

# The Week in Perspective

24 May 2019

## Market Roundup

UK and US equities lost ground this week as the flow of negative economic and political news continued. Markets have been unsettled by Prime Minister Theresa May's imminent departure, which will potentially open the door to a hardline Brexiter in order to meet the challenge from Nigel Farage and the Brexit party. On the international front, trade talks between China and the US deteriorated, with no new talks scheduled. US stocks have lost 1.2% since Monday. Similarly, both the Shanghai Composite and CSI300 have struggled through May, down 7.3% and 8.4%, respectively.

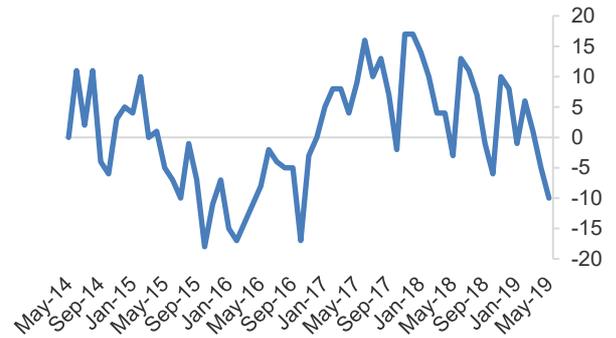
On Monday, UK stocks fell amid the general gloom, with house-builders hardest hit, weighed down by Brexit concerns and a report by Rightmove highlighting continued weakness in the key London property market. The FTSE100 closed down by 0.5% and the more domestically-focused FTSE250 fell by 0.8%. Shares staged a rebound on Tuesday as Donald Trump granted Huawei a reprieve for three months to alleviate trade tensions. Both the FTSE100 and FTSE250 rose 0.5%.

Wednesday saw a mixed performance, as the FTSE100 eked out a small gain helped by a weaker pound as pressure on Theresa May increased. The FTSE250 closed down by 0.5%. The FTSE100 and FTSE250 indices both shed 1.4% on Thursday as the trade war rhetoric intensified. The worry is that markets may have to fall further for Donald Trump to hold out a substantive olive branch to China and get talks back on track. In early trading on Friday, shares were heading up.

## Company Focus: M&S

On Wednesday Marks & Spencer reported another poor set of results, triggering a share price fall that has put the group in danger of falling out of the FTSE100 for the first time in its history. The share-price fell by 9% following publication of results showing revenue down 3% in the year to 31 March. Pre-tax profit dropped 10% to £523.2m and the Board outlined plans to reduce the dividend per share by 40%. The final dividend for 2018-19 will be 7.1p a share. The high-street stalwart also announced a discounted £601.3m rights issue to pay for a venture with Ocado, the online grocer. M&S disclosed that the one-for-five rights issue would be priced at 185p a share. M&S also revealed it will close another 85 full-line stores and 25 smaller Simply Food outlets, on top of the 35 it has already shut. However, chief executive Steve Rowe said: "We remain on track with our transformation and are now well on the road to making M&S special again".

Chart 1: UK CBI, Industrial Trends (orders)



Source: Refinitiv

Data at 24/05/2019

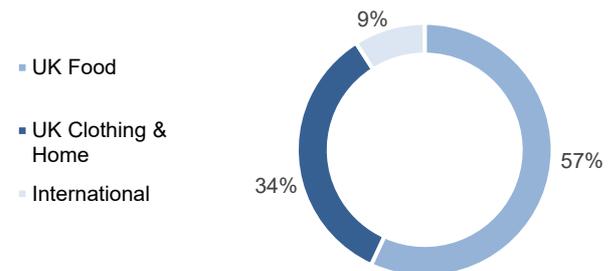
Chart 2: UK CPI, annual percentage change



Source: Refinitiv

Data at 24/05/2019

Chart 3: M&S – Revenue by division



Source: Company reports

Data at 24/05/2019

## Economic Roundup

Theresa May announced this morning that she will resign on June 7 after being told that her revamped Brexit deal had no chance of passing. Her resignation will trigger a leadership contest the following week in which Boris Johnson is the firm favourite. Whoever succeeds her is likely to take a hard stance on Brexit but will inherit a divided parliament where there has been no majority for any of the Brexit options put before it. However, the leader must somehow unite the Conservatives and woo disillusioned voters who, polls suggest, have switched to Nigel Farage's Brexit Party in the European Elections, held yesterday in the UK. There will be no results announced until Sunday evening because most other EU member states will be holding their votes that day. However, the latest polling average has put the Brexit Party on 33%, compared to 18.5% for Labour, 16.8% for the Liberal Democrats and 11.8% for the Conservatives. If correct it would be the Tories' worst share of the vote in a national election since they were founded in 1834.

