25% by March. There has been a small increase in Pooled Fund interest, further details are provided in section 6 of this report.

5.5 The year-end investment position analysed between investment types and the year-on-year change in show in table 4 below.

Table 4: Investment Position (Treasury Investments)

	31/03/2023 Actual £m	**2023/24 Movement £m**	**31/03/2024 Balance £m**	**31/03/2024 Rate %**
Banks & building societies (unsecured)	3.104	(0.005)	3.099	5.14
Government (incl. local authorities)	4.283	(3.142)	1.141	5.19
Money Market Funds	8.979	0.060	9.039	4.98
Other Pooled Funds				
- Federated Cash plus fund	1.096	0.057	1.153	N/A
- CCLA Property Fund	2.265	(0.083)	2.182	4.31
- CCLA Diversified Multi Asset Income Fund	0.946	0.047	0.993	3.31
- Schroders Equity Income Fund	0.812	0.003	0.815	5.81
- M&G UK Strategic Bond Fund	1.811	(0.030)	1.781	5.03
- Investec Multi asset income fund	1.821	(0.003)	1.818	4.12
- Columbia Threadneedle Equity Income Fund	1.848	0.082	1.93	3.89
Fundamentum - Real Estate Investment Trust	1.007	(0.04)	0.96	2.85
Total investments	**27.972**	**-3.061**	**24.911**	**4.98**

6. EXTERNALLY MANAGED POOLED FUNDS

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6.1 A key aspect of the Council's current investment strategy is to invest into pooled funds in order to increase investment returns. These funds do introduce higher levels of risk as the capital value is not protected and the value of the funds can go up and down. The funds can be drawn down at relatively short notice, but consideration would need to be given as to whether drawing them down would crystalise a capital loss. The funds themselves are invested in different investment classes and therefore risk within the pooled fund is diversified.

6.2 Of the Council's investments, £10.5m are held in externally managed strategic pooled cash, bond, equity, multi-asset and property funds with a further £1m held in a Cash Plus fund and £1m held in a Housing Real Estate Investment Trust (REIT) where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £0.492m (4.72%) during 23/24 and the capital values on these funds increased by £24K in the year to 31 March 2024 due to continued external economic factors as outlined in Annex A including political instability, global economic uncertainty and market confidence capital values did not increase as much as expected. Members are reminded that Pooled Funds are held for the longer-term and the capital value will fluctuate over each financial year.

6.3 The increase in value is treated as an unrealised capital gain i.e., the gain is not recognised as any gain or loss will only be recognised at the point funds are sold. The Council did not make any further contributions to these funds during 2023/24 with the amount invested remaining at £12.5m.

6.4 In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not.

6.5 With the expectation of improved investment returns during the financial year, it was agreed by Cabinet that £0.150m of additional investment income above the budgeted level is transferred to a new earmarked reserve ("Treasury Management Risk") to manage higher borrowing costs in the short-term and to mitigate potential changes to the accounting treatment of gains and losses on pooled funds from March 2025.

6.6 The change in the Authority's funds' capital values and income earned over the 12-month period is shown in Table 5.

Table 5: Pooled Funds, Cash Plus and REIT

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Fund Manager	Investment	1st April Fund Value	31st March Fund Value	Dividends in 2023/24	2023/24 Gain/(Loss)	Gain/ (Loss) to Initial Principal	% Return Capital & Dividend 2023/24
	£	£	£	£	£	£	%
CCLA Property	2,500,000	2,241,061	2,153,645	112,825	(87,416)	(346,355)	1.13
Schroders (E)	1,000,000	801,858	806,834	56,801	4,976	(193,166)	7.70
M&G UK Income (B)	2,000,000	1,793,403	1,763,426	100,710	(29,977)	(236,574)	3.94
Investec Div Income (M)	2,000,000	1,814,069	1,812,676	82,314	(1,393)	(187,324)	4.46
Threadneedle (B)	2,000,000	1,842,079	1,923,475	78,362	81,397	(76,525)	8.67
CCLA Div (M)	1,000,000	939,659	985,867	32,889	46,207	(14,133)	8.42
Federated Cash +(C)	1,000,000	1,096,121	1,153,550	-	57,428	153,550	5.24
Fundamentum REIT	1,000,000	1,000,000	952,900	28,500	(47,100)	(47,100)	(1.86)
Total current funds	**12,500,000**	**11,528,249**	**11,552,372**	**492,402**	**24,123**	**(947,628)**	**4.48**

|Key E- Equity, M-Multi asset, B- Bond, C-Cash

6.7 Pooled funds capital value made a small gain of 0.19% in the financial year. This period has been characterised by significant volatility in the bond markets. Adjusting to central banks' intention of keeping policy rates unchanged amid persistently higher core inflation, tight labour markets and resilient growth, global bond yields rose (i.e., bond prices fell), the August-October 2023 period being a particularly weak one for bond markets with falling prices negatively impacting credit market sentiment and bond fund performance as well as weighing on multi-asset fund returns.

