# The Week in Perspective

15 February 2019

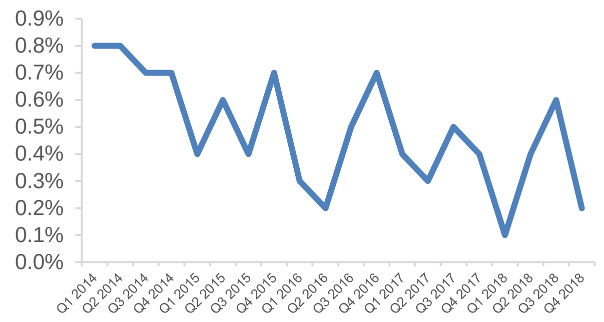
## Market Roundup

Equities "climbed a wall of worry" this week, with the FTSE100 steadily gaining ground despite the gloomy economic data and escalating Brexit tensions. The blue-chip index of Britain's 100 largest companies rose by 0.8% on Monday even as the Office for National Statistics announced that growth in the UK economy had slumped in 2018. Tuesday saw another positive day for the FTSE100, rising by 0.1%, although domestically focused companies were negatively impacted by rumours that Theresa May was planning for a no-deal Brexit. The housebuilding sector – a bellwether for the domestic economy – was worst affected, with shares in Barratt Developments, Persimmon and Taylor Wimpey down by 2.2%, 2.0% and 2.0% respectively. UK equities made solid gains on Wednesday, with the FTSE100 closing up by 0.8% at 7,190 as sentiment was buoyed by hopes of a breakthrough in the US/China trade negotiations. Inflation data also came in lower than expected – a boost for disposable incomes and welcomed by the market. Blue chips eked out another small gain on Thursday with the FTSE100 up by 0.1% to 7,232, its highest level since October. It was helped by the pound sinking to its lowest level in a month against the US dollar. Micro Focus International was the top gainer, gaining 13%, as it extended its share buyback programme, while AstraZeneca shares were up by 7.5% after announcing strong sales in its oncology division. In early trade on Friday, shares were heading up.

## Company Focus: Airbus

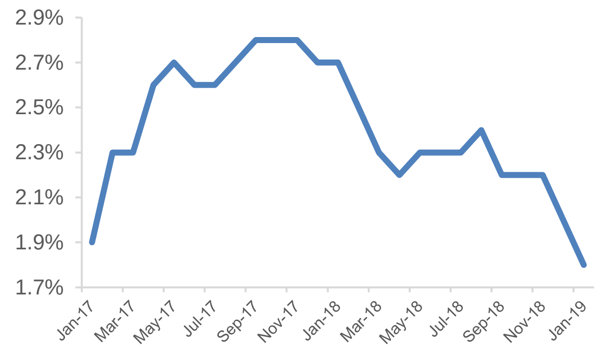
Airbus announced on Thursday that it will end the production of its A380 superjumbo passenger aircraft. The company said it had made the "painful" decision amidst struggling sales, as Emirates, the largest A380 customer, cut its order. The Dubai-based airline is reducing its planned fleet size of A380s by 39 aircraft from 162 to 123, ditching the superjumbo in favour of the latest generation Airbus A330neo and A350 aircraft. The final 14 A380s will be delivered to Emirates over the next two years. Nonetheless, Airbus announced stronger-than-expected fourth-quarter earnings and the company's positive guidance of higher aircraft deliveries and profits in 2019. Europe's largest aerospace group said quarterly adjusted operating profit was €3.1bn (£2.7bn) in the three months to December, up 56% on the same period a year earlier and revenues rose 11% to €23.3bn. Over the full year to the end of December 2018 revenues were €63.7bn, up from €59bn the year before. Reported earnings before interest and tax came in at €5.05bn, up from €2.67bn a year earlier. Airbus said it expects to deliver between 880 and 890 commercial aircraft in 2019, up from 800 last year. The company also expects to deliver a 15% higher operating profit this year.

Chart 1: UK (Q-O-Q) Growth Rate



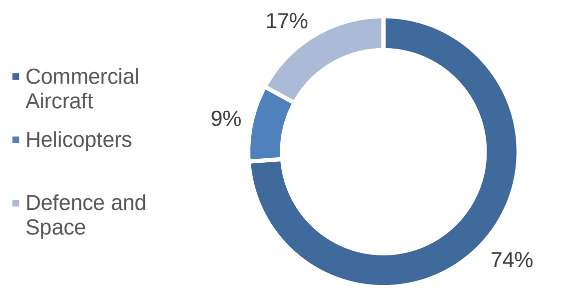

Source: ONS Data at 14/02/2019

Chart 2: UK Monthly CPI




Source: ONS Data at 14/02/2019

Chart 3: Airbus SE – Revenue by division




Source: Brewin Dolphin client note Data at 14/02/2019

## Economic Roundup

It was a mixed week for economic data, dominated by the revelation that UK economic growth almost stopped in its tracks at the end of 2018. Trade, manufacturing and business investment all slumped, according to data from the Office for National Statistics (ONS), and meant that the economy grew by just 0.2% in the final quarter. That translates to growth for the year of just 1.4%, the worst annual performance since 2009. Only government and household spending prevented the economy contracting over the period, although between November and December, economic growth did fall into negative territory, at -0.4%. Economists said that the performance was due to Brexit uncertainties combined with concerns about global growth. Many believe that it may get worse from here. The Bank of England last week forecast a further slowdown at the start of 2019, and said there was a 25% chance of a recession later in the year. Household spending may be bolstered by news that the rate of inflation fell below the Bank of England's 2% target for the first time in two years. The drop means more people will see increases in real wages, as more pay rises will exceed the rate of inflation. Recent data showed that pay growth had reached a 10-year high and the fall in inflation will add resilience to household finances. The ONS said consumer prices index (CPI), the preferred measure of inflation, dropped to 1.8% in January from 2.1% in December. Inflation was pulled down by falling electricity and gas costs after regulator Ofgem's energy price cap. However, Ofgem announced last week that the price cap will rise by 10% in April, which could mean inflation may rise back above the target within just a few months.