The trade war between the US and China escalated dangerously as the talks between the world's two largest economies deteriorated. The failure to reach a deal prompted Chinese President Xi Jinping to call for a new "Long March", a reference to the 1934 tactical retreat by the Communists under Mao Zedong that enabled them to regroup and eventually win their battle with the ruling Nationalists. He also insisted the US correct its "wrong actions" or the talks would not resume.

The dispute was part of the reason that the Organisation for Economic Cooperation and Development (OECD) cut its global growth forecast for the year from 3.3% to 3.2%, whilst urging governments to resolve their trade issues.

At home, inflation moved above the Bank of England's 2% target in April as a result of rising energy prices. The Office for National Statistics (ONS) said that inflation hit 2.1% last month, up from 1.9% in March, as the energy regulator Ofgem lifted its cap on gas and electricity prices. Electricity prices rose by 10.9% between March and April, and gas was up by 9.3%. The reading was less than the 2.2% predicted by economists.

The UK property market appeared to flatline in May, but the capital is seeing outright price falls, according to a survey by property group Rightmove. It said house prices were 0.1% higher on an annualised basis in May, compared to a 0.1% drop the month before. It added that four out of 11 regions were seeing prices rise, with Wales, the West and East Midlands and the North West all setting record highs. In London, however, only two of the 32 boroughs saw price increases.

UK manufacturers saw the biggest monthly fall in orders since late 2016, as the effects of pre-Brexit stockpiling before the original March deadline washed out of the data. The Confederation of British Industry (CBI), said that its monthly order book reading fell to -10 from -5 in April, worse than all analysts' forecasts, in a poll by Reuters. It is the worst reading since October 2016 and particularly worrying because orders usually rise in May. Factories are now sitting on the largest inventories of finished goods since late in the financial crisis in 2009, and data suggests a potential downturn for the sector in the second quarter. The Bank of England expects the UK economy to grow by just 0.2% in the second quarter, less than half the figure recorded in the first quarter.

## Company announcements that caught our attention this week

Date	Company	Comment
21/05/2019	<b>Galliford Try</b>	The market breathed a huge sigh of relief as the latest update from Galliford Try contained no more bad news for investors. However, things weren't so positive for the group's employees as it announced plans to shrink its construction activity by nearly a third and axe 350 jobs. Last month, the FTSE-250 company announced a review of its construction business and warned that its pre-tax profit would be as much as £40m lower than analysts' expectations of £156m. In this week's trading update, the group confirmed that the restructure was going ahead "to simplify the business and management structure and to refocus on key strengths in markets and sectors with long-term growth and profitability potential". With only "a handful" of negative construction contracts left on the book and no more fixed-price major contracts, it is tempting to think that the worst is now over.
23/05/2019	<b>Merlin Entertainments</b>	US activist investment group ValueAct Capital has urged Merlin Entertainments to seek a buyer to take it private, claiming it could fetch around 30% more than its current market valuation. Merlin, which floated in 2013, is the world's second-biggest visitor attractions group. Returns on invested capital at the group, the owner of Madame Tussauds and Legoland, have been declining steadily since the group listed. In an open letter to the chairman, ValueAct said: "Private ownership is simply better placed than current public shareholders to underwrite the investments Merlin must make, and to align employee incentives appropriately". However, Merlin's board said it would be best for shareholders that it continues with its current strategy "to create a high growth, high return, family entertainment company".

## Key Company diary dates

Wed 29 May	Aveva Group	Full-year results
Wed 29 May	Stobart Group	Full-year results
Thu 30 May	FirstGroup	Full-year results

## Economic highlights over the next week

**Tue 28 May – Euro Area Business Confidence** – The Business Climate Indicator for the euro area fell to 0.42 in April, the lowest reading since August 2016.

**Thu 30 May – US GDP** – Previous figures have suggested that growth in the US was much stronger than expected at the start of the year.

**Fri 31 May – GfK Consumer Confidence** – The long-running GfK consumer confidence index held steady for a third month at -13 in April.

### Index Movements\*

Index	Value	%Change
FTSE 100	7,334	0.51%
FTSE 250	19,307	-0.32%
AIM	966	0.84%
Dow Jones	25,777	0.50%
S&P 500	2,856	0.19%
Hang Seng	27,706	-1.99%
Nikkei 225	21,283	0.45%

### Currency Movements\*

Currency Pair	Value	%Change
£:\$	1.29	-0.79%
£:€	1.16	0.10%
£:¥	143.85	-1.17%

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

Sector	%Change
Technology	7.12%
Oil & Gas	1.55%
Basic Resources	0.47%
Financial Services	0.13%
Chemicals	-0.26%
Insurance	-0.36%

### Best & worst FTSE 100 performing stocks\*

Company	%Change
Micro Focus Intl.	8.65%
Sage Group	7.76%
Smurfit Kappa Group	6.37%
SSE	-6.93%
IAG	-6.93%
Marks & Spencer Group	-10.42%

\*Weekly movements up until close of business Thursday

### Important Notes:

**Main source of information: Company Report and Accounts, Bloomberg**

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