

# The Week in Perspective

31 May 2019

## Market Roundup

Stocks around the world have struggled this week as fears about global growth and trade wars intensified amid deteriorating relations between the US and China. President Trump warned that tariffs on Chinese goods could “go up very substantially, very easily” while China hinted on Tuesday that it may stop exports of rare earth commodities to the US, which are essential to its tech and electronics industries.

Shares in the UK and US fell in response – the FTSE100 closed down by 0.1% on Tuesday and the S&P500 fell by 1% to 2,802. Meanwhile, tensions rose between Italy and the EU as Italy was told it could be fined for failing to curb its debts, resulting in falling markets across Europe.

Shares were down again on Wednesday, with the FTSE100 losing 1.2% to close at 7,185, while in the US the S&P500 also closed lower. On Thursday, however, shares in both the UK and US rebounded, with the FTSE100 closing up by 0.5% and the FTSE250 gaining 0.9% after Labour’s Shadow Chancellor backed a second referendum.

The US was buoyed by dovish comments from the Federal Reserve on interest rates, and surprisingly solid GDP data for the first quarter.

In early trading on Friday, shares were heading down.

## Company Focus: FirstGroup

FirstGroup has announced plans to sell its struggling Greyhound US intercity coach business and is looking at spinning off its UK bus arm, First Bus.

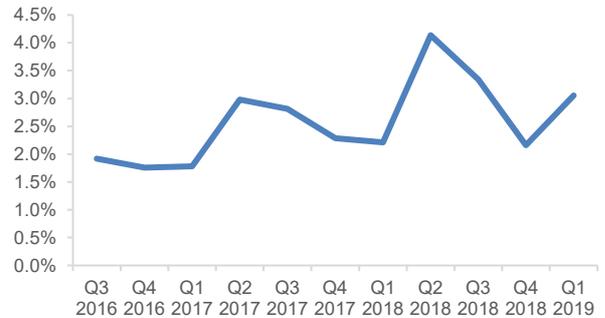
Matthew Gregory, chief executive, also indicated that the group’s UK rail franchises, including Great Western Railway and TransPennine Express, will be reviewed.

Since Mr Gregory took the helm last November the board at First-Group has been under pressure from a US activist investor calling for changes at the group. Coast Capital Management, the company’s second-largest shareholder, has been seeking to replace six of the group’s eleven directors.

FirstGroup said on Thursday that it will concentrate on First Student, the biggest provider of school transportation in the US, and First Transit, a North American bus company.

The FTSE250 company announced the restructuring alongside a mixed set of full-year results. The group reported narrowed pre-tax losses of £97.9m for the year to 31 March against £326.9m the previous year. Revenue for the year was up 11% at £7.1bn but earnings before interest, tax, depreciation and amortisation declined 3% to £670m.

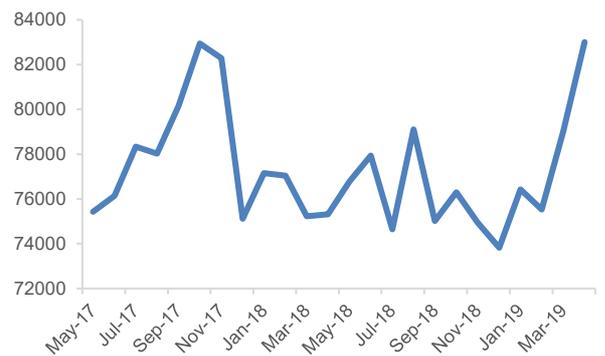
Chart 1: US GDP annualised growth rate



Source: Refinitiv

Data at 30/05/2019

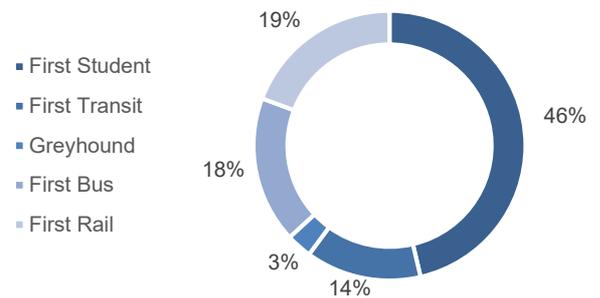
Chart 2: UK Monthly Mortgage Approvals



Source: Refinitiv

Data at 30/05/2019

Chart 3: FirstGroup – Operating Profit



Source: Brewin Dolphin client note

Data at 30/05/2019

## Economic Roundup

Worries about a slowdown in global growth and a US recession both escalated this week as relations between the US and China further soured. President Trump also opened up a new trade war front with Mexico.

Stock markets responded to China's threat to stop exports of rare earth commodities to the US with sharp losses and a rush to the relative safety of government bonds, leading to yields on US Treasuries rising to their lowest level in 19 months, stoking concerns about a possible US recession on the horizon.

