BREWIN DOLPHIN

The Week in Perspective

12th October 2018

Market Roundup

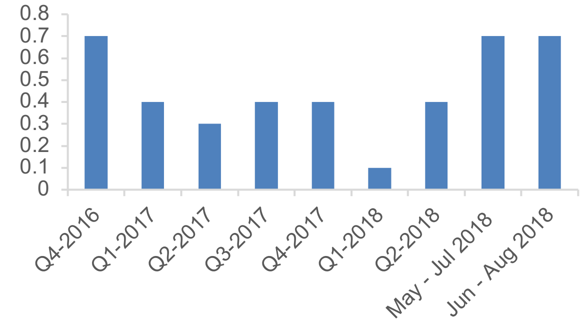
UK shares officially entered “correction” territory this week, defined as a drop of 10% or more from a previous 52-week high. It hit 7,032 on Thursday morning, compared to its record high of 7,903 in May.
Ever since the US Federal Reserve raised rates at the end of September and signaled more hikes to come in 2019, markets have been on edge. A rising 10-year bond yield in the US is a bad sign for equities and it has stayed above the 3.0% mark for the longest period since 2011.
UK shares fell on Monday amid the worries about US interest-rates and Italy’s debt issues. Blue chips bounced back a little on Tuesday, with resource stocks doing well after a rally in the prices of oil, iron ore and copper. The pound strengthened on reports that the terms of Britain’s divorce from the EU could be finalised within a week.
On Wednesday the sell-off accelerated, with the US S&P500 falling 3.3%, the Nasdaq by 4.01% and the Dow 2.2%. In points terms, the Dow’s 830-point drop was its third biggest ever. Asian markets followed the US lead, with Japan’s Nikkei down 3.9% and Shanghai’s blue-chip index falling 4.8% to its lowest level in over two years. Thursday saw more sharp falls for London as the FTSE100 fell by 1.9% at 7,006, close to breaching the 7,000 level for the first time since March. In the US, markets also continued the sell off with the Dow down by 2.1% and the Nasdaq by 1.3%, despite softer than expected US inflation data. Asian markets showed resilience on Thursday and in early trade on Friday, the FTSE100 was heading up.

Company Focus: Hargreaves Lansdown

Hargreaves Lansdown shares dropped more than 7.0% immediately after it said there was an ‘industry-wide slowdown’ in net retail flows. In an otherwise solid trading update, the company said that it attracted 29,000 new clients and £1.3bn of net inflows in the quarter, down from £1.5billion during the same period last year. Assets under administration now sit at £91.6billion, slightly up since 30 June. “I'm pleased to report a solid start to our financial year for growth in clients, net new business and revenue” said CEO Chris Hill. Despite the backdrop of poor investor sentiment, Hill said “the strength of our business model positions us well for when sentiment improves.”

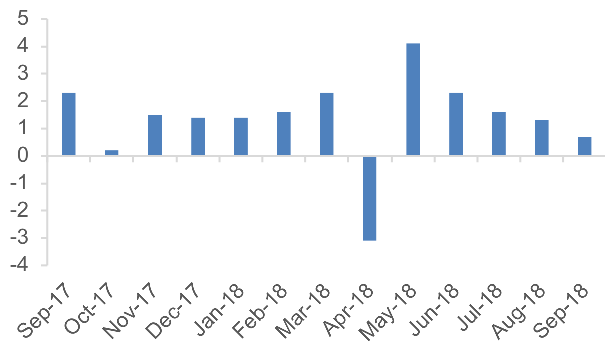
Last month, the company’s index of investor sentiment showed investors were more nervous than ever, with a reading of 58 in September, compared to 61 in 2008 during the financial crisis. Despite the share price drop, Brewin Dolphin believes the shares are still valued too highly, with the market pricing in business-growth targets that the company is unlikely to achieve, especially in an environment where investors are reluctant to take risk. If market volatility continues, as we expect, it will act as a significant headwind to HL’s growth.

Chart 1: UK 3-Month Rolling GDP Growth Rate



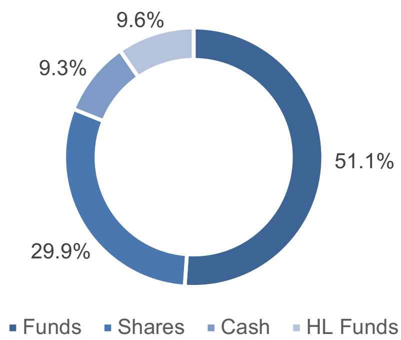
Source: ONS | Data at 11/09/2018

Chart 2: British Retail Consortium Retail Sales Growth



Source: Thomson Reuters | Data at 11/10/2018

Chart 3: Hargreaves Lansdown 2018 Average Assets Under Administration



Source: Brewin Dolphin client note | Data at 11/10/2018

Economic Roundup

UK businesses are becoming increasingly nervous about Brexit, according to a survey by the British Chamber of Commerce (BCC).

Its quarterly survey of 5,600 firms found that the proportion of services companies trying to recruit is at its lowest for 25 years, and those that were hiring were finding it difficult.

Separately, a survey by Deloitte showed that UK businesses are increasingly pinning their hopes on a positive outcome to the Brexit negotiations, and the rising possibility of a “no deal” outcome dragged on sentiment in the third quarter.

As a result, companies are cutting their hiring and investment plans.

The survey said that reducing costs is now the top priority for companies, and executives are more focused on this issue than at any time in the last eight years. Echoing the BCC’s findings, the proportion of companies experiencing recruitment difficulties or skills shortages rose to almost half in Q3.

On the high street, the British Retail Consortium (BRC) said on Tuesday that UK retail sales rose at their slowest pace in five months in September, up just 0.7% compared to the 1.3% growth reported the month before. On a like-for-like basis, sales for the month were down 0.2% compared to September last year, down from a 0.2% increase in August.

The International Monetary Fund (IMF) downgraded its outlook for global growth this week, blaming the trade wars, rising interest rates and geo-political worries. It now forecasts growth to be 3.7% this year and next, down from its previous forecasts of 3.9% in both years.

UK GDP data from the Office for National Statistics (ONS) showed that although economic growth stalled in August, the economy expanded by 0.7% in the three months to the end of August, reflecting the uptick in spending in the hot summer months. The data exceeded expectations of a 0.6% rise.

It is estimated that, after a difficult start to the year caused by bad weather, the UK economy is now on track for moderate growth equating to around 1.5% per annum - below the long-term trend of around 2.0% - likely a result of Brexit uncertainties.

Brexit worries are also being blamed for a continued downwards trend in the property market. A survey by the Royal Institution of Chartered Surveyors (RICS), showed that prices are falling, buyer enquiries are at a record low and sales are taking an average of 19 weeks to complete - the longest since the RICS began collecting the data. Although London was worst hit, the falling prices in the capital were now expanding out to other areas such as the South East and East Anglia.

Company announcements that caught our attention this week

Date	Company	Comment
10/10/2018	**French Connection**	French Connection rose 36.4 per cent in early trading on Wednesday after the global fashion brand said it was putting itself up for sale. The company reported pre-tax losses of £15.1m for the six months to July 31 on top of losses of £5.9 million a year earlier. These followed writedowns including the impact of the House of Fraser collapse. The retailer’s major shareholders are Stephen Marks, who founded the group in 1969, and Sports Direct, the sportswear chain controlled by Mike Ashley. Any sale would likely involve the Marks offloading his 42% stake in the company. At its half-year results last month, the group outlined proposals for a strategic review of high street activities, with plans to close eight shops over the financial year. It had already shut two in the first half. It said at the time that the “continued deterioration of trading conditions on the UK high street” meant it was reviewing leases on numerous loss-making stores.
11/10/2018	**Moneysupermarket**	The company said on Thursday that revenues were up 6% to £270m in the nine months to the end of September, despite a fall in insurance premiums. Revenue in the third quarter increased 7% year-on-year to £96.4m. The insurance-focused part of the business grew by 3% to £142m (taking a cut on insurance policies purchased through the site accounts for over half its revenues). The company said switching rates in the energy sector “remained strong against tough comparatives”. “Good provider offers and the work we have done on customer experience meant we performed well ahead of the outlook we set out at the interim results,” it added. "Energy switching in our Home Services business was better than expected with customers taking advantage of great 18-month fixed deals to beat rising prices," said chief executive Mark Lewis. The company reiterated that it should meet full-year expectations.

Key Company Diary Dates

Tue 16th October	**Bellway**	Full-year results
Wed 17th October	**Barratt Developments**	Trading update
Wed 17th October	**SEGRO**	Trading update
Thur 18th October	**Rentokil**	Trading update

Economic highlights over the next week

Mon 15 Oct – US retail sales – the previous month saw an annual growth rate of 6,6%. Consensus this time is for a slight slowdown to 5.2%. The monthly growth rate is expected to increase from 0.1% to 0.5%.

Tues 16 Oct - UK unemployment and claimant count – currently at 40 year lows of 4%, the unemployment rate is expected to stay the same amid reports of skills shortages and a tight labour market. Average earnings data will also be released.

Weds 17 Oct – UK inflation rate – previously hitting 2.7% in September, expectations are for a small rise to 2.8% in October

Index Movements*

Index	Value	%Change
FTSE 100	7,006.93	-5.55
FTSE 250	18,827.75	-6.28
AIM	968.84	-10.41
Dow Jones	25,052.83	-5.91
S&P 500	2,728.37	-5.97
Hang Seng	25,266.37	-5.10
Nikkei 225	22,590.86	-5.78

Currency Movements*

Currency Pair	Value	%Change
£:$	1.32	0.01
£:€	1.14	0.01
£:¥	148.31	0.00

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

Sector	%Change
Technology	-0.21%
Oil & Gas	-1.23%
Insurance	-1.29%
Basic Resources	-1.40%
Financial Services	-1.87%
Chemicals	-4.86%

Best & Worst FTSE 100 performing stocks*

Company	%Change
BT Group	4.08%
Severn Trent	3.96%
Randgold Resources	3.82%
Halma	-13.43%
Hargreaves Lansdown	-14.09%
Ashtead Group	-15.50%

*Weekly movements up until close of business Thursday