The Week in Perspective

7 September 2018

Market Roundup

It was a volatile week for UK equities as the pound fell amid continued Brexit concerns, and emerging markets entered into a bear-market on worries about trade spats and an appreciating dollar. The FTSE100 index rose 1.0% to 7,504 on Monday despite the emerging market concerns, but then on Tuesday the FTSE100 index fell by 0.6% despite a weaker pound. Large falls in the shares of housebuilders and miners were to blame, with Berkeley Group down by 4.4% and Persimmon down by 3.3% as rumours spread that the government was going to roll back its Help to Buy scheme from 2021.

The FTSE100 hit a four-month low on Wednesday at 7,383 after a 1.0% drop on the day, weighed by an appreciating pound, a falling oil price and trade worries. On the corporate front, BP and Shell were down by 1.2% and 1.3% respectively on the oil price movements, but housebuilders were buoyant; Barratt Developments was up by 1.8% after a 9.2% increase in pre-tax profits.

Emerging markets continued to see a broad sell off and are near bear-market territory as currencies are falling in relation to the dollar, making dollar-debt more expensive and squeezing company margins. On Thursday the FTSE hit a five-month low, as did the European Eurostoxx 600 index, as investors worried that the emerging markets dip will impact trade. In early trade on Friday the FTSE100 was steady as investors waited to see whether Donald Trump would proceed with plans to place tariffs on another $200 billion of Chinese imports.

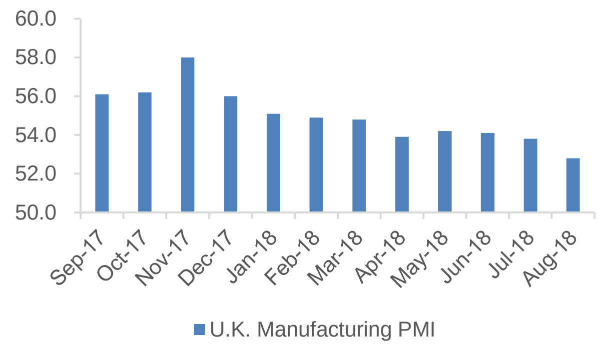
Company Focus: Barratt Developments plc

The UK's largest housebuilder made record pre-tax profits of £835.5m in the year to 30 June, 9.2% higher than the previous year. Revenues grew by 4.8% to £4.87bn.

Chief executive David Thomas said: "Our continued focus on operating efficiencies and margin initiatives is starting to deliver and we have today announced new medium-term operational targets reflecting our confidence in the business going forward."

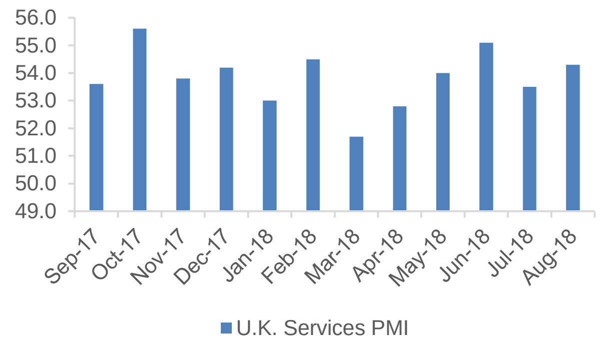
Barratt Developments built 17,579 homes in the year, the highest number of completions in a decade. Over the medium term the FTSE 100 company is targeting further volume growth of 3.0% to 5.0% a year. The group said that it has capacity to grow to 20,000 annual completions under the current operational structure. The housebuilder also confirmed that ordinary dividend cover will be maintained at 2.5 times, with special cash payments when market conditions allow. The group declared a final dividend of 17.9p a share, plus a special dividend of 17.3p a share, which will be paid in November. That will bring total payouts for the full year to 43.8p a share, up 5.0% from a year earlier. In the future, the group has proposed that returns will be a combination of cash and share buybacks, giving itself more flexibility. This could be a precautionary move should market conditions change. Some 36.0% of Barratt's sales last year were supported by the Help-to-Buy scheme, so future government decisions about the continuation of the project could be crucial.

Chart 1: UK Monthly Manufacturing PMI readings



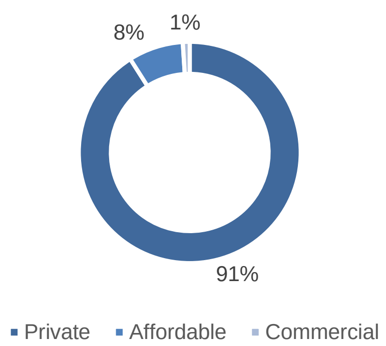
Source: Bloomberg Data at 06/09/2018

Chart 2: UK Monthly Services PMI readings



Source: Bloomberg Data at 06/09/2018

Chart 3: Barratt Developments plc – Revenues – 30/06/2018



Source: Brewin Dolphin client note Data at 06/09/2018

Economic Roundup

The UK manufacturing sector grew at its slowest rate in two years in August, according to a survey by IHS Markit. The monthly report gave an index reading of 52.8 in August compared to 53.8 in July, below analysts' expectations. The result was blamed on a slowdown in global growth which has hit export orders. The reasoning chimed with other surveys released on the same day that showed a slowdown in manufacturing activity in Europe and Asia – most likely linked to concerns about the ongoing trade disputes between the US and China, in addition to Brexit.

