BREWIN DOLPHIN

The Week in Perspective

30th November 2018

Market Roundup

UK shares started the week on the front foot with the FTSE100 gaining 1.20% to finish at 7,036. The session took place against the backdrop of Theresa May's Brexit deal being agreed by the EU on Sunday, although it has a tough path ahead to pass through Parliament. The vote takes place on December 11. Shares in BP and Shell both benefitted from rising oil prices on the day.

Shares fell back slightly on Tuesday. Thomas Cook issued a third profits warning for this year and withdrew its dividend which led to its share price dropping by 23%.

Housebuilders also had a bad day as Brexit worries intensified.

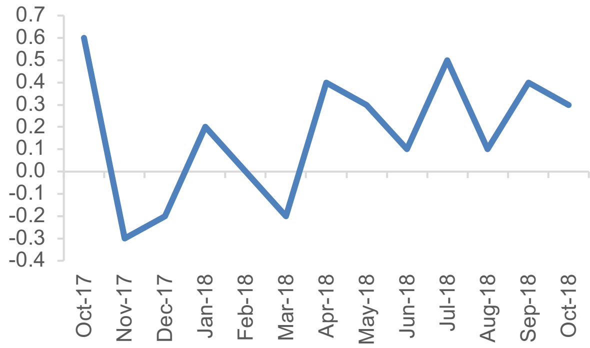
Wednesday was another negative day as it was predicted that the UK will be worse off under any Brexit scenario. The Treasury analysis showed that even a deal close to Theresa May's would see a reduction of 3.9% in economic growth over 15 years (see below). Housebuilders, sensitive to the bad news about the UK economy, took a battering as a result.

On Friday morning shares were heading down ahead of the G20 summit in Argentina.

Company Focus: Greene King

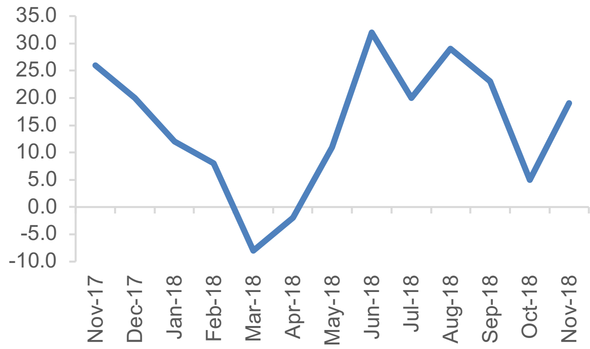
The sweltering weather and England's extended run in the football World Cup helped boost sales at pub chain Greene King over the summer. Statutory profit before tax was £127.7m in the 24 weeks to 14 October – the first half of the group's financial year - 3.2% higher than the same period in 2017. Revenue grew 1.9% to £1.05bn while net debt fell by £101m to £2.02bn. The company maintained its interim dividend at 8.8p per share. Margins were down a little as factors including the National Living Wage, business rates, sugar levies and food cost inflation continued to keep costs ticking up ahead of sales. However, Greene King seems to be handling these headwinds rather well. The company said that Christmas bookings were up on last year and that sales since the end of the first-half had remained strong. The company failed to give details about its Brexit planning, but said that it had put contingency plans in place in the event of a no-deal Brexit to mitigate potential disruption to the business. Chief executive Rooney Anand said: "Ongoing uncertainty around Brexit may impact on consumer confidence, but as a team we are focused on our key strategic priorities and remain confident of our outlook for the year."

Chart 1: M-o-M Consumer Credit Growth



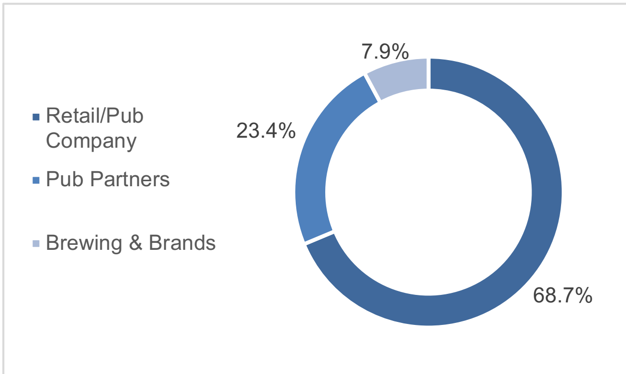
Source: Bank of England Data at 29/11/2018

Chart 2: CBI Monthly Retail Sales



Source: Refinitive Data at 29/11/2018

Chart 3: Greene King – Operating profit breakdown



Source: Brewin Dolphin client note Data at 29/11/20

Economic Roundup

Economic headlines this week were dominated by official forecasts from the Treasury and the Bank of England about the negative impacts that any form of Brexit will have on the economy.

The Bank of England's study said that a no-deal Brexit would cause the worst recession since the Great Depression, with a 30% fall in house prices, interest rates rising to 5.5% and an overall hit to the economy of 8%.

