

The Week in Perspective

30 August 2019

Market Roundup

It has been a positive week for equities despite the intensifying political crisis in the UK. Investors have been more focused on an apparent easing of trade war tensions after China signalled a desire to de-escalate the trade war, which helped shares recoup losses from earlier in the week. In a shortened bank holiday trading week, UK equities fell on Tuesday, weighed down by a rising pound. It had been lifted by hopes of averting a no-deal Brexit – just a day before Boris Johnson’s decision to suspend parliament. After this news, the pound suffered its biggest fall of the year, dropping by 0.93% to 1.217 against the dollar and by 0.96% to 1.0972 against the euro.

The FTSE100 rose by 0.35% on Wednesday, boosted by the fall in sterling, but the more domestically-focused FTSE250 index fell by 0.7%; its constituent companies will be harder hit by a disorderly Brexit. European equities have been supported by positive news out of Italy of a new coalition government between the left-wing Five Star Movement and the centre-left establishment Democratic Party. Shares were boosted on Thursday after China’s Commerce Ministry made positive noises about the need for a de-escalation of the trade war. The FTSE100 rose 1% in response and European and US markets were also up sharply. In early trade on Friday, shares were heading up.¹

Company Focus: Micro Focus

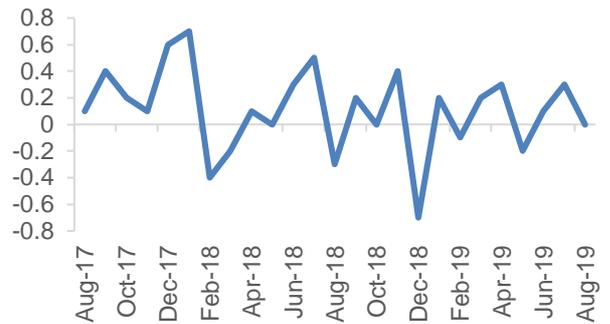
The British IT company could lose its place in the FTSE100 index after a drastic profit warning knocked more than 32% off its share price on Thursday. It said uncertain economic conditions and poor performance by its sales teams were to blame for the collapse in its performance.

The company, which specialises in extending the life of ageing software, said revenues for the 12 months to the end of October will fall by 6%-8% - potentially twice the level of previous guidance of a fall of 4%-6%.

The news led to its shares closing at 1,051p on Thursday, compared to a 2019 high of 2,156p just last month.

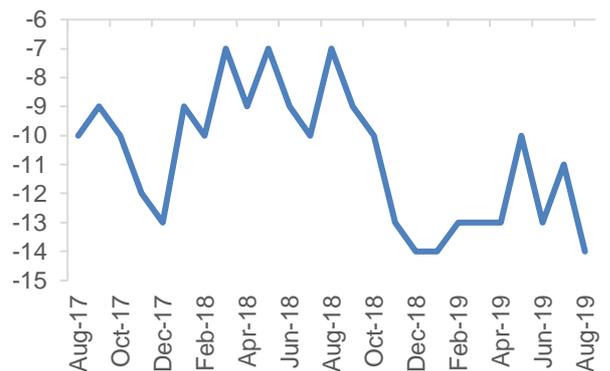
“Weak sales execution has been compounded by a deteriorating macro environment resulting in more conservatism and longer decision-making cycles within our customer base,” the company said in a statement. The forecast drop has prompted Micro Focus to initiate a full strategic review of operations in a bid to improve the business.²

