

The Week in Perspective

10 August 2018

Market Roundup

HSBC was down 1% on Monday after the bank's first-half results failed to impress. The FTSE 100 index ended the day up 0.1%.

Tuesday saw Standard Life Aberdeen gain 4.8% after the asset manager announced plans to accelerate a share buyback. The FTSE 100 was up 0.7%.

Intertek was Tuesday's worst performer, down 9.8% after first-half profits fell short of estimates. Ocado shares also continued their recent slide, losing a further 1.7% as a broker advised selling.

Prudential led the blue-chip risers on Wednesday with a gain of 3.7% (see Company Announcements below).

The FTSE 100 rose 0.8% as the weakening pound gave a lift to the exporter-heavy index.

However, Paddy Power Betfair tumbled 7.1% after the bookmaker cut its 2018 profits guidance due to losses at its US business.

BT was the biggest FTSE 100 faller on Thursday, down 4.6% as the telecoms group lowered its target to deliver broadband lines capable of 'ultrafast' speeds. The FTSE 100 was down 0.5%.

UK shares were down in early trading on Friday.

Company Focus: G4S

G4S shares were down 7.7% on Thursday after the world's largest security company reported a 10.5% drop in first-half profits. But the group said it was confident of growing momentum in the business.

Adjusted profits before interest, tax and amortisation fell to £213m in the first six months of the year from £238m a year earlier, while statutory revenue declined 7.5% to £3.67bn.

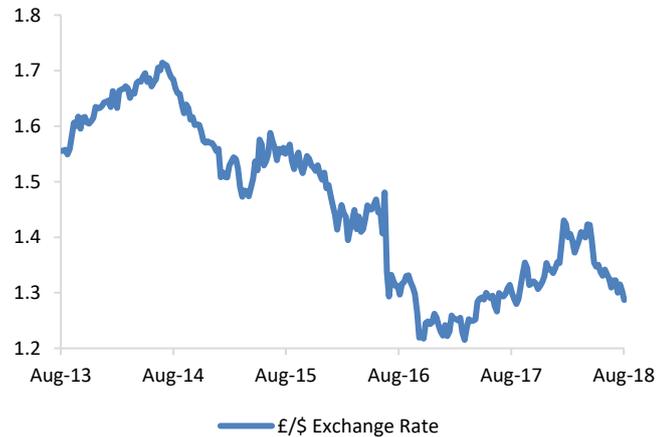
However, chief executive Ashley Almanza said that a marked improvement in revenue generation in the second quarter, with organic growth of 2.8%, had resulted in half-year organic growth of 0.2%.

"Our contract wins and strong retention rate in the first half of 2018 provide revenue momentum into the second half of the year," he said. "This, together with growing technology-enabled services in both our cash and security businesses, a favourable sales mix and planned productivity benefits, underpins the group's positive outlook for the full year."

In January, G4S reorganised its business to create a global Cash Solutions division and a Secure Solutions business split into four regions: Africa, Americas, Asia and Europe and the Middle East.

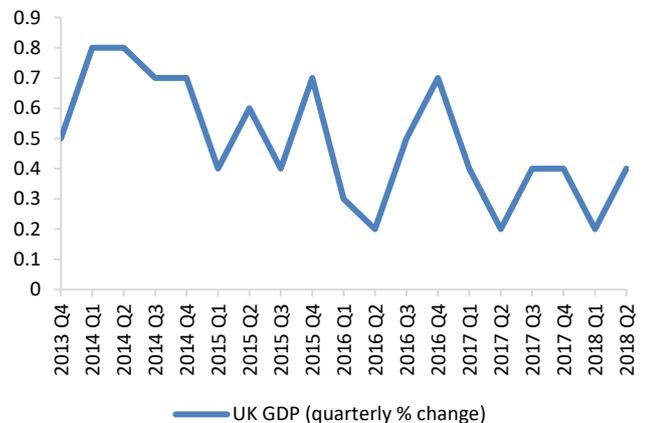
In Cash Solutions, the group announced new contracts in the US and Netherlands and hinted that more contracts will be signed later this year. The company's Secure Solutions division signed over £1bn in new contracts last year.

Chart 1: Pound/dollar exchange rate



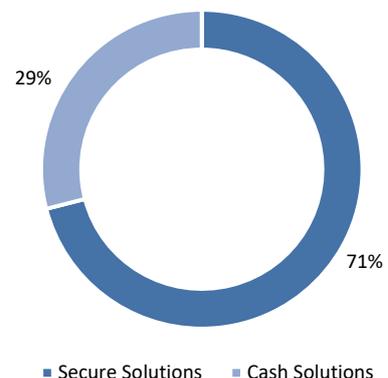
Source: Thomson Reuters Datastream Data at 10/8/2018

Chart 2: UK GDP Growth



Source: ONS Data at 10/8/2018

Chart 3: G4S, EBITDA 31/12/2017



Source: Brewin Dolphin client note Data at 10/8/2018

Economic Roundup

The pound continued to weaken on fears of a no-deal Brexit, falling below \$1.28 to its lowest exchange rate for the year against the dollar. Against the euro, sterling dipped below €1.11 - though the single currency was also weak on concerns about the impact of the Turkish crisis on European banks.

Official data showed the UK economy bounced back in the second quarter of this year, with GDP growth of 0.4% after just 0.2% in the first quarter.