Ben Broadbent, one of the Bank's deputy governors, said that this would be worse than any crisis since "we went back on gold" and the economy subsequently crashed in 1930. In the 2008 financial crisis the UK economy contracted by 6.3 per cent. The Bank's assessment came just after the Treasury produced its own report which showed that Britain's economy would take a 3.9% hit in 15 years' time compared to if it had remained in the EU. The Treasury also concluded that there was virtually no value in the UK having an independent trade policy – something that pro-Brexit MPs had argued was one of the biggest "benefits" of leaving the EU.

Under the worst-case, no-deal scenario, GDP would be 10.7% lower in 15 years' time than if we had stayed in the EU.

Retail sales increased in November thanks to seasonal sales, but the outlook remains weak, according to a survey by the Confederation of British Industry (CBI). Its Distributive Trades Survey for November showed that 36% of respondents reported sales volumes were up in the year to November, while 17% said they were down, giving a net balance of +19%, above most analysts' forecasts of +10%. Investment intentions for the next 12 months, compared with the last 12 months to November, were -3%. In a downbeat summary, Anna Leach of the CBI, said: "Business sentiment remains poor, investment intentions are flat and headcount continues to decline."

The key UK services sector saw profitability in the past three months, and optimism about the coming year, both falling sharply, according to the latest CBI sector services survey. Optimism about general professional services fell by -18%, the fastest pace for two years.

The rate of growth in new consumer credit fell to its lowest level for three years during October, according to Bank of England data released on Thursday. The news has implications for the level of consumer demand in the coming months as credit powers so many of our purchases. British consumers borrowed 7.5 per cent more than a year earlier, down from 10.9 per cent in November 2016, representing the slowest rate of annual growth since May 2015. The news tallies with the latest GfK consumer sentiment index, which fell to -13 in November from -10 in October, revealing signs that the economy is slowing. All the components in the widely-respected survey fell, including major purchase intentions. Consumers' confidence in the economy over the next 12 months was the worst since the global financial crisis.

UK house price growth edged up in November from October's low reading, but the outlook remains downbeat because of the uncertain economic horizon and a squeeze on household finances. According to the Nationwide House price index, the rate of house-price growth rose to 1.9 percent in November from 1.6 per cent in October.

Company announcements that caught our attention this week

Date	Company	Comment
29/11/2018	**Unilever**	On Thursday, Unilever announced that Paul Polman will retire as chief executive after a decade in charge. Alan Jope, currently head of beauty and personal care, will step into Mr Polman's shoes on 1 January 2019. Mr Jope, 54, has led beauty and personal care since 2014. The division was the company's largest last year, generating sales of €20.7bn (£18.4bn) or just under 40% of the company's total revenue. The announcement of Mr Polman's departure comes less than two months after a plan to consolidate Unilever's headquarters in Rotterdam was rejected by shareholders. Investors had protested that the move could have forced UK shareholders to sell their shares. The company said that Mr Jope will be supported by Mr Polman during a six-month transition period. Unfinished business includes a potential acquisition of Horlicks India from GlaxoSmithKline.
27/11/2018	**Pennon Group**	Water and waste utility Pennon Group reported a strong performance in the first half of its financial year and announced a 7% increase in the group's interim dividend. The FTSE 250-listed company posted an underlying pre-tax profit of £142.5m in the six months to the end of September, up 8.7% from the year earlier. Operating profit was up 10% mainly due to higher regulated revenues. The group's South West Water division reported a positive return on regulated equity of 11.6%. The group's UK recycling business Viridor benefited from the building of new energy recovery facilities, which convert waste into energy, in Glasgow, Beddington and Dunbar. The interim dividend was increased to 12.84p per share, in line with Pennon's policy of growing the dividend 4% above RPI inflation.

Key Company Diary Dates

Tue 4 Dec	**Greencore Group**	Full-year results
Thu 6 Dec	**Smith (DS)**	Half-year results
Thu 6 Dec	**Ted Baker**	Trading update

Economic highlights over the next week

Mon 3 Dec – Caixin Manufacturing PMI – The closely-watched Caixin manufacturing purchasing managers' index (PMI) came in at 50.1 in October, signalling sluggish activity in China's manufacturing sector.

Wed 5 Dec – UK Services PMI – The Markit services PMI dropped to a lower than expected 52.2 last month as services sector activity in the UK economy deteriorated more than expected.

Fri 7 Dec – US Nonfarm payrolls – America's widely quoted indicator of jobs growth jumped to 250,000 in October, as the unemployment rate stayed at 3.7%, the lowest since December 1969.

Index Movements*

Index	Value	%Change
FTSE 100	7,038.95	1.13%
FTSE 250	18,609.03	0.43%
AIM	932.39	0.82%
Dow Jones	25,338.84	3.57%
S&P 500	2,737.76	3.31%
Hang Seng	26,451.03	1.66%
Nikkei 225	22,262.60	2.85%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.28	-0.77%
£:€	1.12	-0.59%
£:¥	144.77	-0.48%

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

Sector	%Change
Technology	4.29%
Insurance	1.36%
Financial Services	1.18%
Chemicals	-0.89%
Oil & Gas	-1.47%
Basic Resources	-2.85%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Ocado Group	12.24%
Vodafone Group	10.37%
Kingfisher	8.92%
Taylor Wimpey	-5.99%
Persimmon	-7.38%
RIGHTMOVE	-7.63%

*Weekly movements up until close of business Thursday