BREWIN DOLPHIN

The Week in Perspective

14 September 2018

Market Roundup

UK shares rose slightly at the start of the week after the Office for National Statistics (ONS) released better than expected figures for economic growth (see below). The FTSE100 finished up by just 0.02%, held back by an appreciating pound which rose as Michel Barnier, the EU's chief negotiator, said the UK and EU could strike a deal within two months. RBS shares were up by 1.8% and Barclays by 1.3%.

Stocks were pressured lower on Tuesday, however, as it appeared China was gearing up to apply sanctions on the US as the trade war intensifies. The biggest gainer of the day was Ashtead Group, with its shares closing up by over 5% (see company announcements, below).

British American Tobacco was down by 2.7% amid concerns that Hurricane Florence could damage production plants in the US.

In Asia, Hong Kong's Hang Seng index entered official bear market territory after a sixth straight day of falls.

The FTSE100 rose by 0.6% on Wednesday, as BAT shares jumped by nearly 6.0% after the US regulator threatened to pull flavoured e-cigarettes from the market, a move that affects them less than competitors. The market dropped by 0.4% on Thursday, with almost all retailers taking a hit after the John Lewis Partnership announced a 99% fall in first-half profits. The news sent chills through the sector, with Marks & Spencer shares falling over 2%.

Early on Friday, shares were trading up, but housebuilders were down after Mark Carney's Brexit warning (see Economic Roundup, below).

Company Focus: SSE

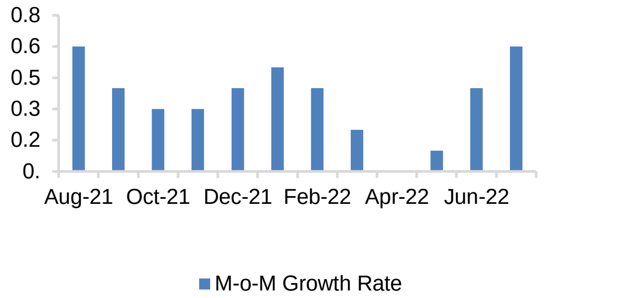
SSE blamed "dry, still and warm weather" and "persistently high gas prices" for a disappointing performance in the first five months of its financial year. As a result, the energy supplier expects profits in the six months to the end of September to be around half the £586m reported in the same period a year ago. Chief executive Alistair Phillips-Davies, said: "Lower than expected output of renewable energy [wind farms and hydro-electric stations] and higher than expected gas prices mean that SSE's financial performance in the first five months have been disappointing and regrettable."

SSE expects to report an adjusted operating loss for its wholesale division in the six months ended September. Within this, it expects the 'Energy and Portfolio Management' sub-segment to make an operating loss of around £100m and a £300m loss for the financial year as whole. The FTSE100 company said it also expects a significantly reduced operating profit in 'Generation'.

SSE is in the process of spinning off the retail arm of its business, which the group said would be negatively affected by the cap being proposed by energy regulator Ofgem on default tariffs.

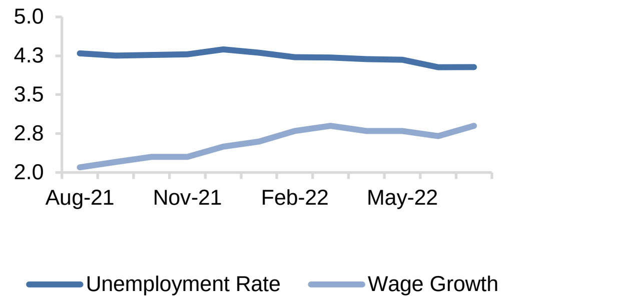
Despite the disappointing numbers Mr. Phillips-Davies insisted that reshaping and "renewing the SSE group will support the delivery of our five-year dividend plan in the years ahead."

Chart 1: UK Rolling Three-Month Growth



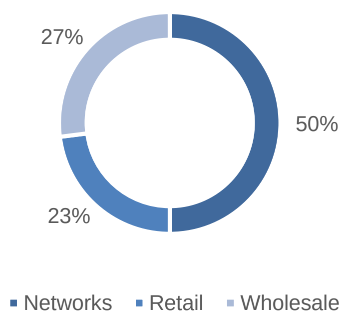
Source: ONS Data at 06/09/2018

Chart 2: UK Unemployment rate and Wage Growth



Source: ONS Data at 06/09/2018

Chart 3: SSE – 2017 adjusted operating profit



Source: Brewin Dolphin client note Data at 06/09/18

Economic Roundup

Bank of England governor Mark Carney warned that house prices could fall by a third in the event of a no-deal Brexit, telling government ministers on Thursday that the Bank would not be able to shore up the economy by cutting interest rates as it did after the EU referendum. He said that the economic chaos that would follow a disorderly Brexit would include mass emigration, leading to more people leaving the country than arriving for the first time since 1994.