6.8 The first quarter of 2024 proved more difficult for government bonds as stubborn inflation led fixed income markets to question if the expectation of the number of rate cuts over 2024 and the accompanying fall in yields had been overdone.

6.9 By contrast, shrugging off geopolitical concerns, global equities were buoyed by healthy corporate earnings, resilient economic data and moderating inflation and the view central banks had reached the peak of their rate tightening cycles.

6.10 As highlighted above, the nature of these funds is that values can fluctuate from one year to another. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are monitored and discussed with Arlingclose on a regular basis. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

6.11 With the expectation of continued good investment income returns during the 2024/25 financial year, it was recommended to Cabinet in July 2023 that any additional investment income above the budgeted level is transferred to a new earmarked reserve ("Treasury Management Risk") to manage higher borrowing costs in the short-term and to mitigate potential changes to the accounting treatment of gains and losses on pooled funds from March 2025.

7. INVESTMENT RETURNS

7.1 The outturn for investment income received in 2023/24 was £1.686m which equates to a 4.98% return (22/23 – 2.68%) on an average investment portfolio of £35.791magainst a budgeted £0.719m an average investment portfolio of £20m. Net loans and investments made a surplus of £0.907m, for the 2023/24 financial year. See table 6 for details.

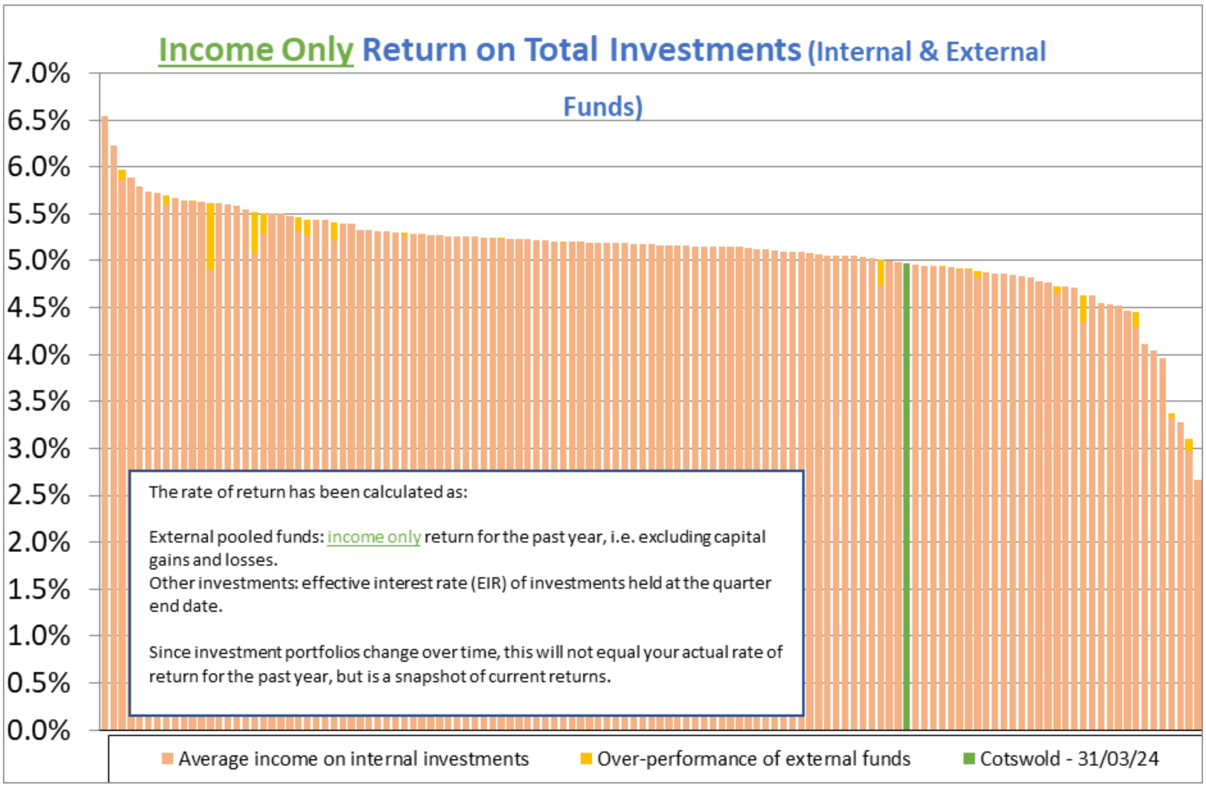
Table 6: Investment income and interest payable versus budget