Bad news also emerged from the high street on Tuesday as retail sales growth slowed in August, according to the British Retail Consortium (BRC). It said total sales were up by 1.3% on an annual basis in August, compared to a growth rate of 1.6% in July. One year ago, in August 2017, retail sales growth was running at 2.4% a year, illustrating the extent of the slump.
Pressure on household incomes from sluggish wage growth, inflation and rising interest rates was reducing demand in the high street for more "discretionary" purchases such as clothing and footwear. However, online sales were booming, with non-food purchases up by 7.5% in August. This channel now accounts for more than 23.0% of all sales in this category, adding to the pressure on traditional retailers.

To complete Tuesday's bleak economic news, activity in the UK construction sector also fell back in August. IHS Markit's construction purchasing managers' index fell to 52.9 last month from 55.8 in July, well below the consensus forecast of 55. There were some mixed messages in the data, with some pointing to a lack of new projects to replace completed work, while others said that new orders had grown by more than at any time since May last year and that employment intentions were buoyant. However, the news was received negatively in the City and the pound dropped on the news.

Some welcome relief on Wednesday as the services sector reported an acceleration of activity in August, with the IHS Markit services PMI rising to 54.3 compared to 53.5 in July, beating expectations. Looking ahead, the survey's results suggested the good performance in the sector could continue; hiring growth also accelerated in the month and new orders grew. On the downside, optimism fell due to worries about Brexit, leading to a fall in investment. Taken together, the three PMI surveys gave a combined reading of 54.1 in August, up from 53.7 in July.

Meanwhile UK house prices rose slightly in August, according to Halifax. Prices were up by 3.7% in the quarter to August compared to the same period last year. Although positive, it was below expectations of a rise of 3.9%. Russell Galley, managing director of Halifax, was upbeat. "While the pace of employment growth has slowed, a low unemployment rate and a gradual pick up in wage growth are helping to support household finances" he said. "This has been accompanied by interest rates remaining at historic lows and a constrained supply of new houses which is helping to support prices." However, the survey bucked the trend of numerous other recent reports that have been pointing to a softening market because of rising rates, falling demand and squeezed household finances.

Company announcements that caught our attention this week

Date	Company	Comment
06/9/2018	**Melrose Ind**	Turnaround specialist Melrose revealed that it made a pre-tax loss in the first half of the year as a result of its controversial £8bn takeover of engineering group GKN. Charges attached to the acquisition saw Melrose swing to a statutory pre-tax loss of £303m in the six months to 30 June, compared with a pre-tax profit of £48m in the same period a year earlier. Melrose said its adjusted pre-tax profit for the first half of the year, which strips out acquisition costs, rose 83% to £240m. Revenues, on a statutory basis, more than doubled to £2.94bn. On a pro forma basis, which assumes that Melrose owned GKN for the full six-month period covered by the results, which it didn't, revenues were £6.2bn and pre-tax profit £401m. The FTSE-100 company declared an interim dividend of 1.55p per share, up 11% on last year.
03/9/2018	**WPP**	The world's biggest advertising company named Mark Read as its new chief executive on Monday, replacing Martin Sorrell who quit in April in the midst of a misconduct investigation. Mr Read has been at WPP for 20 years, most recently as director of strategy and head of the group's digital development. The appointment suggests the group is determined to continue to drive growth via technology-led marketing. On Tuesday, the company's interim results failed to impress. Concerns over WPP's operating margins, down from 13.8% to 13.3% in the six months ended 30 June, sent shares in the FTSE 100 company down 6% on the day. More positively, the second quarter of 2018 was the group's first quarter of like-for-like net sales growth in more than a year. The company's interim dividend was maintained at 22.7p per share.

Key Company Diary Dates

Mon 10 Sep	**Associated British Foods**	Trading update
Tue 11 Sep	**Ashtead Group**	Quarterly results
Wed 12 Sep	**Galliford Try**	Full-year results
Thu 13 Sep	**GVC Holdings**	Half-year results
Thu 13 Sep	**Morrison (WM) Supermarkets**	Half-year results

Economic highlights over the next week

Mon 10 Sep – UK wage growth – Pay growth slowed to its weakest in almost a year in the three months to the end of June, as growth in average weakly earnings fell to 2.4% during the period.

Thu 13 Sep – BoE Interest Rate Decision – The Bank of England's Monetary Policy Committee voted unanimously to raise the Bank Rate to 0.75% in August, so a rate rise this month is thought to be unlikely.

Thu 13 Sep – US Inflation – Core consumer prices in the United States rose at their quickest pace in a decade in July, strengthening the case for the Federal Reserve to keep raising interest rates.

Index Movements*

Index	Value	%Change
FTSE 100	7,318.96	-2.62
FTSE 250	20,283.49	-1.97
AIM	1,103.81	0.16
Dow Jones	25,995.87	0.03
S&P 500	2,878.05	-0.80
Hang Seng	26,974.82	-4.22
Nikkei 225	22,487.94	-1.67

Currency Movements*

Currency Pair	Value	%Change
£:$	1.29	0.00
£:€	1.11	0.00
£:¥	143.60	-0.01

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

Sector	%Change
Utilities	3.17%
Travel & Leisure	1.96%
Financial Services	1.58%
Technology	-4.80%
Basic Resources	-2.66%
Chemicals	-2.18%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Whitbread	16.92%
Centrica	4.80%
Royal Mail	3.32%
Sage Group	-11.68%
Just Eat	-10.47%
WPP	-10.45%

*Weekly movements up until close of business Thursday

Important Notes:
Main source of information: Company Report and Accounts, Bloomberg
The value of investments and any income from them can fall and you may get back less than you invested. Past performance is not a guide to future performance and performance is shown before charges, which would reduce the illustrated performance. No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our conflicts policy. If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset. Any tax advantages or allowances mentioned are based on personal circumstances and current legislation which are subject to change. The opinions expressed in this document are not necessarily the views held throughout Brewin Dolphin Ltd. The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.