More evidence of a robust UK consumer came on Friday as the ONS reported a rebound in retail sales in January. Sales volumes rose by 1% after a disappointing December. The result was well ahead of expectations for a 0.2% increase. Sales were 4.2% higher than a year earlier, the best result since 2016.

There was more disappointing news on the housing front, however, chiming with a series of surveys that point to a slowing UK property market. The well-respected UK Residential Market Survey from the Royal Institution of Chartered Surveyors (RICS) showed that the market got off to a slow start in 2019, with enquiries, sales and new instructions all down due to continuing uncertainties around Brexit. The survey asks its members whether various market indicators such as prices, new instructions and agreed sales have improved, worsened or stayed the same. In response to the flow of new properties being listed in January, many more respondents answered that the number had declined, leading to a net balance of -25% on the RICS index. This is the worst reading for this measure since the EU referendum. New buyer enquiries also fell, for the sixth month in a row, with agreed sales slumping too. The average time taken to sell a property rose to 19.4 weeks, the longest since 2017 when RICS began measuring this metric. Looking ahead, respondents were downbeat on sales expectations for the coming three months in 11 out of the 12 regions covered. But the outlook for the next 12 months was better, with a net balance of +16% of respondents expecting sales to improve.

## Company announcements that caught our attention this week

| Date | Company | Comment |
|---|---|---|
| 13/02/2019 | **Whitbread** | Premier Inn owner Whitbread plans to return at least £2.5bn to shareholders following the sale of its Costa Coffee division. The sale of the coffee chain was agreed in August, with Coca-Cola agreeing to pay £3.9bn for the unit. Following the Costa deal, Whitbread began an initial share buyback programme of up to £500m last month. On Wednesday it announced plans to launch a tender offer for at least another £2bn worth of its shares. The company, which has shifted its focus almost entirely to hotels, also updated investors on its plans for the remainder of the proceeds. There will be a £380m pension contribution, £300m committed to the previously announced acquisition of a portfolio of hotels in Germany, and around £500m of short-term de-leveraging to "provide flexibility for future investment". |
| 14/02/2019 | **AstraZeneca** | AstraZeneca forecast a year of sales growth in 2019 after the company's fourth-quarter product sales beat expectations. The drug maker reported a 17% fall in core operating profit to $5.7bn (£4.4bn) for 2018. However, the group said a "very strong" end to the year saw product sales in the three to months to December rise 8%, with currency effects stripped out. Revenues in the fourth quarter rose 14% at constant exchange rates to $6.4bn. "Our new medicines performed particularly well across the therapy areas and the emerging markets business went from strength to strength," said Pascal Soriot, AstraZeneca's chief executive. The Anglo-Swedish group's fourth quarter earnings showed oncology drug sales rose 61% year-on-year to $1.77bn. Sales of products in China rose 22% to $948m. |

## Key Company Diary Dates

| | | |
|---|---|---|
| **Mon 18 Feb** | **Reckitt Benckiser** | Full-year results |
| **Tue 19 Feb** | **BHP** | Half-year results |
| **Wed 20 Feb** | **HSBC** | Full-year results |
| **Wed 20 Feb** | **Lloyds** | Full-year results |
| **Thu 21 Feb** | **BAE Systems** | Full-year results |

## Economic highlights over the next week

**Tue 19 Feb – Average earnings –** Average weekly earnings for all employees increased by 3.3% excluding bonuses in the three months to November 2018, compared with the previous year.

**Wed 20 Feb – CBI Industrial Trend Orders –** The Confederation for British Industry's monthly industrial orders balance fell to -1 in January from 8 in the previous month amid anxiety about a global economic slowdown and Brexit.

**Fri 22 Feb – Ifo Business Climate Index –** The Ifo Business Climate Index for Germany fell 1.9 points to 99.1 in January, the lowest reading since February 2016.

### Index Movements*

| Index | Value | %Change |
|---|---|---|
| FTSE 100 | 7,197 | 1.46% |
| FTSE 250 | 18,898 | 0.53% |
| AIM | 912 | -0.03% |
| Dow Jones | 25,439 | 1.07% |
| S&P 500 | 2,746 | 1.47% |
| Hang Seng | 28,432 | 1.58% |
| Nikkei 225 | 21,140 | 1.87% |

### Currency Movements*

| Currency Pair | Value | %Change |
|---|---|---|
| £:$ | 1.28 | -1.48% |
| £:€ | 1.13 | -0.78% |
| £:¥ | 141.50 | -0.62% |

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

| Sector | %Change |
|---|---|
| Technology | 4.11% |
| Chemicals | 0.76% |
| Basic Resources | 0.27% |
| Insurance | -0.75% |
| Financial Services | -0.94% |
| Oil & Gas | -1.35% |

### Best & worst FTSE 100 performing stocks*

| Company | %Change |
|---|---|
| Micro Focus Intl. | 11.41% |
| AstraZeneca | 8.79% |
| Smurfit Kappa Group | 8.48% |
| RIGHTMOVE | -5.47% |
| COCA-COLA HBC | -6.74% |
| TUI | -15.23% |

*Weekly movements up until close of business Thursday