He summed up the damage by saying that inflation, unemployment and interest rates would all rise, causing house prices to be 35.0% lower in three years' time than would otherwise be the case. The predictions assume a breakdown in trading relations with the EU which would lead to a contraction in the supply of goods and services into the country.

The week had started well. On Monday the Office for National Statistics (ONS) reported GDP growth in the three months to July rising at its best pace in a year. The new rolling measure of three-month growth was up by 0.6%, compared to 0.4% in the previous quarter, the best result since 2017. The news appears to justify the decision to raise interest rates in August, although most analysts do not now expect another rate rise until after Brexit uncertainties have passed.

However, as ever, the data is open to interpretation. It was somewhat flattered by consumer spending, much of which was on food and drink and other summer-related activities; it does not necessarily point to a sustained trend. Meanwhile, manufacturing growth remains poor. Construction growth was also flattered by a spurt at the beginning of the quarter as companies were scrambling to catch up on projects delayed by the poor winter weather.

The ONS released more positive news on Tuesday as unemployment remained at 4.0% in the three months to July, but annual wage growth accelerated from 2.7% to 2.9% in the same period. After factoring in inflation, however, wage growth was only 0.2% - an historically low level especially given such high employment. Adjusted for inflation, regular pay was still below the peak reached just before the financial crisis.

In addition, there was a big move from part-time to full-time work, with full-time positions increasing by 100,000 in the quarter. But there was a slowdown in employment growth (the number of new positions being filled), with a rise of just 3,000 compared to forecasts of 28,000.

Company announcements that caught our attention this week

Date	Company	Comment
11/9/2018	**Ashtead Group**	Equipment rental group Ashtead reported strong growth in first-quarter profits and announced plans to increase its current share buyback plans. The FTSE-100 company said rental revenues, in the three months to the end of July, grew by 19% year-on-year to £961m, while profit before tax rose by 23% to £286m. The group makes most of its sales in the US through its Sunbelt business which delivered 19% rental-only revenue growth. On the same measure the company's Sunbelt Canada division was up 243%, reflecting recent acquisitions. Ashtead expects its full-year results to be ahead of expectations thanks to a weaker sterling. The company's share buyback programme has been increased from £100m to £125m per quarter and extended to next year with an anticipated spend of at least £675m.
12/9/2018	**Inditex**	Inditex, the owner of fashion brands Zara and Massimo Dutti, reported a positive set of first-half results. The world's largest clothing retailer said sales in the six months to 31 July were up 3% to €12bn (£10.7bn). Like-for-like sales grew 4% and were positive across all geographies, while net income, or profit, rose 3% to €1.4bn (£1.2bn). The Spanish fashion giant said it expects 4% to 6% sales growth in the second half. Inditex opened stores in 44 markets during the half and now has 7,422 stores in 96 markets. In addition, Zara launched online in Australia and New Zealand. Last week, the group unveiled plans to sell all its brands online globally by 2020.

Key Company Diary Dates

Tue 18 Sep	**Ocado Group**	Trading update
Wed 19 Sep	**Kingfisher**	Half-year results
Thu 20 Sep	**Kier Group**	Full-year results
Fri 21 Sep	**Smiths Group**	Full-year results

Economic highlights over the next week

Wed 19 Sep – Inflation Rate – The Consumer Prices Index inflation rate was 2.5% in July, up slightly from 2.4% the previous month.

Thu 20 Sep – Retail Sales – Retail sales were 3.5% in July, when compared with the same month a year earlier. Online sales were particularly strong, supported by several retailers launching promotions.

Thu 20 Sep – US Existing Home Sales – US home sales fell for a fourth straight month in July as a shortage of properties on the market pushed up house prices.

Index Movements*

Index	Value	%Change
FTSE 100	7,281.57	-0.51
FTSE 250	20,243.61	-0.20
AIM	1,097.18	-0.60
Dow Jones	26,145.99	0.58
S&P 500	2,904.18	0.91
Hang Seng	27,014.49	0.15
Nikkei 225	22,821.32	1.48

Currency Movements*

Currency Pair	Value	%Change
£:$	1.31	0.01
£:€	1.12	0.01
£:¥	146.47	0.02

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

Sector	%Change
Telecoms	2.40%
Technology	2.34%
Chemicals	1.79%
Autos & Parts	-1.99%
Construction & Materials	-2.98%
Utilities	-3.75%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Royal Mail	3.47%
DCC	2.90%
Smith & Nephew	2.84%
Ocado Group	-7.61%
Fresnillo	-8.06%
SSE	-11.71%

*Weekly movements up until close of business Thursday