The Week in Perspective

5 April 2019

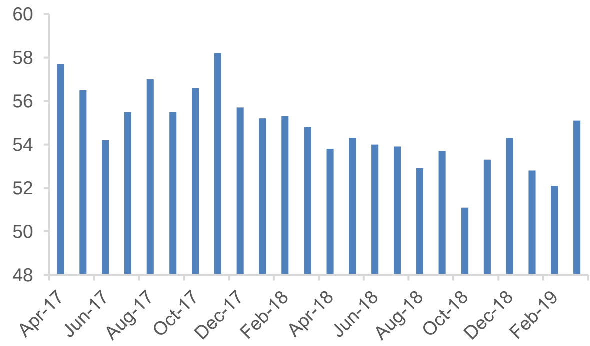
Market Roundup

UK equities made steady gains this week, with the FTSE100 hitting a six-month high on Wednesday, amid increasing signs that Britain may be steering towards a softer Brexit. The FTSE100 rose by 0.5% on Monday, and the more domestically-focused FTSE250 by 0.6%, ahead of a series of votes in parliament on Brexit options. Share price increases in many mining firms contributed to the FTSE100's gains, as positive economic data from China hinted at an increase in demand from the world's largest consumer of raw materials. UK shares rose again on Tuesday despite none of the Brexit options voted on in the House of Commons overnight achieving a majority. The impasse led to a decline in sterling which helped the FTSE100 close up by 1%. Equities continued their strong run on Wednesday with the FTSE100 up 0.4% to 7,418.3, its best level since last autumn. Wednesday evening saw another dramatic vote in the Commons on a bill that forces Theresa May to seek an extension to Article 50 rather than opt for a no-deal Brexit on April 12. Theresa May and Jeremy Corbyn also held the first of a series of talks on Wednesday in a bid to break the deadlock. The FTSE100 fell by 0.2% on Thursday and the FTSE250 by 0.3% as the House of Lords debated the extension bill that passed through the Commons the night before. The debate continues next week. In early trading on Friday, shares were heading up.

Company Focus: Stagecoach

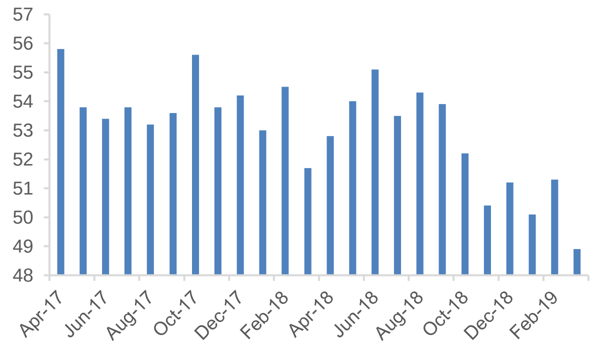
On Wednesday Stagecoach raised its earnings forecast for the year after an unexpectedly strong performance in its UK rail division. The rail and bus operator said sales were up across almost all divisions in the second half of the year. In a trading update, the company reported that like-for-like revenue in the UK rail unit rose 1.4% in the 44 weeks to 2 March. Virgin Rail, in which Stagecoach has a 49% holding, saw revenue grow 6.7%. The company's UK regional bus division saw 3.4% revenue growth and the group's London bus business grew 1.3% over the period. As a result of the improved performance, the company said that its adjusted earnings per share for the financial year to the end of April would be higher than anticipated, though it didn't specify by how much. The update also revealed that Stagecoach has undertaken a review to identify opportunities to improve its performance on tenders for Transport for London contracts. The group said: "The bidding environment remains highly competitive and this will continue to exert pressure on the profitability of our UK Bus (London) division. However, our priority remains securing contracts at a sustainable level where the financial returns reflect the capital invested".

Chart 1: Markit UK Manufacturing PMI



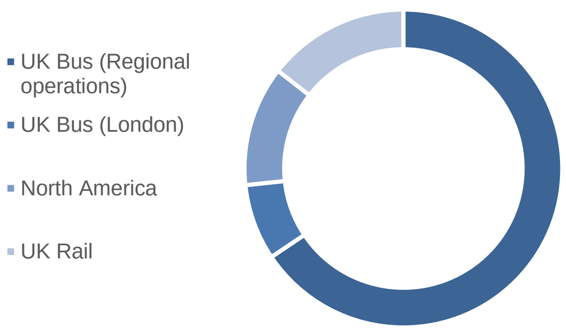
Source: Refinitiv Data at 04/04/2019

Chart 2: Markit UK Services PMI



Source: Refinitiv Data at 04/04/2019

Chart 3: Stagecoach – Operating Profit



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

Economic Roundup

A series of surveys measuring the UK economy were published this week. All made gloomy reading, even as one suggested the manufacturing sector was booming. The IHS Markit Purchasing Managers' Index, published on Monday, showed a sizeable uptick in manufacturing activity in March, but the burst of productivity was largely the result of stockpiling amid fears of a no-deal Brexit. A no-deal Brexit would make it more difficult to source goods or them to consumers or partners in their supply chains. The index rose to 55.1 in March, from 52.1 in February. Any reading above 50 indicates expansion, and this was the highest level for 13 months. IHS Markit also runs a "stockpiling" sub-index for the UK that showed that stockpiling of finished goods at British firms in March hit its highest level since records began 27 years ago.

