Brewin Dolphin

The Week in Perspective

14 June 2019

Market Roundup

The familiar themes of Brexit and global trade disputes were the main drivers of the equity markets' performances this week. President Trump said on Monday that he would not impose tariffs on Mexican imports after reaching an agreement with Mexican authorities to reduce the flow of migrants, lifting share prices in the UK, US, and numerous other markets.

The FTSE100 gained 0.6% on the day while the more domestically-focused FTSE250 rose by 0.4%. Ocado shares were the best-performing in the FTSE100 after it announced a large investment in the vertical farming industry. UK shares rose again on Tuesday with mining stocks helping push up the FTSE100 by 0.3% after China, the world's biggest consumer of raw materials, announced an increase in infrastructure spending likely to boost demand for materials such as steel and copper.

Wednesday saw markets fall, however, as President Trump said he was delaying a trade deal with China until Beijing returned to terms he says were agreed earlier this year. The FTSE100 and FTSE250 both closed down by 0.4%. On Thursday, US shares rallied and the FTSE100 finished flat and the FTSE250 closed down by 0.4% after news broke of two burning oil tankers in the Persian Gulf. In early trading on Friday, shares were heading down.[1]

Company Focus: Tesco

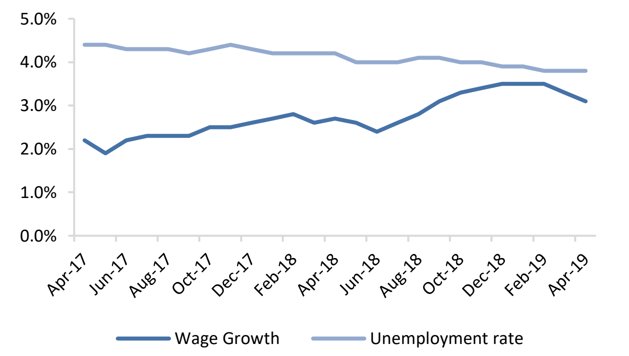
Tesco revealed on Thursday that sales growth slowed in the first quarter, but it still outperformed its rivals in a "subdued" grocery market. Britain's biggest supermarket chain said sales in the UK rose 0.4% to £9.1bn on a like-for-like basis in the 13 weeks to 25 May, the group's fiscal first quarter. Although this was a 14th straight quarter of growth, it marked a slowdown from growth of 1.7% in the previous quarter.

Chief Executive Dave Lewis called it a "strong start to the year" and said that Tesco was "growing ahead of the UK market on a both a volume and value basis." Compared with the same quarter last year, group like-for-like sales were only 0.2% higher at £14bn. However, Mr Lewis pointed out that a year-on-year comparison was tough because sales last year were boosted by warm weather and the royal wedding.

Sales in Central Europe were disappointing, falling 4.9% on a like-for-like basis. More positively, UK online grocery sales were up 7% year-on-year, with more than 10% of customers choosing to Click & Collect their orders.[2]

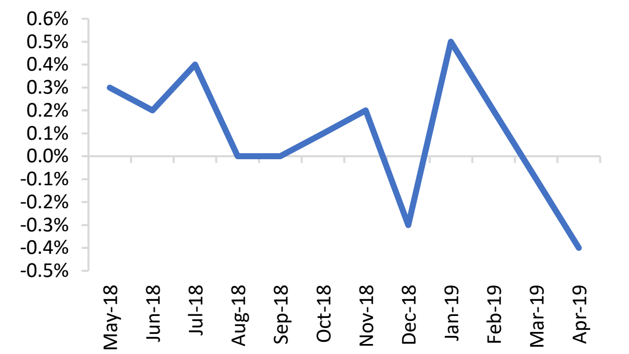
[1]Source: Sharecast
[2]Source: Company report

Chart 1: UK Wage Growth and Unemployment Rate



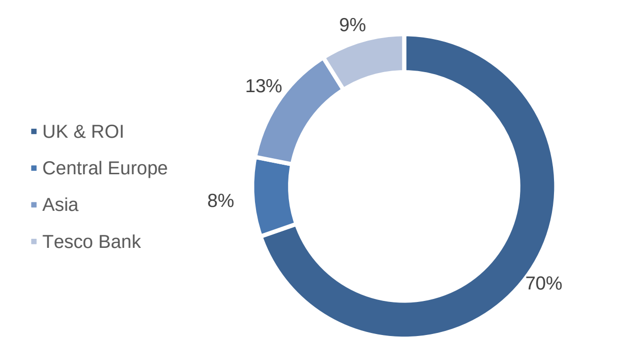
Source: ONS Data at 14/06/2019

Chart 2: ONS Monthly UK GDP Growth Estimate



Source: ONS Data at 14/06/2019

Chart 3: Tesco – Operating Profit



Source: Brewin Dolphin client note Data at 14/06/2019

Economic Roundup

There were mixed signals from the UK economy this week. On Monday, data from the Office for National Statistics (ONS) showed that in April GDP growth shrank by 0.4% month on month, a far worse performance than expected by analysts, who had forecast a drop of 0.1%. The fall is the second consecutive monthly contraction, following a 0.1% drop in GDP growth in March. However, there was good news on Tuesday as the ONS revealed that pay growth is accelerating, boosting household finances, while unemployment remained at a 45-year low of 3.8%.

