The Week in Perspective

19th October 2018

Market Roundup

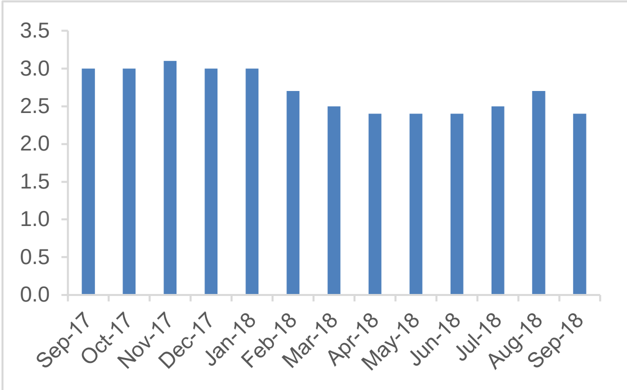
The week started on a positive note for UK blue-chip stocks, with the FTSE100 rising by 0.5%. However, mid-caps had a tougher time, with the FTSE250 falling by 0.9% as a number of firms issued profit warnings. Medical group ConvaTec and fashion retailer Superdry were among those cautioning that their numbers will come in below expectations.

The FTSE100 continued the positive tone on Tuesday as inflation showed rising real wages (see below). Ocado was a standout gainer, up by 5.5%, as analysts voiced support for its strategy. BAT shares dropped by 4.6% after cutting forecasts for its vaping products. Merlin Entertainment's shares dropped 7.9% after disappointing performance at its Legoland parks. Blue-chips fell slightly on Wednesday despite a weakening pound boosting dollar-denominated income for multinationals. Brexit talks remained in deadlock, weighing on sterling sentiment. Thursday saw a repeat performance with the market falling 0.4%. Brexit concerns continued and UK retail sales came in below expectations (see below). The US Dow Jones also closed down by 1.3% after the Fed released minutes from its latest meeting revealing a consensus to continue raising interest rates – bad news for shares because of higher corporate borrowing cost. In early trade on Friday, shares were heading up.

Company Focus: Meggitt Group

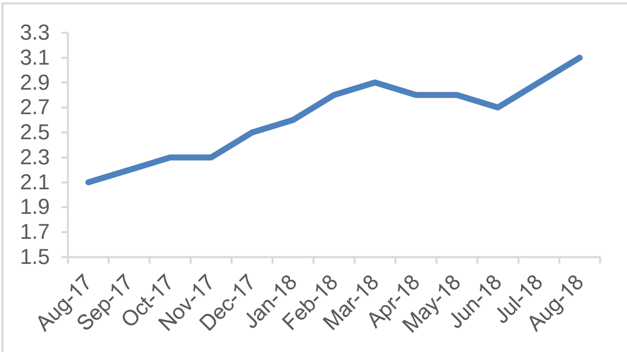
The aerospace and defence engineering company raised revenue guidance in an unexpected trading update. In its second unscheduled positive statement in three months, Meggitt said US President Donald Trump's defence budget for 2019 had boosted its outlook. Reporting better than expected third quarter earnings, it now forecasts full-year revenue growth of 7%-8% - significantly up from earlier forecasts of 4%-6%. Civil aerospace and original equipment (OE) revenues grew by 5% in the quarter, thanks partly to increasing demand for business jets. Organic revenues in the business are projected to increase 6% to 8% for the year, up from an earlier forecast of 2% to 4%, as it expects continued growth in demand and deliveries for new planes. Civil aftermarket revenues grew by 9% in the quarter, driven by growth in air traffic and the low level of aircraft retirements which require Meggitt's spare parts. This all plays to its strengths as civil OE, civil aftermarket and defence operations represent nearly 90% of revenues. However, it did say that operating margins are expected to be towards the lower end of its guidance of 17.7%-18%. Shares gained 5% after the update.

Chart 1: UK CPI (Y-O-Y)



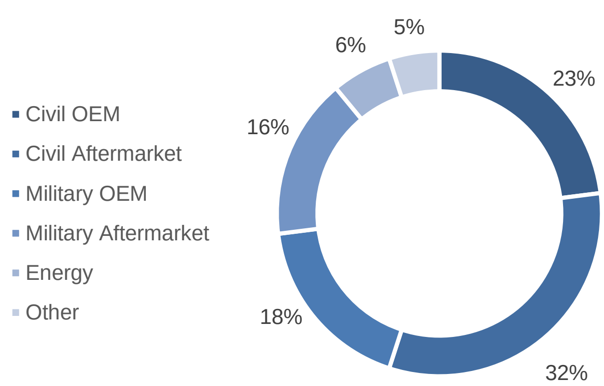
Source: ONS Data at 18/09/2018

Chart 2: UK 3-month rolling Wage Growth



Source: ONS Data at 11/10/2018

Chart 3: Meggitt Revenue Breakdown



Source: Brewin Dolphin client note Data at 18/10/2018

Economic Roundup

Brexit woes were mixed with largely welcomed UK economic news this week. Wages were reported as rising at their fastest pace in nearly 10 years – a welcome boost for household finances. The Office for National Statistics (ONS) said that earnings excluding bonuses rose by 3.1% in the three months to August compared to 12 months earlier, beating expectations and outstripping the 2.9% rise in the three months to July. Economists said that low unemployment was at last pushing up wages, as has historically been the case.

