The Week in Perspective

16 March 2018

Market Roundup

EasyJet led the FTSE 100 risers on Monday, up 2.9% after a broker predicted the airline would head into profit in the current half-year for only the second time ever.

Meanwhile Next led the retailers higher on positive industry sales figures. The FTSE 100 was down 0.1%.

Despite the Chancellor's upbeat comments in the Spring Statement, on Tuesday the FTSE 100 lost 1.1% after it emerged Donald Trump had sacked US Secretary of State Rex Tillerson.

BT Group led the FTSE 100 fallers. Direct Line was also among the biggest losers after a broker turned cautious, warning that growth in earnings growth might require patience.

Prudential was the biggest blue-chip riser on Wednesday after announcing a plan to split the insurer into two companies.

But Wm Morrison was down after full-year results showed margin erosion, overshadowing a special dividend from the supermarket.

Tesco was up 1.8% on Thursday after a broker turned positive following the supermarket's takeover of wholesaler Booker. The FTSE 100 added 0.1%.

The FTSE 100 was little changed in early trading on Friday.

Company Focus: Prudential

Prudential on Wednesday announced a plan to split off the insurer's UK business from its US and Asian operations.

The demerger, expected in late 2019, will give shareholders stock in two separately listed companies – Prudential International, covering its overseas businesses, and M&G Prudential, the group's UK insurance and fund management operations. M&G Prudential will be headquartered in the UK and led by its own chief executive John Foley.

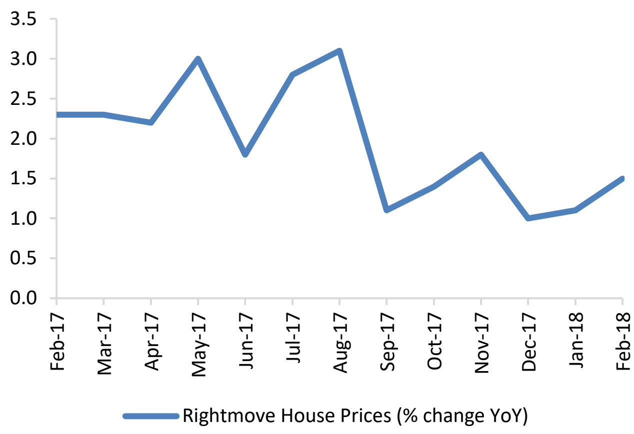
The FTSE 100 giant also revealed that it has sold £12bn of annuity liabilities to Rothesay Life. The transaction is expected to result in a pre-tax accounting loss (on an IFRS basis) of about £500m in the first half of 2018.

The Rothesay Life deal still leaves the Pru with around £20bn of annuity liabilities that it may be willing to transfer to a third party at the right price.

The demerger and annuity transaction overshadowed stable full-year results. Prudential reported a 6% increase in operating profits to £4.7bn in the year to 31 December. The group's Asian division posted a 15% rise in operating profits, in constant currency terms, to nearly £2bn. This compared with a 10% rise to £1.4bn for the UK and European division.

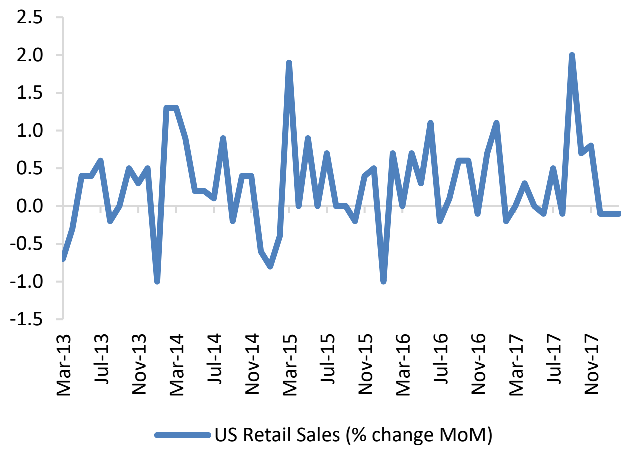
The annual dividend is lifted 8% to 47p a share.

Chart 1: UK House Prices (annual % change)



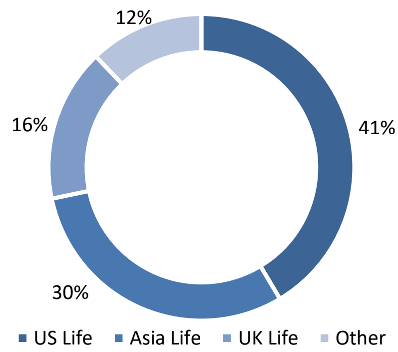
Source: Rightmove/Acadata Data at 16/3/2018

Chart 2: US Retail Sales (% monthly change)



Source: Bloomberg Data at 16/3/2018

Chart 3: Prudential, operating profits 31/12/2016



Source: Brewin Dolphin client note Data at 16/3/2018

Economic Roundup

The revamped Spring Statement saw Chancellor Phillip Hammond unveil forecasts of higher growth and lower borrowing, but think-tanks cast doubt on his suggestion that austerity could be eased in the Budget this autumn.