The disappointing economic growth data, again from the ONS, was blamed on a dramatic slump in car production and other "temporary factors" related to Brexit and its original March deadline. In the first few months of the year, economic growth was boosted as manufacturers built up supplies in case of a no-deal Brexit on March 31, leading to an unusually large burst of activity. As that effect wore off and the Brexit deadline was moved to October 31, activity slumped. Industrial production declined by 2.7% in April compared to March and manufacturing output fell by 3.9%, representing the sharpest fall since 2002. The standout contributor to the fall, however, was a sharp reduction in the number of cars produced in the UK. Car manufacturers had brought forward their annual factory shutdowns from August to April to minimise the impact of a no-deal Brexit. Car production fell by 24% in April compared to March, the biggest fall in 24 years. Meanwhile, wages continue to grow above expectations, with wages between February and April 3.4% higher than a year earlier. According to the ONS, after adjusting for inflation, wages grew by 1.5%.

While the unemployment rate held steady, the number of people in work actually increased by 32,000 over the quarter, taking the total of employed people in the UK to 32.75m. The rise was driven primarily by an increase in the number of women in the workforce to a record 15.46m.

The overall decline in activity in the UK property market abated in May, according to a survey by the Royal Institution of Chartered Surveyors (RICS). New buyer enquiries levelled off rather than declined in May - the first time since July 2018 that new buyer enquiries did not decline. The RICS added that the negative trend in agreed sales, new instructions and prices had "diminished to a certain degree". However, agreed sales continued to slide in May and most respondents did not expect the market to improve in the short term. On Wednesday, Donald Trump ramped up trade fears once again as he said he may impose tariffs on an additional $325billion of Chinese goods, but he gave no deadline for the escalation and said that he felt that China wanted to make a deal, without providing further details.

On a global view, interest rates look set to stay lower for longer as weak inflation is now established as a global phenomenon. At the beginning of the year, the consensus view was that central banks would continue withdrawing their easy money policies and raising interest rates. However, May data for inflation showed falling core inflation rates in the US, China, the Eurozone, India, South Korea and Thailand. All of these factors add to the prospect of interest rates and bond yields staying lower for longer.

Company announcements that caught our attention this week:

Date	Company	Comment
10/06/2019	**Ferguson**	Ferguson's third-quarter results were eagerly awaited as the plumbing and heating group is deemed to be a key indicator of the health of the US construction industry. In the event, revenue fell short of expectations in the last quarter as growth slowed in the US, its largest market. Group revenues for the three months to 30 April rose by 6.2% to $5.27m (£4.13m), slightly below City forecasts in the region of $5.36bn. American sales grew 3.3% on an organic basis over the period, though the company said that revenue growth had "moderated across the country." On a more positive note, net debt remains under control and the company, formerly known as Wolseley, said it would buy back shares worth $500m. The buyback equates to 4% of the company's market cap.
11/06/2019	**Compass Group**	Compass announced on Tuesday that it had agreed to acquire Fazer Food Services for €475m (£422). Fazer, which reported revenue of €600m in 2018, runs more than 1,000 catering facilities in Finland, Denmark, Norway and Sweden. Compass generated revenues last year of £23.2bn. The world's biggest catering group said that the Fazer deal would enable it "to create more compelling and innovative solutions for its clients and consumers." The acquisition will give the group a number one position in the Nordic markets. Compass will pay €420m in cash, with the rest of the acquisition payment payable within seven years dependent on closing balance sheet adjustments and the operation of an earn-out. The deal requires EU Commission competition approval, a process which Compass said could take several months.

Sources: ONS, RICS, AMP Capital, Company reports and accounts

Key Company Diary Dates

Tue 18 June	**Ashtead Group**	Full-year results
Tue 18 June	**Telecom Plus**	Full-year results
Tue 18 June	**Safestore Holdings**	Half-year results

Economic highlights over the next week

Wed 19 June – UK Inflation Rate – The annual inflation rate increased to 2.1% in April from 1.9% in the previous month, mainly boosted by a rise in energy bills.

Wed 19 June – US Interest Rates – Jerome Powell, chairman of the Federal Reserve, has signalled that the central bank is ready to cut rates if the US-China trade battle and slowing global growth hit the US economy.

Thu 20 June – UK Interest Rates – Economists have been warning that the Bank of England may need to increase interest rates sooner than financial markets expect, though probably not at the June meeting.

Index Movements*

Index	Value	%Change
FTSE 100	7,369	1.50%
FTSE 250	19,172	0.56%
AIM	939	0.36%
Dow Jones	26,107	1.50%
S&P 500	2,892	1.69%
Hang Seng	27,295	1.22%
Nikkei 225	21,032	1.24%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.27	-0.23%
£:€	1.13	-0.14%
£:¥	137.63	0.07%

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

Sector	%Change
Basic Resources	4.86%
Technology	0.87%
Chemicals	0.52%
Insurance	-0.38%
Financial Services	-0.79%
Oil & Gas	-1.43%

Best & worst FTSE 100 performing stocks*

Company	%Change
DS Smith	11.67%
Evraz	11.20%
Imperial Brands	8.85%
RIGHTMOVE	-3.36%
Centrica	-4.22%
BHP GROUP	-4.33%

*Weekly movements until close of business 13 06 2019. Sources: Bloomberg, Refinitiv

Important Notes: