The Week in Perspective

22 March 2019

Market Roundup

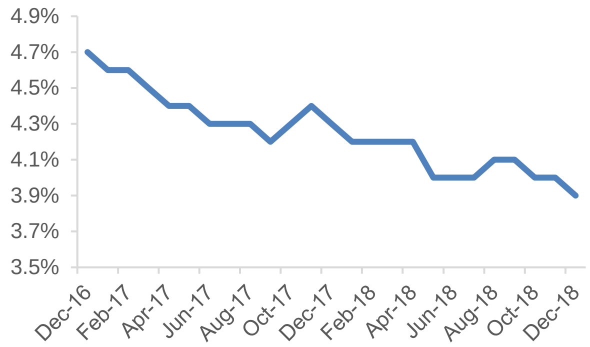
Blue-chip stocks made steady gains for most of this week, despite twists in the Brexit drama raising the chances of a no-deal withdrawal. The more domestically-focused FTSE250 consequently had a more turbulent time. The FTSE100 closed up by 1% on Monday, buoyed by strong gains in the mining sector in-part thanks to rising copper prices. Both the FTSE100 and FTSE250 rose by 0.3% on Tuesday as investors reacted to the decision by House of Commons Speaker John Bercow to block a third meaningful vote on Theresa May's withdrawal deal, which many interpreted as increasing the chances of a soft Brexit or even no Brexit. But the impact of that decision faded on Wednesday after Theresa May asked the EU for an extension to Article 50 until 30th June and received the unexpected reply that a short extension would only be granted if parliament passed the prime minister's withdrawal agreement, which had already been voted down twice. It is now expected that a third vote will be allowed. UK equities fell in response, with the FTSE100 closing down by 0.5% and the FTSE250 down by 0.8%. On Thursday, blue-chip stocks bounced back helped by a weakening pound, but the FTSE250 index shed 0.3% as fears of a no-deal Brexit intensified. On Thursday evening the EU27 only ratified an unconditional delay to Article 50 until April 12, in order for MPs to approve Theresa May's deal or find another way forward. If no deal is approved by April 12, the UK will have to choose between a no-deal Brexit, or taking part in the European elections in May in return for a longer extension, which will also likely be conditional on a general election or second referendum. In early trading on Friday, shares were heading down.

Company Focus: Antofagasta

Antofagasta on Tuesday reported a 14% fall in 2018 earnings, but record production and asset sales enabled the FTSE100 company to declare a higher-than-expected dividend. In the year to December, the Chilean copper miner said earnings before interest, tax, depreciation and amortisation fell to $2.23bn (£1.70bn) from $2.59bn a year ago, blaming grade declines and higher costs. Revenues were relatively unchanged at $4.73bn, as lower copper prices were offset by a 3% increase in full-year production to 725,300 tonnes.

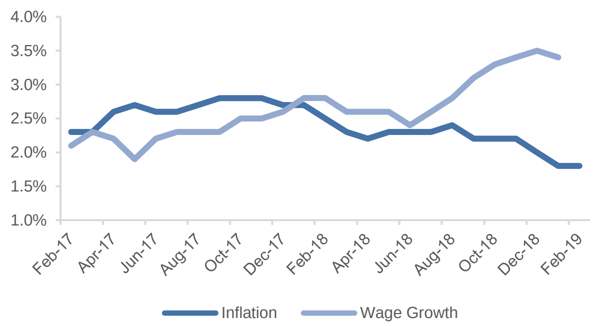
Antofagasta's dividend policy is to pay out at least 35% of earnings and return any spare cash not required for other uses. A final dividend of 37 cents takes the total dividend to 43.8 cents per share which equates to a 65% pay-out ratio. The total dividend is lower than 50.9 cents paid in 2017 but was still ahead of analysts' expectations.

Chart 1: UK Unemployment Rate



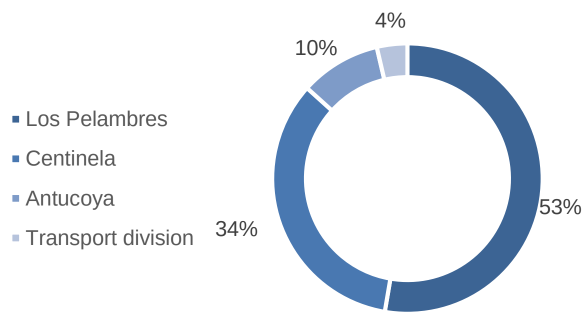
Source: ONS Data at 21/03/2019

Chart 2: UK Inflation Rate and Wage Growth



Source: ONS Data at 21/03/2019

Chart 3: Antofagasta – Revenue by segment



Source: Brewin Dolphin client note Data at 21/03/201

Economic Roundup

Key indicators of the UK economy remained surprisingly upbeat this week, despite Brexit worries and a trend of falling business investment. On Tuesday, the Office for National Statistics (ONS) said that UK employment reached a new record in the three months to January. The number of people in employment rose by 220,000 in the quarter, way above analysts' expectations of a 120,000 increase. As a result, the unemployment rate fell to 3.9 per cent, the lowest since 1975. The employment rate rose to 76.1%, up from 75.3% 12 months earlier. This figure is the highest on record. Wage growth also exceeded expectations, running at a rate of 3.4% during the quarter, down from 3.5% in the previous three months. Economists had expected wage growth to fall to 3.2%. After accounting for inflation, wages were 1.5% higher year-on-year by the end of 2018. Analysts are struggling to reconcile the positive jobs and wages data with consistent reports of falling business investment. Some have suggested that it is easier to hire more people to meet demand (and then let them go in the event of a downturn), than it is to spend large sums on expensive machinery or manufacturing facilities, which would be difficult to sell if they became surplus to requirements.

The UK inflation rate increased in February, pushed up by rising food prices. The ONS said that the annual rise in the consumer price index for February was 1.9%, up from 1.8% in January. The ONS commented: "The rate of inflation is stable, with a modest rise in food, alcohol and tobacco offset by clothing and footwear prices rising by less than they did a year ago."

The increase in prices is the first rise in inflation since last August, when the Bank of England raised interest rates to 0.75% - the highest level since the financial crisis. Inflation is expected to rise in the coming months as the energy regulator increases its price cap by 10%, which will see prices rise in a major component of the consumer prices index.

Ordinarily, data that showed strong wage growth and record employment would be putting upwards pressure on interest rates and inflation, but Brexit uncertainties make the link more tenuous. Indeed, the Bank of England's Monetary Policy Committee unanimously voted to leave rates unchanged on Thursday as Brexit uncertainty acts as a brake on the economy. But rates could move in either direction in the coming months depending on the outcome of the Brexit saga. If the UK manages a smooth withdrawal, the pressure on wages and inflation could force the Bank to raise rates. And even crashing out without a deal could force a rate rise to counter the expected spike in inflation that would likely accompany a falling pound. Conversely, the Bank could choose to cut rates to cushion the economic shock.

The US Federal Reserve also left its interest rates on hold this week, and took the prospect of further rate rises off the table for 2019 amid data suggesting that the economy was slowing more than expected, and inflation was falling. Meanwhile, in the UK, retail sales volumes increased by 0.4% in February compared to January, although much of the rise was attributable to a rise in fuel sales and online shopping. The annual rate of growth was 4%, down from the 4.1% rate reported in January, but well above the consensus forecast of 3.3%. News from the housing market continued in its negative vein, with the ONS saying that prices are rising at their slowest pace since 2013. It said prices increased by 1.7% in the year to January, down from the 2.2% reported in December. Prices actually fell by 1.6% in London.

Company announcements that caught our attention this week

Date	Company	Comment
21/03/2019	**Renishaw**	Renishaw warned that its full-year results will miss the group's previous guidance, blaming weaker demand in Asia. The precision engineer cut its full year revenue expectations to a range of £595m to £620m, from £635m to £665m. The company now expects statutory profit before tax to be in the range of £123m to £141m, lower than the £146m to £166m predicted in January's half-year results. "As reported in the half year results, we experienced a slowdown in demand in Asia for our encoder products and from large end-user manufacturers of consumer electronic products," the company said. "Based on recent order trends and customer feedback, we now expect these conditions to continue through the remainder of this financial year."
21/03/2019	**Next**	Next's full year results for the year ending January had a familiar ring. Annual sales and profits at its high street stores were down 7.9%, while its online sales grew 14.7%, continuing the trend of recent years. Overall, the retailer's pre-tax profits were in line with expectations at £722.9m, a fall of 0.4%. The results included a "Big Picture". The group said its stores were still a "valuable financial asset and an increasingly important" part of its online business. Online sales now represent 53% of sales and it costs less to deliver online orders to stores than to customers' homes. Over 80% of Next's returns come back in stores.

Key Company Diary Dates

Tue 26 Mar	**Barr (A.G.)**	Full-year results
Wed 27 Mar	**Bellway**	Half-year results
Wed 27 Mar	**Hilton Food Group**	Full-year results
Thu 28 Mar	**International Public Partnerships**	Full-year results

Economic highlights over the next week

Mon 25 Mar – Ifo Business Climate – The Ifo Business Climate Index for Germany fell 0.8 points from a month earlier to 98.5 in February, the lowest reading since December 2014.

Fri 29 Mar – Business Investment – Business investment shrank 1.1% on quarter in the July to September period last year, the third consecutive quarter-on-quarter fall in business investment.

Fri 29 Mar – GfK Consumer Confidence – The long-running gauge of consumer confidence edged up to -13 in February from a five year low of -14, as British households remained "stoic amid fear of the unknown".

Index Movements*

Index	Value	%Change
FTSE 100	7,355	2.36%
FTSE 250	19,348	0.33%
AIM	923	1.05%
Dow Jones	25,963	0.98%
S&P 500	2,855	1.65%
Hang Seng	29,072	0.76%
Nikkei 225	21,609	1.51%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.31	-1.59%
£:€	1.15	-2.08%
£:¥	144.91	-2.35%

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

Sector	%Change
Basic Resources	1.20%
Oil & Gas	1.03%
Technology	0.52%
Chemicals	0.20%
Financial Services	-1.00%
Insurance	-1.82%

Best & worst FTSE 100 performing stocks*

Company	%Change
Hikma Pharmaceuticals	13.20%
FRESNILLO	12.83%
Smurfit Kappa Group	6.33%
RIGHTMOVE	-4.64%
Kingfisher	-5.19%
Royal Bank Of Sctl.Gp.	-6.39%

*Weekly movements up until close of business Thursday