The Week in Perspective

16th November 2018

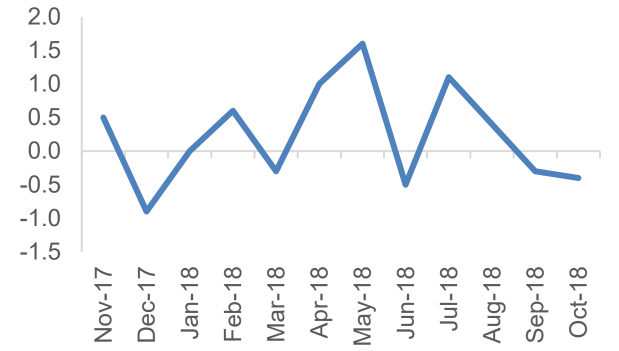
Market Roundup

Stocks held up remarkably well although some UK exposed stocks were hit hard as the Brexit saga took a dramatic turn this week. The UK market started cautiously as Tobacco firms sold off amid reports that US authorities were examining banning menthol cigarettes and imposing stricter rules around vaping products. BAT shares fell by more than 10.0% on the news. Tuesday saw a flat session, with the blue-chip index finishing fractionally higher, as data showed wage growth was now beating inflation. Tobacco stocks had another bad day while oil stocks suffered as crude prices fell by 4.0%. Wednesday, all eyes were on Theresa May and the Brexit deal she presented to the cabinet but on Thursday, while the FTSE 100 suffered only minor losses, companies exposed to the UK economy took a battering. UK housebuilders dropped to the bottom of the board, with Persimmon and Barratt Developments both finishing the day down 7.4%. Banks were also hit because of worries about the damage a no-deal Brexit could cause, with Royal Bank of Scotland shares down by 10%, Lloyds by 5.0% and Barclays 4.0%. As the resignations rolled in, the pound weakened, which helped boost stocks of companies that earn money in dollars. An estimated 75.0% of the FTSE 100’s revenue comes from overseas. However, the more domestically focused FTSE 250 index saw a decline of 1.7%. In early trading on Friday, shares were heading up, following a positive session on Wall Street.

Company Focus: Taylor Wimpey

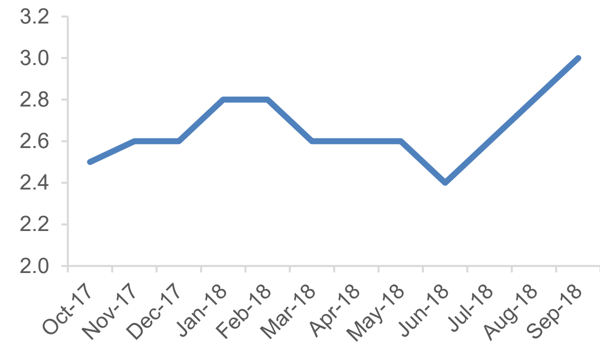
Market sentiment towards housebuilders is poor. However, a trading statement from Taylor Wimpey shows that there are still buyers out there. The company’s forward order book of £2.4bn is 9.0% ahead of the equivalent period in 2017. That represents 9,783 homes which is 12.0% above last year. As a result of the “strong” performance year to date the company expects to meet full-year expectations. The group said that customer demand for new build homes continues to be robust underpinned by low interest rates, a wide choice of mortgage deals and the Government's Help-to-Buy scheme. The government announced it would be extended in last month’s Budget. Looking ahead to 2019, the group notes some signs of customer caution, particularly in the South East of England. As a result, it expects next year’s volumes to be flat. However, management sees “potential for significant growth from 2020 onward” as the company transitions to a new strategy. The company also used the update to reiterate a commitment to return £600m to shareholders in 2019 via dividends, a 20.0% increase on 2018. This gives Taylor Wimpey a total dividend yield of over 11.0%.

Chart 1: UK Monthly Retail Sales Growth (M-O-M)



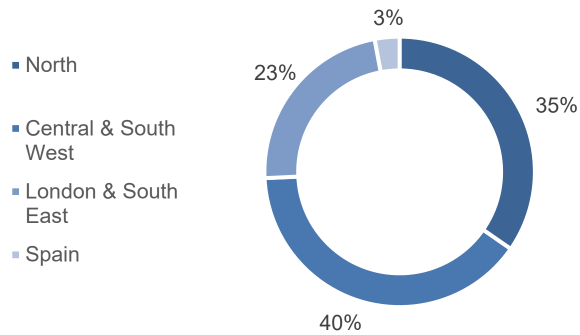
Source: Bloomberg Data at 08/11/2018

Chart 2: UK Rolling 3-month Wage Growth



Source: ONS Data at 08/11/2018

Chart 3: Taylor Wimpey – Operating Profit by division



Source: Brewin Dolphin client note Data at 15/11/2018

Economic Roundup

Wage growth in the UK reached its fastest pace in a decade according to data released on Monday. The Office for National Statistics said that wage growth was 3.2% in the three months to the end of September, the best figure since the last quarter of 2008. Unemployment remained near record lows at 4.1%, helping push wages higher. While the news was welcomed, analysts pointed out that real wage growth was still not as high as in 2015 and had not yet returned to 2008 levels, although the fact that it was at least keeping pace with the cost of living means that most people are not seeing their income fall in real terms.