The data came alongside figures showing that unemployment held steady at 4 per cent, although the number of people in work dropped by 5,000, against expectations of a rise. The following day the ONS reported inflation falling sharply in September, from 2.7% in August to 2.4% in September. The news means that, on average, UK earnings are at last outstripping inflation.

The drop in inflation was due to falls in the prices of video games, package holidays, clothing and transport, and will take pressure off the Bank of England to raise interest rates in the near future. Ideally, any decision would wait until uncertainty around Brexit is resolved, but that appears to be some time away; a Brexit summit scheduled for next month was cancelled on Wednesday evening, with both sides saying they had reached a deadlock over the Irish border issue and there was little point in more talks at this time. Theresa May has indicated that she is prepared to extend the transition period to give enough time to solve the problem. That means that Britain could be tied to the EU beyond the scheduled transition period end date of December 2020. This news angered MPs from all camps and rumours of a leadership bid have intensified. Meanwhile, European countries such as France and Germany were said to be stepping up preparations for a disorderly Brexit.

UK retail sales dropped in September after a strong summer, with food sales recording their biggest month-on-month drop in three years. Volume of overall retail sales dropped by 0.8% but food sales were down by 1.5% in the month. The data, from the ONS, suggested that overall sales still grew in the quarter thanks to strong sales in July and August. Somewhat ironically, the figures came just a day after the ONS reported that falling food prices had helped cut inflation in September.

China reported its worst quarterly economic growth figures since the depth of the financial crisis on Friday. Year-on-year growth came in at 6.5%, down from an annualised 6.7% the previous quarter, prompting Vice Premier Liu He to defend the country's outlook, dismissing impacts of the trade war as largely "psychological." Meanwhile in the US, consumer spending slowed sharply in September. Total retail sales grew by just 0.1% in the month, far short of forecasts for 0.7% growth. Sales of home appliances and electronics were the biggest gainers, although economists expect sales growth to slow further in the fourth quarter as the boost from Trump's tax package fades. In Europe, the EU rejected Italy's budget proposals and its bond yields spiked higher as a result, reflecting a perception of increased risk.

Company announcements that caught our attention this week

Date	Company	Comment
18/10/2018	**Unilever**	The giant consumer group reported sales of €12.50bn, slightly below analysts' expectations for €12.56bn. It also confirmed its target to reach 3 to 5 per cent organic growth. It said underlying sales growth accelerated to 3.8 per cent in the third quarter. The figure excluded Argentina, which accounts for about 2 per cent of sales, because the country's hyperinflation would have skewed the figures. Most of the growth came from volume rather than raising prices. In Beauty & Personal Care, the maker of Dove soap saw underlying sales growth of 4 per cent. Growth in the higher margin "prestige" Beauty & Personal Care business (which is a key focus for management) was double digit. In Home Care, sales growth was 4.5 per cent. The shares fell 2 per cent on the news, possibly because volumes were slightly lighter than consensus.
16/10/2018	**Bellway**	Bellway's preliminary results came in marginally ahead of expectations with pre-tax profits and earnings both up 14 per cent, with a record number of completions - 10,307 homes. The dividend was increased by 17 per cent. Gross margins were down a little at 25.5%. Bellway now has a landbank scheduled to last around four years, and it is investing in both IT systems and new divisions, including the creation of a Partnerships business in London to capitalise on the high demand for affordable housing from local authorities. This is expected to contribute to growth in the year to July 2020. The group said it was experiencing shortages of both skilled labour and key materials and this could impact on margins. There are suggestions that the sales rate is slowing, but the balance sheet is strong (net cash of £99m at the end of July), which puts it in a strong position especially compared to rivals.

Key Company Diary Dates

Tue 23rd Oct	**Whitbread**	Interims
Tue 23rd Oct	**Travis Perkins**	Q3 results
Tue 23rd Oct	**Anglo American**	Trading update
Weds 24th Oct	**Barclays**	Q3 results
Thur 25th Oct	**WPP**	Trading update
Fri 26th Oct	**RBS**	Q3 results

Economic highlights over the next week

Tue 23rd Oct – CBI Business Optimism Q4 – previously giving a reading of -3, consensus is for optimism to worsen to -8. Will it be that bad?

Tue 23rd Oct – CBI Industrial Trends Orders for October – expected to worsen from the -1 reading of September to -6 this month.

Weds 24th Oct – UK Finance mortgage approvals – hitting 39,400 in August, approvals are expected to rise to 42,800 for September.

Fri 26th Oct – CBI Distributive Trades Oct – a reading of 23 in September is expected to fall to 19 in October.

Index Movements*

Index	Value	%Change
FTSE 100	7,026.99	0.29
FTSE 250	18,961.35	0.71
AIM	1,010.35	4.28
Dow Jones	25,379.45	1.30
S&P 500	2,768.78	1.48
Hang Seng	25,454.55	0.74
Nikkei 225	22,658.16	0.30

Currency Movements*

Currency Pair	Value	%Change
£:$	1.31	-0.01
£:€	1.14	0.00
£:¥	147.08	-0.01

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

Sector	%Change
Autos & Parts	9.90%
Basic Resources	2.61%
Technology	2.42%
Banks	-1.36%
Personal & Household Goods	-2.47%
Telecoms	-3.76%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Evraz	4.59%
NMC Health	4.11%
Glencore	3.99%
Tesco	-3.55%
Vodafone Group	-4.79%
British American Tobacco	-6.65%

*Weekly movements up until close of business Thursday