

The Week in Perspective

17 May 2019

Market Roundup

It has been a relatively upbeat week for shares despite the escalating trade dispute between China and the US.

In London on Monday the FTSE100 fell 0.5% to 7.163 and the FTSE250 dropped by 1.2% after China retaliated against the US's decision to increase tariffs on Chinese imports. The Chinese government said it will increase tariffs on \$60bn of US exports from June 1. It led to a torrid day for shares in the US, with the Dow Jones and S&P500 indices both dropping 2.4% - their worst single-day performance since January. The tech-heavy Nasdaq index fell by 3.4%.

Both UK and US stocks rebounded on Tuesday as President Trump struck an optimistic tone about continuing negotiations with China. The FTSE100 closed up 1% and the FTSE250 by 1.2%. Shares in bakery chain Greggs rose by 15% after it announced profits for 2019 will be "materially higher" than it expected, helped by demand for its vegan sausage rolls.

UK blue-chip shares had another good day on Wednesday, with the FTSE100 rising by 0.8%, followed on Thursday by another positive day for markets on both sides of the Atlantic - the FTSE100 closed up by 0.8%. Later in the day, however, sentiment soured after Boris Johnson announced he will run for the Tory party leadership. His hard Brexit stance, and the fact that the Brexit Party is showing a big lead in the polls ahead of the European elections, are combining to stoke fears of a disruptive Brexit. In early trading on Friday, shares were heading down.

Company Focus: Vodafone

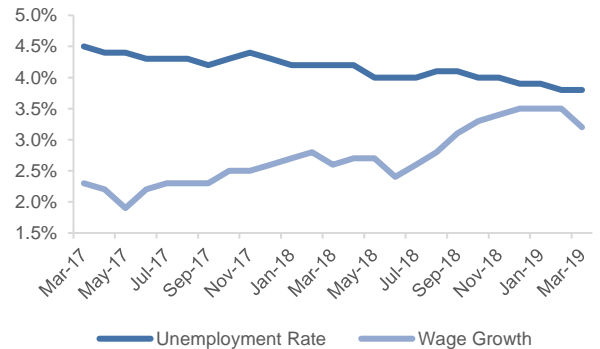
Vodafone cut its dividend on Tuesday in an attempt to strengthen its balance sheet. The announcement came as the telecoms giant reported a €7.6bn (£6.6bn) full-year loss, compared with a net profit of €2.8bn the previous year, largely due to a write down in the value of its Indian and Spanish businesses.

Revenue in the year to March fell to €43.7bn from €46.6bn a year earlier. The new annual dividend of €9 per share represents a cut of 40% on last year. The final 2019 dividend will be €4.16 per share. Explaining the cut, chief executive Nick Read pointed to increased competition in Spain and Italy and headwinds in South Africa.

Expensive 5G spectrum auctions in Germany and Italy also helped push the company's debt to €27bn at the end of March. Vodafone said it would launch 5G in the UK on 3 July, making it the first UK operator to announce a switch-on date.

In a busy period for the group, Vodafone is also in the process of taking over the German and Eastern European cable assets of Liberty Global for €18.4bn. In addition, the company sold its New Zealand mobile arm for NZ\$3.4bn (£1.7bn) on Monday.

Chart 1: UK Unemployment Rate and Wage Growth



Source: ONS

Data at 16/05/2019

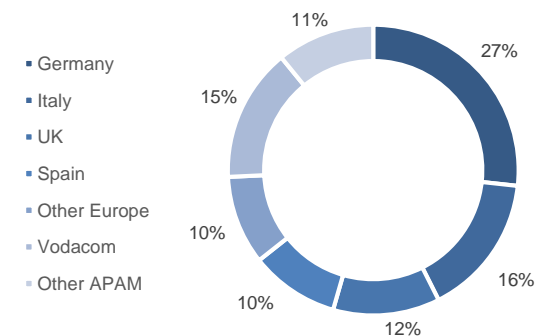
Chart 2: China Retail Sales Growth (Y-O-Y)



Source: Refinitiv

Data at 16/05/2019

Chart 3: Vodafone – Adjusted EBITDA



Source: Brewin Dolphin client note

Data at 16/05/2019

Economic Roundup

Trade tensions dominated again this week. After the US imposed tariffs of 25% tariffs on \$200bn of Chinese exports to the US, China hit back with tariff hikes on \$60bn of US exports to China. Trump further ratcheted up tensions by adding Huawei, the world's largest telecoms equipment manufacturer, to its "Entity List", which effectively bans the company from acquiring technology from US firms. Separately, President Trump declared a national emergency to protect US telecoms networks from "foreign adversaries". It bans Chinese firms such as Huawei and ZTE from selling their products in the US. The order says technology or services "designed, developed, manufactured or supplied" by US rival companies "augments the ability of foreign adversaries to create and exploit vulnerabilities in information and communications technology and services, with potentially catastrophic effects."