Amid all the Brexit chaos on Wednesday, the Office for National Statistics revealed inflation remained at an annualised 2.4% in October, the same figure as September. Rising utility prices placed upwards pressure on the cost of living but food prices fell sharply, offsetting the impact of rising energy costs.

Meanwhile Germany, Europe's largest economy, contracted for the first time in over three years in the third quarter. Its car-making industry has been hit by delays in meeting new emissions standards, and exports to China are also down.

UK retail sales disappointed in October, defying forecasts for an uptick on September's poor showing. The Office for National Statistics (ONS) said retail sales fell by 0.5% in October. Excluding fuel, sales were down by 0.4%, with a substantial 3.0% fall in sales of household goods. Compared to a year ago, sales were up 2.2%, down from an annualised 3.3% in September. The broader story is that sales have failed to bounce back from the dip following the strong consumer spending data from the hot summer. In addition, the proportion of retail sales transacted online has risen to 18.0% from 17.8% the month before, impacting bricks and mortar retailers on the high street.

Business leaders called on the government this week to tackle the growing skills shortage in the UK as data released by the ONS this week showed that the number of EU workers arriving in the UK is dropping at the fastest rate since records began. This is ahead of the new, tougher visa rules intended to be implemented post Brexit. Neil Carberry, chief executive of the Recruitment and Employment Confederation (REC), said clarity was urgently needed over the proposed visa regime given the delays in publishing the white paper, which was promised over a year ago. "We need to move quickly to reassure people that there is a future for them here in the UK." Economic sectors such as construction, food production and hospitality rely heavily on EU labour but while the government has promised a seasonal visa for agricultural workers for harvest season it has made no similar promises to other sectors reliant on EU labour.

Adding to worries of a slowing global economy, credit growth expanded at its slowest rate on record in China, the world's second largest economy, while sales of property also fell, prompting talk of renewed fiscal stimulus to maintain economic growth. Broad credit grew at 11.0% last month, according to the Chinese central bank. China has already loosened monetary policy and incentivised banks to lend by imposing less stringent capital requirements, but lending figures have still disappointed.

Company announcements that caught our attention this week

Date	Company	Comment
13/11/2018	**Vodafone**	Vodafone pledged to maintain its dividend this week, as the company's new chief executive promised to cut costs and boost growth. Unveiling his plans alongside the group's half-year results, Nick Read said he was targeting €1.2bn (£1.1bn) of cost savings by 2021. "Looking ahead, my new strategic priorities focus on driving greater consistency of commercial execution, accelerating digital transformation, radically simplifying our operating model and generating better returns from our infrastructure assets," said Mr Read, who was promoted to chief executive in October. The company reported a first-half loss of €7.8bn, against a profit of €1.2bn in the same period last year. The loss was triggered by impairment charges in Romania and Spain and a loss being booked on the disposal of Vodafone India. Revenue in the six months to 30 September dropped 5.5% to €21.8bn. The interim dividend of 4.84 cents is flat year on year.
14/11/2018	**Smiths Group**	UK engineering conglomerate Smiths Group announced its intention to separate Smiths Medical from the rest of the group. This follows continued weakness in the division as well as a failed attempt at a combination with ICU Medical earlier in the year. The group also updated the market on its first quarter trading. Underlying revenue in the three months ended 31 October was down 1%. The exact details of the proposed separation, "which is at an early stage", are yet to be announced, but Smiths said it would update investors at the group's interim results in March next year. Chief executive Andy Reynolds Smith said: "This planned separation will strengthen both Smiths and Smiths Medical as they each focus on accelerating the execution of their plans and maximising the opportunities in their respective markets."

Key Company Diary Dates

Tue 20 Nov	**Compass Group**	Final results
Tue 20 Nov	**easyJet**	Final results
Wed 21 Nov	**Kingfisher**	Trading update
Wed 21 Nov	**United Utilities**	Half-year results
Thu 22 Nov	**Severn Trent**	Half-year results

Economic highlights over the next week

Tue 20 Nov – CBI Industrial Trends Orders – The Confederation for British Industry's monthly industrial orders balance fell to a two-year low of -6 in October.

Wed 21 Nov – Public Sector Net Borrowing – Excluding state-controlled banks, the budget deficit in the UK narrowed to £4.12bn in September from £4.96bn in the same month a year earlier.

Thu 22 Nov – Eurozone Consumer Confidence – The consumer confidence indicator in the eurozone rose slightly to -2.7 in October, well above its long-term average of -12.1.

Index Movements*

Index	Value	%Change
FTSE 100	7,038.01	-1.44
FTSE 250	18,662.21	-3.09
AIM	967.59	-3.39
Dow Jones	25,289.27	-3.44
S&P 500	2,730.20	-2.73
Hang Seng	26,103.34	-0.47
Nikkei 225	21,803.62	-3.04

Currency Movements*

Currency Pair	Value	%Change
£:$	1.28	-2.60
£:€	1.13	-1.67
£:¥	144.80	-3.07

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

Sector	%Change
Basic Resources	0.55%
Insurance	0.37%
Financial Services	0.25%
Chemicals	0.06%
Technology	-0.88%
Oil & Gas	-1.18%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Micro Focus Intl.	9.00%
MELROSE INDUSTRIES	6.82%
RELX	6.34%
RIGHTMOVE	-11.35%
Just Eat	-12.33%
British American Tobacco	-17.69%

*Weekly movements up until close of business Thursday