BREWIN DOLPHIN

The Week in Perspective

29 March 2019

Market Roundup

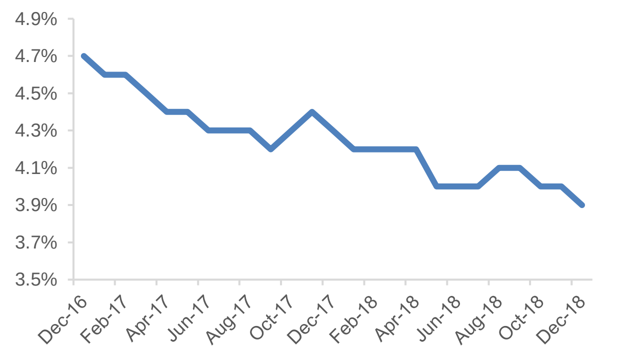
It has been a volatile week for UK equities as the Brexit saga intensified ahead of Friday afternoon's vote on Theresa May's stripped-down deal. The week started poorly for equities: the FTSE100 dropped by 0.4% on Monday as bond yields signalled a potential recession in the US, something that would have global ramifications. UK shares recouped some losses on Tuesday, with the FTSE100 up 0.3% and the more domestically-focused FTSE250 up by 0.5% as hopes increased of progress on Brexit after MPs voted to hold a series of indicative votes on different options. On the corporate front, Ocado shares rose 4% after it won a contract to develop an online store for Australian supermarket giant Coles. Shares were flat on Wednesday ahead of the indicative votes but pro-remain sentiment was soured with leading brexiters such as Jacob Rees-Mogg suggesting they would now back Theresa May's stripped-down withdrawal bill, after she announced she would step down as prime minister if her deal is passed. Blue chips rose on Thursday with the FTSE100 gaining 0.6%, but the FTSE250 was more muted, rising 0.1%. None of the eight indicative votes won a majority on Wednesday evening, leaving the Brexit process as uncertain as ever. In early trade on Friday, shares were heading up.

Company Focus: Ferguson

Ferguson plans to relocate its headquarters back to London from Switzerland, following changes in Swiss tax rules. In 2010, Ferguson, then known as Wolseley, moved its headquarters and tax base from the UK to Switzerland in a bid to cut its expenses. On Tuesday, the group said that moving its HQ back to the UK would simplify the company's corporate structure "following recently announced Swiss tax reform which will reduce the benefits of continuing to be tax resident there".

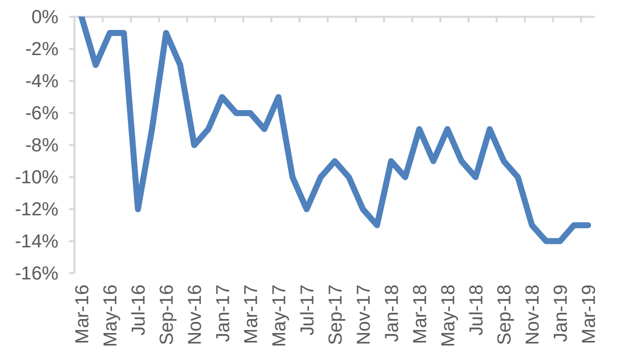
The news came as the FTSE100 plumbing and heating group announced profits for this year would be at the lower end of analysts' expectations. Ferguson said it expects organic growth of 3% to 5% for the six months to July 2019, compared with 6.5% in the six months to January. Despite this expected slowdown, the company said that in the US "which accounts for 83% of ongoing revenue, markets remained good and the businesses continued to take market share". Ferguson reported US organic revenue growth, at constant exchange rates, of 9.7% in the six months to 31 January. In the UK, by contrast, like-for-like revenue growth was just 0.3%. For the six-month period, the group posted an 8.2% rise in revenue to $10.8bn (£8.2bn). Pre-tax profit was up 5% to $676m.

Chart 1: Nationwide House Prices Y-O-Y Growth rate



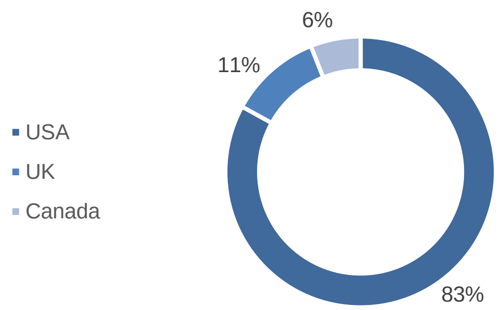
Source: Refinitiv Data at 29/03/2019

Chart 2: UK Inflation Rate and Wage Growth



Source: Refinitiv Data at 29/03/2019

Chart 3: Ferguson – Revenue



Source: Brewin Dolphin client note Data at 29/03/201

Economic Roundup

It has been a week of largely downbeat news, with Brexit continuing to undermine confidence in many parts of the UK economy. Two surveys this week revealed a sharply declining housing market. On Tuesday, UK Finance, which represents the banking sector, said that mortgage approvals had fallen to their lowest levels in six years as confidence drained away and fewer homes were being put up for sale.

On Friday, Nationwide's House Price Index showed UK prices virtually stalled in March, rising at an annual rate of 0.7% nationally, but falling by 3.8% in London compared to a year earlier, the worst performance in a decade.