Recession fears were partially alleviated on Thursday when a report by the US Commerce Department showed US GDP holding up better than expected in the first quarter. It was trimmed to an annualised rate of 3.1%, above analysts' estimates of an adjustment down to 3%. It showed that the US economy was growing well until the escalation of the trade war with China. More recent forecasts about the second quarter are a little more downbeat, and the ongoing trade spat is raising doubts that such a healthy pace of growth can be sustained. Markets were unsettled again on Friday as Donald Trump said overnight that he would impose a 5% tariff on all imports from Mexico from June 10, rising to 25% by October, unless the Mexican government curbs illegal immigration into the US.

On home turf there was some rare upbeat news for the property market, as trade association UK Finance released data showing that mortgage approvals had hit their highest level since February 2017, rising from 40,564 in March to 42,989 in April, far above expectations for a reading of 39,500. The data suggests that the market is holding up surprisingly well, given political turmoil and uncertainties over Brexit. The survey includes only seven high street banks but they include around two thirds of the UK market, so are considered representative. Gareth Lewis, commercial director of MT Finance, a lender, said, "These figures are as good as we could expect...house purchases are up, which is encouraging because it means people are still going ahead and buying property even though you might expect them to hold fire because of the political outlook."

Another barometer of UK consumer sentiment released on Friday also showed Brits to be at their most optimistic in nine months. The long-running Gfk Consumer Confidence index improved from a reading of -13 to a reading of -10, in April. Although the reading is still in negative territory, the lower number suggests the mood is getting better. However, there was a big divide between respondents' relatively optimistic views of their own financial situation and the far bleaker view of prospects for the broader economy. In addition, consumers appear far more confident than businesses. Samuel Tombs, economist at Pantheon Macroeconomic, said that the gap between consumer and business confidence has grown "from a fissure to a chasm." He said: "While Gfk data shows confidence in the outlook for their personal finances now slightly exceeds its 30-year average, our re-weighted version of the business confidence indices - where the weights reflect sectors' shares of GDP - fell to its lowest level since April 2013 and points to year-over-year GDP growth falling to about 1.0%"

## Company announcements that caught our attention this week:

Date	Company	Comment
28/05/2019	<b>Bovis Homes /Galliford Try</b>	<p>Bovis Homes revealed it had offered £950m for Galliford Try's housebuilding unit before being rebuffed. Galliford had announced the previous weekend that it had rejected a bid from Bovis to buy its Linden Homes and Partnerships and Regeneration businesses in exchange for new Bovis Homes shares. The proposal had also involved Bovis covering a £100m debt placement by Galliford Try.</p> <p>In a statement, Galliford Try said: "The Galliford Try board carefully considered the Bovis Homes proposal together with its financial adviser, Rothschild &amp; Co. The board rejected the Bovis Homes proposal as it believes it does not fully value the Linden Homes and Partnerships and Regeneration divisions and is not in the interests of all shareholders."</p>
29/05/2019	<b>Aveva Group</b>	<p>Aveva Group announced that its profit rose in the first full financial year since its merger with France's Schneider Electric. Aveva agreed to merge with the software arm of Schneider Electric in late 2017, creating a company worth about £3bn. The FTSE 250 engineering and industrial software company said that in the year to the end of March the combined company delivered an 11.9% increase in revenue to £775.2m. Pre-tax profit rose 35.4% to £46.7m. The final dividend was up 7.4% to 29p per share.</p> <p>Chief executive Craig Hayman said: "We remain confident in the outlook and in meeting our medium-term targets of delivering revenue growth at least in-line with the industrial software market, increasing recurring revenue as a percentage of overall revenue to 60% and improving Aveva's adjusted EBIT margin to 30%."</p>

## Key Company Diary Dates

Wed 05 June	Workspace Group	Full-year results
Thu 06 June	Go-Ahead Group	Trading update
Thu 06 June	Auto Trader Group	Full-year results

## Economic highlights over the next week

**Mon 03 June – Manufacturing PMI** – An important indicator of confidence in the sector, the Markit/CIPS UK Manufacturing Purchasing Managers' Index fell to 53.1 in April.

**Thu 06 June – US Balance of Trade** – Economists will be looking to see how America's trade deficit has been affected by the US-China trade war.

**Fri 07 June – US Non-Farm Payrolls** – The monthly assessment of the US jobs markets is one of the most closely watched American economic statistics.

### Index Movements\*

Index	Value	%Change
FTSE 100	7,218	-0.18%
FTSE 250	19,112	0.42%
AIM	962	0.44%
Dow Jones	25,170	-1.26%
S&P 500	2,789	-1.18%
Hang Seng	27,115	-0.56%
Nikkei 225	20,943	-0.99%

### Currency Movements\*

Currency Pair	Value	%Change
£:\$	1.26	-0.61%
£:€	1.13	-0.40%
£:¥	138.30	-0.51%

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

Sector	%Change
Insurance	1.52%
Basic Resources	1.46%
Financial Services	0.83%
Oil & Gas	-0.27%
Technology	-0.56%
Chemicals	-0.89%

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

Company	%Change
Vodafone Group	5.37%
STANDARD LIFE ABERDEEN	4.37%
INTERTEK GROUP	4.17%
RIGHTMOVE	-4.91%
Imperial Brands	-5.46%
Hikma Pharmaceuticals	-6.41%

\*Weekly movements up until close of business Thursday

## Important Notes:

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

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