Investment and Loan Income/Interest Payable	2023/24 Budget £m	2023/24 Actual £m	Variance Surplus/ (Deficit) £m
Community Municipal Borrowing (Interest payable)	(0.007)	(0.006)	0.001
Cottsway Loan*	0.060	0	(0.060)
Long Term Loans	0.012	0.011	(0.001)
Pooled Funds	0.405	0.464	0.059
Housing REIT	0.027	0.029	0.002
Short term	0.093	0.726	0.633
Call/MMF's	0.194	0.467	0.273
NET Income	**0.784**	**1.691**	**0.907**

*Repayment of interest expected in 2024/25

7.2 Table 7 below shows that as at 31 March 2024, Cotswold District Council (purple bar) achieved the 54th highest average rate on investments from the 125 local authorities that Arlingclose support.

Table 7 Cotswold' District Council investment returns v Arlingclose clients (125) as at 31 March 2024.



8. COMPLIANCE REPORT

8.1 The Chief Finance Officer reports that all treasury management activities undertaken during 2023/24 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

8.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

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Table 8: Debt Limits

	31.3.24 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied
Borrowing	0.357	10.000	10.000	✓

8.3 A £0.500m loan administered by Abundance Investments Limited was taken out in 2022/23 for the purpose of Community Municipal Investments. The authority has no further external debt at 31 March 2024.

9. TREASURY MANAGEMENT INDICATORS

9.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security

9.2 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 9: Portfolio average credit rating

	31.3.24 Actual	2023/24 Target	Complied
Portfolio average credit	A+	A-	✓

Principal Sums Invested for Periods Longer than 364 days:

9.3 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 10: Limit on principal invested > 364 days.

	2023/24	2024/25	2025/26
Actual principal invested beyond year end	£12.5m	£12.5m	£12.5m
Limit on principal invested beyond year end	£15m	£15m	£15m
Complied	✓	✓	✓

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10. ALTERNATIVE OPTIONS

10.1 None

11. FINANCIAL IMPLICATIONS

11.1 The Council maintained an average investment portfolio of £35.791m during 2023/24. The funds earned an average rate of return of 4.98%, this compares to 2.68% in 2022/23.

11.2 The Council budgeted for £0.719m in treasury investment income for 2023/24. Actual performance was a surplus of £0.967m, with investment income received of £1.686m.

12. LEGAL IMPLICATIONS

12.1 None

13. RISK ASSESSMENT

13.1 Treasury risk is managed by the application of the Council's Treasury Management Strategy. This report discusses the impact of economic risk on the value and returns associated with the Council's investment portfolio together with the risk of low interest rates on the Council's revenue budget.

14. EQUALITIES IMPACT

14.1 None.

15. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

15.1 None.

16. BACKGROUND PAPERS

16.1 None.

(END)

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ANNEX A

ECONOMIC BACKGROUND

1.1 UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e., excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

1.2 The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

1.3 Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e., including bonuses) and 7.8% for regular pay growth (i.e., excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

1.4 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

1.5 In the Bank's quarterly Monetary Policy Report (MPR) released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation widespread across products, indicating stronger domestic inflationary pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 MPR the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in calendar H2 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

1.6 Following the latest MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

1.7 The US Federal Reserve also pushed up rates over the period, reaching a peak range of between 5.25-5.50% in August 2023, where it has stayed since. US policymakers have maintained the relatively dovish stance from the December FOMC meeting and at the meeting in March, economic projections pointed to interest rates being cut by a total of 0.75% in 2024.

1.8 Following a similarly sharp upward trajectory, the European Central Bank hiked rates to historically high levels over period, pushing its main refinancing rate to 4.5% in September 2023, where it has remained. Economic growth in the region remains weak, with a potential recession on the cards, but inflation remains sticky and above the ECB's target, putting pressure on policymakers on how to balance these factors.

1.9 Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ bps higher than when it started.