However, analysts have said that the positive impact of such stockpiling to UK GDP will be minimal, and that given the temporary nature of emergency stockpiling, and the current slump in manufacturing activity in major UK trading partners such as Germany, France and Italy, there is every chance the UK manufacturing sector will go into reverse in the coming months. On Tuesday, the IHS Markit survey of the UK services sector, which accounts for around 80% of GDP, showed that services activity contracted in March. The index dropped from 51.3 in February to 48.9 in March, with respondents blaming Brexit uncertainties. The survey suggests order books are contracting at the quickest pace since the financial crisis. Finally, the PMI survey for the construction sector showed that activity fell in March, with a reading of 49.7 – below the crucial level of 50, fuelling concerns that the sector is going through a sustained "soft patch." The sector also contracted in February. Chris Williamson, IHS Markit's chief business economist, said: "Both the services and construction sectors are now in decline and manufacturing is only expanding because of emergency stockpiling ahead of Brexit. The underlying picture of demand is even worse than the headline numbers suggest. Service sector order books have contracted at the steepest rate since the height of the global financial crisis in 2009 so far this year." The composite PMI survey, which combines the services, manufacturing and construction sectors, dropped to an average of 50.6 in the first three months of this year. This is the lowest level since 2012 and suggests the economy has all but stagnated.

Meanwhile, global stock markets reacted positively on Monday to data showing Chinese economic activity rebounded in March. The Caixin Manufacturing PMI beat expectations with a reading of 50.8, above the forecasts of 50.1. Mainland Chinese shares jumped on the day, with the Shanghai Composite up 2.58% to 3,170.3. The results chimed with a survey on China's services sector released on Wednesday, which showed activity accelerating to a 14-month high, as domestic and foreign demand improved. The result was seen as evidence that the government's stimulus policies were beginning to take effect. The Caixin/Markit Services Purchasing Managers' Index (PMI) rose to 54.4, the best reading since January 2018 and a big improvement on February's 51.1. Analysts say the news is welcome even if it is too early to tell if the world's second-largest economy has truly turned a corner.

Company announcements that caught our attention this week

Date	Company	Comment
04/04/2019	**Saga**	Saga lost a third of its market value on Thursday after the group cut its dividend and warned that in the short term its profitability would be "significantly below that of recent years and also below our previous expectations". The FTSE 250 group, which focuses on the over-50s market, said that it needed to fundamentally change its model to survive a competitive insurance sector. As a result, underlying pre-tax profit in the year to January 2020 would be between £105m and £120m. For the year to January 2019, underlying pre-tax profit was down 5% at £180.3m. The company cut its final dividend to 1p per share compared to 6p per share last year.
04/04/2019	**Intu**	Shopping centre owner Intu Properties, which owns the Trafford Centre in Manchester and Metrocentre in Gateshead, has appointed finance chief Matthew Roberts as its chief executive. Mr Roberts will take the helm on 29 April, replacing David Fischel who decided to step down in July last year after 18 years in charge. The appointment comes after a tough year for Intu, during which larger rival Hammerson ditched a £3.4bn takeover bid in April. A separate £2.9bn takeover bid by a consortium of investors was also scrapped in November. Prior to joining Intu, Mr Roberts was CFO of Gala Coral from 2004 to 2008 and finance director of Debenhams, where he managed the retailer's market debut in 1998 and sale in 2003.

Key Company Diary Dates

Wed 10 Apr	**ASOS**	Half-year results
Wed 10 Apr	**McCarthy & Stone**	Half-year results
Thu 11 Apr	**WH Smith**	Half-year results
Thu 11 Apr	**Man Group**	Trading update

Economic highlights over the next week

Wed 10 Apr – Balance of Trade – The UK trade deficit widened by £1.3bn to £10.4bn in the three months to January compared with the previous three months.

Wed 10 Apr – US Inflation Rate – Consumer prices in the US increased 1.5% year-on-year in February, the lowest inflation rate since September 2016.

Wed 10 Apr – FOMC Minutes – The minutes of the Federal Reserve's interest-rate-setting Open Market Committee will be eagerly pored over for hints about the strength of the US economy.

Index Movements*

Index	Value	%Change
FTSE 100	7,402	2.32%
FTSE 250	19,507	3.17%
AIM	920	1.00%
Dow Jones	26,385	2.59%
S&P 500	2,879	2.27%
Hang Seng	29,936	4.04%
Nikkei 225	21,725	3.29%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.31	-0.05%
£:€	1.17	0.12%
£:¥	145.93	0.87%

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

Sector	%Change
Basic Resources	2.57%
Insurance	2.53%
Financial Services	1.80%
Chemicals	0.12%
Oil & Gas	-0.40%
Technology	-2.06%

Best & worst FTSE 100 performing stocks*

Company	%Change
Hargreaves Lansdown	11.05%
Smurfit Kappa Group	10.88%
Ashtead Group	9.93%
RIGHTMOVE	-4.00%
easyJet	-5.28%
AstraZeneca	-5.82%

*Weekly movements up until close of business Thursday