Hammond said that the Office for Budget Responsibility (OBR) had increased its growth forecast for 2018 to 1.5%, from 1.4% previously, with unchanged forecasts of 1.3% for 2019 and 2020.

The UK, the Chancellor declared, was at a turning point in its recovery from the financial crisis and he could see "light at the end of the tunnel".

He also suggested he could use some of the £4bn a year from the improvement in the borrowing forecasts, to top up spending plans in the autumn.

But the Institute for Fiscal Studies (IFS) and the Resolution Foundation warned that the government would have little scope to ease austerity in the coming months unless the economy improves substantially.

The IFS estimates the government needs to raise tax revenues by about £40bn a year if it is to maintain public spending and reduce the deficit.

Paul Johnson, director of the IFS, said: "The reality of the economic and fiscal challenges facing us ought to be at the very top of the news agenda. Not the spin and bluster of politicians on all sides pretending there are easy solutions, that the promised land is just around the corner, or that they can reinvent the laws of economics."

"What's more" he added, "growth projections remain very subdued. At no point in the next five years does the OBR believe that annual growth will exceed 1.5%. To put an even less positive gloss on the numbers, growth in GDP per capita is forecast to be less than 1% in each of the next five years, half the pre-crisis trend."

Meanwhile, the Organisation for Economic Cooperation and Development (OECD) predicted that the UK will have the weakest growth of any G20 country in 2018, with 2019 seeing UK growth dropping to 1.1%.

The OECD forecasts global growth of 3.9% in 2018, up from 3.7% last year, citing the US tax cuts and fiscal stimulus in Germany as the main drivers behind the strong global outlook.

Property prices in London were 2.6% lower in February than a year ago, according to a survey by Rightmove and Acadata, with boroughs such as Wandsworth and Southwark seeing double-digit declines.

The survey found the north-west of England has the fastest-rising property prices, with the average price in Blackburn up 16.4% over the last year.

In the US, retail sales were down 0.1% in February, the third consecutive month of declines. The falls raise questions about momentum in the US economy, where consumer spending accounts for 70% of GDP.

Company announcements that caught our attention this week

Date	Company	Comment
15/3/2018	**Kier Group**	Construction and property group Kier Group reported an 8% rise in half-year revenues. Management said on Thursday that the group is on course to deliver double-digit profit growth in 2018, as it posted underlying profit up 5% at £60m in the six months to 31 December. Earnings per share are up 3% and the dividend is increased 2%. The company said its portfolio simplification programme, which involved the closure of operations in the Caribbean and Hong Kong, has been concluded. The interims include the final costs relating to this. As a result, margins at the group's construction division declined from 2.0% to 1.8%, however they are expected to increase in the second half.
14/3/2018	**Balfour Beatty**	Balfour Beatty posted a big jump in annual profits in 2017, as it continues to rebuild after a "near-death experience three years ago" following seven profit warnings. In the year to 31 December, underlying profit from operations doubled to £196m, up from £69m in 2016. The group's UK construction business reported an operating profit of £16m, recovering from a £65m loss in 2016. Balfour Beatty's average debt position turned to net cash, helped by the first working capital inflow since 2015. Meanwhile, the pension scheme now has a surplus of £32m compared with a deficit of £231m in 2016. Balfour Beatty has overhauled operations after previous losses at its UK construction division had led to multiple profit warnings.

Key Company Diary Dates

Tue 20 Mar	**John Wood Group**	Full-year results
Tue 20 Mar	**Ocado**	Trading statement
Wed 21 Mar	**Kingfisher**	Full-year results
Fri 23 Mar	**Next**	Full-year results

Economic highlights over the next week

Tue 20 Mar – **UK Inflation** – The Office for Budget Responsibility (OBR) said this week that UK consumer inflation, which has hit 3% in recent months, will fall back to the Bank of England's 2% target over the next 12 months.

Wed 21 Mar – **US Interest Rates** – Strong jobs data and signs of inflation picking up in the US mean that economists are expecting the Federal Reserve's Open Market Committee to increase interest rates at this month's meeting.

Thu 22 Mar – **UK Interest Rates** – The Bank of England, which pushed up interest rates from 0.25% to 0.5% in November, has signalled it may have to raise interest rates faster than previously thought.

Index Movements*

Index	Value	%Change
FTSE 100	7,139.76	-0.88
FTSE 250	19,828.41	-0.70
AIM	1,055.45	1.34
Dow Jones	24,873.66	-0.09
S&P 500	2,747.33	0.31
Hang Seng	31,541.10	2.89
Nikkei 225	21,803.95	2.04

Currency Movements*

Currency Pair	Value	%Change
£:$	1.39	0.01
£:€	1.13	0.01
£:¥	147.93	0.01

Best & Worst performing sectors (rel. to FTSE 350)*

Sector	%Change
Basic Resources	3.40%
Insurance	3.20%
Construction & Materials	2.94%
Utilities	-1.24%
Oil & Gas	-1.91%
Telecoms	-3.32%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Antofagasta	10.3%
Prudential	5.8%
Rentokil	4.5%
WPP	-6.1%
Morrisons	-6.1%
BT Group	-6.5%

*Weekly movements up until close of business Thursday