BREWIN DOLPHIN

The Week in Perspective

12 April 2019

Market Roundup

UK equities struggled to make much headway this week with the Brexit saga still looming large and a downgrade to global growth forecasts from the International Monetary Fund (IMF). The FTSE100 rose just 0.1% on Monday before falling by 0.35% on Tuesday after the global growth warning from the IMF. The blue-chip index dropped fractionally again on Wednesday.

On the corporate front, drugs company Invidior gained 5% on Monday after the company announced positive results to a clinical study for its treatment of opioid addiction. But on Wednesday the FTSE250-listed stock lost over 70% of its value after it was charged in the US with using a fraudulent marketing scheme to increase prescriptions of its addiction treatments. The company is contesting the charges.

It was a good week for Tesco shareholders. The supermarket chain unveiled strong results on Wednesday and shares rose by 3.6% in response, with a further gain of 2.4% on Thursday.

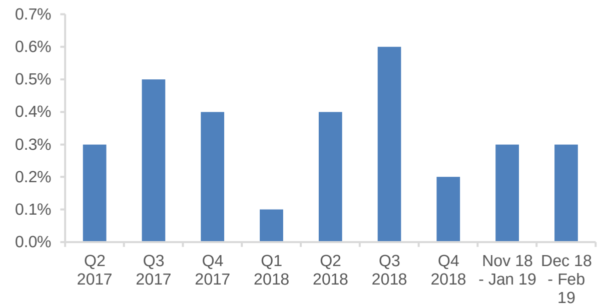
The EU granted Theresa May a six-month extension to Article 50 on Wednesday, giving a new leaving date of October 31, with a review in June. The continued uncertainty weighed on blue chips, with the FTSE100 closing slightly down on Thursday, while the more domestically-focused FTSE250 managed a 0.6% gain. EasyJet was a big winner on the day as the Brexit delay pushed any implications of a no-deal Brexit past the peak summer holiday months. Its shares closed up by 9% on Thursday. In early trading on Friday, shares were heading up.

Company Focus: G4S

G4S has received an approach from privately owned Canadian security firm Garda World, which could lead to a cash offer for all or part of the company. After news of a potential bid broke, the Montreal-based firm said: “Garda World notes the recent market speculation in relation to G4S and confirms that it is in the preliminary stages of considering an approach to the board of G4S regarding a possible cash offer for the company, or a part thereof”. G4S, the world’s largest publicly listed provider of security services, said it noted Garda World’s announcement and urged shareholders to take no action at this time, adding that there was no certainty that any firm offer would be made.

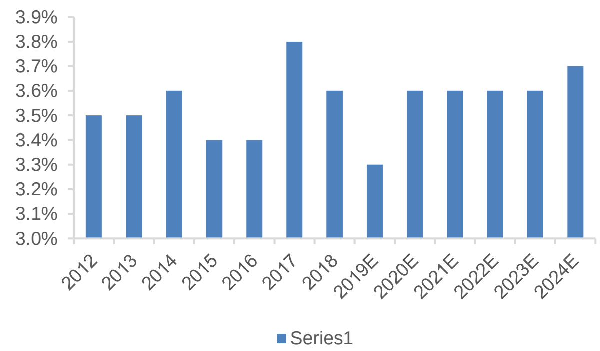
The two companies look like a good fit as both have cash solutions divisions, along with security services operations. Garda World has until 8 May 2019 to turn its approach into a firm offer. In December, G4S announced that it was reviewing options for the separation of the cash solutions business from the group. It said it was taking steps to enable it to commence the process of separation in the second half of this year.

Chart 1: UK Rolling 3-month growth



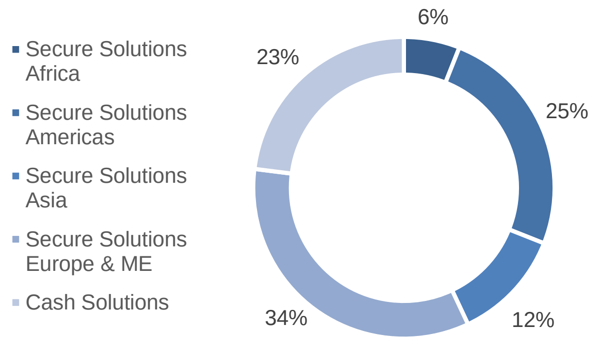
Source: ONS Data at 11/04/2019

Chart 2: IMF Global GDP Annual Growth



Source: IMF Data at 11/04/2019

Chart 3: G4S – Adjusted EBITDA



Source: Brewin Dolphin client note Data at 11/04/2019

Economic Roundup

The International Monetary Fund (IMF) cut its forecast for global growth in 2019 down from 3.5% to 3.3%, the slowest pace since the financial crisis, citing headwinds in many major economies and signs that tariffs were affecting global trade. In its latest World Economic Outlook, published on Tuesday, the Washington-based organisation cut its outlook for the third time in six months and said the growth rate this year would be the weakest since 2009, when global growth turned negative. It predicted that advanced economies would “continue to slow gradually” into 2020 while emerging markets would play a more prominent role in contributing to global growth, due to the end of “crisis” conditions in Turkey and Argentina, and an improved Chinese growth rate. The forecast cuts come on the back of a sharp slowdown in global growth in the second half of 2018, from 3.8% in the first half to 3.2% in the second. IMF economist Gita Gopinath said now is “a delicate moment for the global economy”.