Two further surveys revealed the downbeat mood of UK consumers. The Confederation of British Industry (CBI) Industrial Trends Survey showed retail sales falling sharply in March, with Brexit blamed for dampening spending. The survey found 23% of firms saw rising sales in March while 46% reported falling sales. The results represented the fastest contraction in sales in 17 months. March is now the fourth consecutive month where sales have not grown. On Friday, the respected GfK Consumer Confidence Index produced a downbeat reading of -13 for March, deteriorating from a reading of -7 a year ago. The European Commission also produces a UK version of the data which is seasonally adjusted. On this basis, consumer confidence is at its lowest level since 2013.

GDP data for the last quarter of 2018 was revised up in the UK on Friday. The Office for National Statistics (ONS) said that while the economy still grew by 0.2% in the fourth quarter, the annualised rate of growth for 2018 was revised up from 1.3% to 1.4%, still the weakest reading since 2012 and down from the 1.8% growth achieved in 2017.

Meanwhile in the US this week, GDP growth for 2018 was revised down in the fourth quarter, from 2.6% to 2.2%. That reduced the annual pace of growth in the world's largest economy to 2.9%, still the strongest since 2015. The news came after bond yields earlier in the week flashed warning signs of a US recession, which sent share markets in the US and Asia tumbling.

Other indicators of sentiment and business conditions in the UK this week were also disappointing. On Monday, a survey by the CBI and PwC found confidence within the City of London was deteriorating at the fastest rate since the financial crisis. More than half of the firms surveyed said that they were less optimistic about the overall business situation in the City than they were three months ago. The survey index reading of -43% is a sharp decline from the previous quarter's reading of -24%, the steepest since 2008. Additionally, a survey released on Wednesday by the Recruitment and Employment Confederation, said employers are scaling back hiring and investment plans as the ongoing Brexit uncertainty erodes confidence. The trade body said that employers' confidence in British economic prospects had dropped by eight percentage points in March compared to February, to its lowest level since the survey began. Confidence in hiring and investment decisions at employers' own firms fell into negative territory for the first time since the EU referendum in 2016.

Company announcements that caught our attention this week

Date	Company	Comment
27/03/2019	**Bellway Homes**	In February, Bellway provided the market with a detailed trading update with data on both volumes and average selling prices. As a result, there were no surprises in the housebuilder's half-year results announced on Wednesday. The number of private completions was up 4% to 3,928 homes, while the number of affordable home completions rose nearly 11% to 1,079, representing 22% of the total. For the full financial year, the proportion of social completions is expected to rise further. London represents around 10% of total Bellway completions. The company said that, despite the current trading conditions in the capital, it has now exchanged or completed 95% of the apartments at the flagship Nine Elms development in Battersea. Net debt at the end of January was £26.6m and Bellway is expected to have net cash of more than £150m by the end of July when the spring selling season has ended.
28/03/2019	**Johnson Matthey**	Johnson Matthey has secured a site in Poland to produce its enhanced lithium nickel oxide (eLNO) material destined for the electric vehicle market. The chemicals company has also signed a 10-year supply of lithium hydroxide used in the manufacture of eLNO. A new type of battery material for electric vehicles, eLNO currently has the best performance in terms of energy, density, power, range, life cycle and safety in the market. It is more flexible that other technologies based on cobalt and nickel. Commercial production is expected to begin in 2021/22 at Konin, about 200 kilometres west of Warsaw. The plant will initially produce 10,000 million tonnes a year, with the potential to expand to 100,000 million tonnes per annum.

Key Company Diary Dates

Wed 03 Apr	**AA**	Full-year results
Thu 04 Apr	**Saga**	Full-year results
Fri 05 Apr	**GVC Holdings**	Trading update

Economic highlights over the next week

Mon 01 Apr – Markit/CIPS Manufacturing PMI – In February the UK manufacturing purchasing managers' index was 52.0, down from 52.6, its second-lowest level since July 2016.

Mon 01 Apr – China Caixin Manufacturing PMI – With global growth slowing, economists will also be keeping a close eye on the Chinese barometer of manufacturing growth.

Fri 05 Apr – US Non-Farm Payrolls – US employers added just 20,000 jobs in February, far less than the 180,000 economists had predicted. It was the worst month for job creation since September 2017.

Index Movements*

Index	Value	%Change
FTSE 100	7,234	-1.64%
FTSE 250	18,909	-2.27%
AIM	911	-1.26%
Dow Jones	25,717	-0.94%
S&P 500	2,815	-1.38%
Hang Seng	28,775	-1.02%
Nikkei 225	21,034	-2.66%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.31	0.11%
£:€	1.16	1.23%
£:¥	144.67	-0.16%

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

Sector	%Change
Basic Resources	1.75%
Technology	1.48%
Chemicals	0.54%
Financial Services	0.12%
Oil & Gas	-1.06%
Insurance	-1.58%

Best & worst FTSE 100 performing stocks*

Company	%Change
OCADO GROUP	9.32%
Next	3.39%
Fresnillo	3.34%
RIGHTMOVE	-9.20%
NMC Health	-12.02%
CARNIVAL	-12.34%

*Weekly movements up until close of business Thursday