“The economy picked up a little in the second quarter with both retail sales and construction helped by the good weather and rebounding from the effects of the snow earlier in the year,” said ONS head of national accounts Rob Kent-Smith. “However, manufacturing continued to fall back from its high point at the end of last year and underlying growth remained modest by historical standards.”

London’s economy has largely shrugged off Brexit so far, with activity and employment growing faster than elsewhere in the UK, said a report by the Centre for London think-tank.

UK house prices rose at their fastest pace this year in July, according to Halifax. Prices increased by an annual rate of 3.3% in the three months to July. But while the average UK house price hit a record £230,280, market activity remains “soft”, Halifax said.

There were calls this week for the government to review its decision to accelerate an increase in the state pension age. This followed the release of data showing improvements in life expectancy have slowed.

Increases in female life expectancy dropped from 12.9 weeks per year between 2006 and 2011 to 1.2 weeks a year from 2011 to 2016, according to the ONS. For men, increases in life expectancy fell from 17.3 weeks per year between 2006 and 2011 to 4.2 weeks a year between 2011 and 2016.

The ONS’ Alan Evans said: “The slowdown in life expectancy improvements that has been observed in the UK since 2011 is also evident in a number of countries across Europe, North America and Australia.”

The hot weather kept Britons out of the shops in July, though it helped sales of food and drink for barbecues and World Cup celebrations, according to the latest British Retail Consortium figures. Non-food sales dropped 1% in July compared to last year, but there was a 4.5% year-on-year increase in food and drink spending.

“For all the hopes placed on the World Cup and the glorious weather, it seems retail sales still fell short of expectations,” said Paul Martin, UK head of retail at KPMG. “Unsurprisingly, food and drink fuelled the majority of sales growth thanks to summer BBQs, picnics and football festivities, whilst elsewhere growth was mainly witnessed among the holiday essential categories, including health and beauty, deck chairs and fashion.”

Car sales in the UK rose 1.2% in July thanks to good weather and attractive sales offers, according to the Society of Motor Manufacturers and Traders. Nearly 164,000 cars were sold in July - typically a relatively quiet month for the industry.

Ian Plummer of Auto Trader, the car sales website, said car makers had been racing to clear stocks before new EU regulations on fuel economy and emissions take effect in September, resulting in some good deals for consumers.

Company announcements that caught our attention this week

Date	Company	Comment
8/8/2018	Prudential	Prudential was the FTSE 100’s biggest gainer on Wednesday after announcing half-year results. Performance was led by Asia, where the life insurer generated 15% growth in underlying operating profits on a constant currency basis. While new business sales volumes declined, the quality of that business appears to have improved and the long-term growth opportunities in Asia remain compelling. The Pru’s UK division, now called M&G Prudential, grew operating profits 4%. The company said the demerger of M&G Prudential is progressing well and will continue to create below-the-line restructuring costs. The interim dividend is 15.67p, 8% higher than a year earlier.
7/8/2018	Meggitt	Orders at Meggitt topped £1bn in the first six months of the year. But the engineering and defence company announced a 39% decline in pre-tax profits to £105.2m in the six months ended 30 June due to lower profits on asset sales. Revenues also fell to £952.2m from £965.4m a year earlier. However, on an organic basis, which strips out acquisitions, disposals and foreign exchange, revenue was 9% higher. Cash flow grew 19% to £27.1m while the company’s order book at 30 June was £1.09m. The company plans to increase dividend payments by 5% to 5.3p per share.

Key Company Diary Dates

Mon 13 Aug	Clarksons	Half-year results
Tue 14 Aug	Antofagasta	Half-year results
Tue 14 Aug	Esure	Half-year results
Wed 15 Aug	Hikma Pharmaceuticals	Half-year results
Thu 16 Aug	Rank Group	Full-year results

Economic highlights over the next week

Tue 14 Aug – **UK Unemployment** – The jobless rate in the UK (the percentage of the economically active population who are unemployed) stood at 4.2% in the three months to May, its joint lowest since 1975.

Wed 15 Aug – **UK Inflation** – The Consumer Price Index (CPI) inflation rate was 2.4% in June, unchanged from May.

Thu 16 Aug – **Retail Sales** – In the three months to June, UK retail sales increased 2.1% compared with the previous three months, according to ONS figures.

Index Movements*

Index	Value	%Change
FTSE 100	7,741.77	2.19
FTSE 250	20,806.21	1.25
AIM	1,089.23	0.19
Dow Jones	25,509.23	0.72
S&P 500	2,853.58	0.93
Hang Seng	28,607.30	3.22
Nikkei 225	22,598.39	0.38

Currency Movements*

Currency Pair	Value	%Change
£:\$	1.29	-0.01
£:€	1.11	-0.01
£:¥	142.73	-0.02

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

Sector	%Change
Autos & Parts	1.81%
Insurance	1.35%
Technology	1.32%
Travel & Leisure	-0.64%
Oil & Gas	-0.71%
Food & Beverages	-1.78%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Standard Life Aberdeen	8.7%
Mondi	7.4%
Burberry	6.8%
Ocado	-3.1%
Paddy Power Betfair	-6.6%
Intertek	-6.9%

*Weekly movements up until close of business Thursday

Important Notes:

Main source of information: Company Report and Accounts, Bloomberg

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