“While a global recession is not in the baseline projections, there are many downside risks,” she said. Among the threats are the outcome of negotiations between the US and China on trade, and a no-deal Brexit. Nevertheless, it said global growth will recover in the second half of 2019 before levelling off at 3.6% from 2020. It cited recent encouraging developments including the decision by the US Federal Reserve to hold back on further interest-rate rises, encouraging data from manufacturers in China and a strong US jobs market.

In the same report, the IMF cut its outlook for UK growth to 1.2% in 2019, down 0.3% from three months ago. However, data released by the Office for National Statistics suggested that UK GDP grew by 0.2% in February compared to the previous month, surprising analysts who had predicted a 0% growth rate in the period. In the three months to February, the rate of economic growth remained the same as in the previous three-month period, at 0.3%. The result is that the annual rate of economic growth now stands at 2%, the highest since November 2017. However, some of the growth was attributed to manufacturers stockpiling goods in case of a no-deal Brexit – a temporary contributor that will fade once the Brexit uncertainty has gone, and that could lead to growth slowing later in the year.

Retail sales fell in March as the ongoing Brexit uncertainty stopped consumers purchasing big-ticket items. The news comes from a survey by the British Retail Consortium and KPMG. It said that total sales dropped by 0.5% year on year, compared to a 0.5% increase in February.

More disappointing news came from the UK property market. According to a survey by the Royal Institution of Chartered Surveyors (RICS), house prices declined “modestly” across the country in March, while new buyer enquiries fell for the eighth month in a row and the number of properties on estate agents’ books remained at a near-record low of 42 per branch. The survey showed that a net balance of 24% of surveyors saw a decrease in prices in March. The weakest sentiment emerged from London and the southeast in terms of prices, and these are the only areas where surveyors predict prices will continue falling over the coming year. At a national level, a balance of 15% more surveyors think house prices will be higher in 12 months’ time rather than lower.

Company announcements that caught our attention this week

Date	Company	Comment
10/04/2019	**Rolls-Royce**	Rolls-Royce has agreed to an early inspection of some Trent 1000 TEN engines after finding the blades in some units had corroded or cracked prematurely. The FTSE100 aero-engine group said that the accelerated inspection regime will allow the company to confirm the health of more than 180 engines in service over the next few months. The Trent 100 Ten engines have been dogged by problems since entering service at the end of 2017. Singapore Airlines grounded two jets last week after engine checks showed premature blade deterioration. Chris Cholerton, president of Rolls-Royce Civil Aerospace, said: “This blade deterioration is a known issue but it is occurring faster than we expected on some engines. We started development of an enhanced blade last year, which we are now testing. We expect to start incorporating enhanced blades into the Trent 100 Ten fleet in early 2020”.
10/04/2019	**Tesco**	Tesco almost doubled its dividend after pre-tax profits rose 28% to £1.7bn in the 12 months ended 23 February. Revenue at the supermarket chain rose 11.2% to £63.9bn during the 2018/19 financial year. Like-for-like sales, which strip out changes to stores, were up 1.7% at Tesco and 11.1% at Booker, the wholesale business the retail group bought in 2017. While sales were down in Asia and Central Europe, Tesco said this was a result of changes in government policy in those regions or a planned reduction of unprofitable sales. Chief executive Dave Lewis said: “After four years we have met or are about to meet the vast majority of our turnaround goals. I’m very confident we will complete the journey in 2019/20”. Tesco announced a final dividend of 4.10p, bringing its full-year dividend to 5.77p a share, up from 3p the previous year.

Key Company Diary Dates

Tue 16 Apr	**Rio Tinto**	Trading update
Tue 16 Apr	**Hays**	Trading update
Wed 17 Apr	**BHP**	Trading update
Thu 18 Apr	**Reckitt Benckiser**	Full-year results

Economic highlights over the next week

Wed 17 Apr – Inflation Rate – UK inflation, as measured by the Consumer Prices Index, was 1.9% in the year to February, up from 1.8% in January.

Wed 17 Apr – US Balance of Trade – The trade deficit in the US narrowed to $51.1bn (£39.1bn) in January compared with $59.9bn in the previous month.

Thu 18 Apr – Retail Sales – In February, retail sales in the UK totalled £6.8bn per week, up from £6.6bn per week in January.

Index Movements*

Index	Value	%Change
FTSE 100	7,418	0.22%
FTSE 250	19,621	0.58%
AIM	938	1.98%
Dow Jones	26,143	-0.92%
S&P 500	2,888	0.31%
Hang Seng	29,839	-0.32%
Nikkei 225	21,711	-0.06%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.31	0.04%
£:€	1.16	-0.46%
£:¥	145.88	-0.04%

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

Sector	%Change
Oil & Gas	1.77%
Chemicals	1.32%
Basic Resources	0.66%
Insurance	0.38%
Financial Services	0.26%
Technology	-0.35%

Best & worst FTSE 100 performing stocks*

Company	%Change
easyJet	8.07%
Schroders	5.79%
Tesco	5.12%
RIGHTMOVE	-5.73%
Reckitt Benckiser Group	-7.74%
PERSIMMON	-8.50%

*Weekly movements up until close of business Thursday