The data released from around the world was mixed but, on balance, it was somewhat downbeat in terms of the direction of travel for the global economy. China, the world's second-largest economy, reported that retail sales grew at their slowest pace in almost 16 years in April, alongside a disappointing reading on industrial output. The data let to suggestions from analysts that the stimulus measures instigated to ward off a slowdown were wearing off, just as the trade spat with the US was stepping up a gear. Retail sales grew at an annualised rate of 7.2% last month, according to the National Bureau of Statistics. This was the slowest pace since 2003, and comes as China is trying to rebalance its economy to rely more on domestic demand than exports. Growth in industrial production also fell to 5.4%, the worst reading since November, which was the lowest since the financial crisis. It hasn't all been plain sailing in the US either: American retail sales fell last month, with sales of cars and building materials among those hardest hit. According to the Department of Commerce, retail sales volumes dropped by 0.2% month-on-month in seasonally-adjusted terms, although they edged higher by 0.1% if automobile sales are stripped out.

Closer to home, Eurozone industrial production fell for a second consecutive month in March. Output declined in France and Italy but recovered in Germany, the region's key economy. Eurostat reported that output in the 19 countries of the Eurozone dropped by 0.3% in the month, and by 0.6% on an annualised basis.

There was better news in the UK, as employment data demonstrated the labour market's resilience to Brexit uncertainties. The UK employment rate remained at a record high in the three months to March, according to the Office for National Statistics (ONS). However, despite the tight labour market, wage growth fell. Wages rose by 3.2% in the three months to March, down on the previous month's reading of 3.5% but still higher than inflation. The number of people in work rose by 99,000 to reach a new record high of 32.7m, while the employment rate remained at 76.1% of the working-age population - the joint highest figure on record. UK unemployment fell 3.8% to 1.3 million - 119,000 fewer than a year ago. Another positive was that UK business investment rose by 0.5% in the first quarter compared with the last quarter of last year. It ends a year of declining business investment which has been a major concern for the UK economy.

Company announcements that caught our attention this week:

Date	Company	Comment
13/05/2019	Centrica	<p>British Gas owner Centrica has warned of "challenging" trading conditions. The company said that warmer-than-usual weather, the falling price of gas, a cap on standard variable tariffs and nuclear plant shutdowns would affect its financial performance in the first half of the year.</p> <p>Centrica lost 234,000 home energy supply customer accounts in the UK in the first four months of 2019. Customer churn increased in March and April, which management attributed to an increase in the standard variable tariff cap. On Monday, chief executive Ian Conn and the rest of the board came under fire at the company's annual meeting in London over the group's performance and executive pay. Mr Conn received a £776,000 cash and shares bonus in 2018 as part of a total remuneration package £2.42m - an increase of 44% on last year.</p>
16/05/2019	Burberry	<p>Burberry reported a disappointing set of full-year results, as the group pushes ahead with its turnaround plan. In November, Marco Gobetti, Burberry's chief executive, announced plans to take the brand more upmarket. The luxury goods company reported a 6% drop in adjusted operating profit to £438m for the year ended 30 March. Same-store sales, excluding beauty, were up 2%. By comparison, the fashion and leather goods division of LVMH reported sales up 15% in the same period. Revenue and adjusted operating margin are expected to be broadly stable at constant exchange rates this financial year. However, management expects there to be a more pronounced weighting of operating profit to the second half versus the first. Burberry also announced a £150m share buyback.</p>

Key Company Diary Dates

Tue 21 May	Severn Trent	Full-year results
Wed 22 May	Marks & Spencer	Full-year results
Wed 22 May	Babcock International	Full-year results
Thu 23 May	United Utilities	Full-year results

Economic highlights over the next week

Wed 22 May – Inflation – UK inflation, as measured by the Consumer Prices Index, was 1.9% in the year to March, unchanged from February.

Wed 22 May – FOMC Minutes – The Federal Open Market Committee minutes will provide insight into the latest thinking on the state of the US economy.

Fri 24 May – Retail Sales – Retail sales rose 1.1% month-on-month in March as mild weather enticed shoppers to UK stores.

Index Movements*

Index	Value	%Change
FTSE 100	7,354	2.03%
FTSE 250	19,531	1.27%
AIM	961	0.72%
Dow Jones	25,863	0.13%
S&P 500	2,876	0.20%
Hang Seng	28,275	-0.13%
Nikkei 225	21,063	-1.58%

Currency Movements*

Currency Pair	Value	%Change
£:\$	1.28	-1.76%
£:€	1.14	-1.31%
£:¥	140.63	-1.42%

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

Sector	%Change
Oil & Gas	2.56%
Technology	2.16%
Insurance	1.86%
Basic Resources	1.15%
Financial Services	0.11%
Chemicals	-1.26%

Best & worst FTSE 100 performing stocks*

Company	%Change
SPIRAX-SARCO ENGR.	8.14%
Hargreaves Lansdown	6.95%
Experian	6.67%
RIGHTMOVE	-5.94%
easyJet	-6.04%
Vodafone Group	-9.85%

*Weekly movements up until close of business Thursday

Important Notes:

Main source of information: Company Report and Accounts, Bloomberg

The value of investments and any income from them can fall and you may get back less than you invested. Past performance is not a guide to future performance and performance is shown before charges, which would reduce the illustrated performance. No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition, we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our [conflicts policy](#). If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset. Any tax advantages or allowances mentioned are based on personal circumstances and current legislation which are subject to change. The opinions expressed in this document are not necessarily the views held throughout Brewin Dolphin Ltd. The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

Brewin Dolphin Ltd, a member of the London Stock Exchange, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Smithfield Street London EC1A 9BD. Registered in England and Wales no 215876.