Chart 1: Nationwide House Price Index



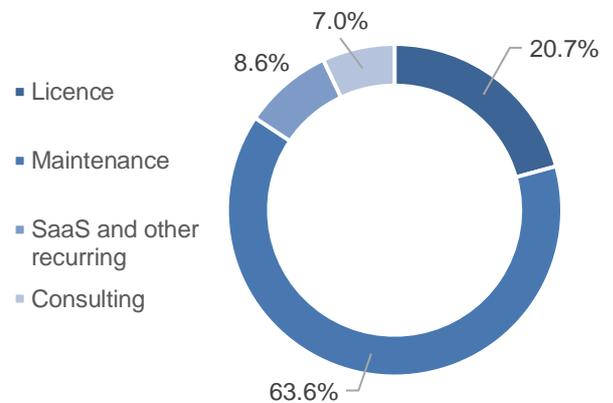
Source: Nationwide Data at 30/08/2019

Chart 20: GFK Consumer Confidence



Source: GFK Data at 30/08/2019

Chart 3: Micro Focus Revenue by Sector



Source: Micro Focus 1st Half Report Data at 30/08/2019

¹Source: Sharecast

²Source: Company report

Economic Roundup

It was confirmed this week that Germany's economy shrank by 0.1% in the second quarter and analysts are suggesting that it will continue to deteriorate in the third quarter. If true, Europe's largest economy will fall into recession. The German Business Confidence index, fell to 94.3 in August, down from 95.8 in July, the lowest reading since 2012.

Similarly, a survey on Tuesday showed a majority of British companies expect the UK economy to deteriorate over the next year due to the combination of trade wars, Brexit, and slowing consumer spending. The FT/ICSA survey of stock-market listed companies showed that around two thirds of firms now expect the UK economy to deteriorate, with nearly 60% saying their companies would be damaged by any form of Brexit.

Another survey by the Confederation of British Industry (CBI) showed that activity and business sentiment in the UK's key services sector is deteriorating, with both profits and confidence falling in the three months to August. Consumer services businesses, such as bars, hotels and restaurants, saw business activity decline for a fourth consecutive quarter, and they expect a further deterioration in the coming three months, with expectations at their worst level in seven years. Professional services companies, such as lawyers and accountants, saw profits drop at their fastest rate since 2011. The survey is deeply concerning because the services sector accounts for around 80% of the UK economy. Rain Newton-Smith, CBI Chief Economist, said: "The outlook for services firms is bleak at the moment, with Brexit uncertainty holding back investment and expansion plans. The idea of a no-deal Brexit is clearly weighing down the economy and is affecting businesses both big and small. So the economy can get back on track, the Government must re-double its efforts in securing a deal."

The widely respected GfK consumer confidence index, released this morning, shows that sentiment among UK consumers fell to a six-year low in August, with a reading of -14, compared to -7 a year ago. GfK said the result was due to "pre-Brexit nerves." All five components of the index deteriorated in August. Expectations for the general economic outlook fell to -38, 12 points worse than a year ago. A spokesman for GfK said: "Until Brexit leaves the front pages – whenever that will be – consumers can be forgiven for feeling nervous not just about the wider economy but also about their financial situation. "If there is a continuation of that dip in our feelings about our future wallets, we'd quickly see a headline score crash to a level that approaches the worrying figures seen in the worst days of the 2008/2009 financial crisis."

Meanwhile, UK house prices rose in at the fastest annual pace in three months in August. Nationwide said activity is picking up from its pre-Brexit slowdown, but some analysts believe that the acceleration in sales could merely be a result of people rushing to complete transactions before the Brexit deadline in October. House prices rose 0.6% year-on-year in August after a 0.3% rise in July. Month-to-month, however, prices neither rose nor decreased.

Company announcements that caught our attention this week:

Date	Company	Comment
27/08/2019	Bunzl	<p>Distribution and business services group Bunzl saw its shares fall to an 18-month low after its first-half results revealed a slowdown in organic revenue growth in the second quarter.</p> <p>The FTSE100 company, which supplies everyday products such as coffee stirrers, hard hats and cleaning products to firms around the world, had reported organic growth of 1.5% for the first three months of the year, so the 0.8% figure for the first half of 2019 implies a notable slowdown in the last quarter.</p> <p>This was due to sales growth in its largest market, North America, slowing 0.7% to £2.6billion. Organic growth dropped from 1% in the US in the first quarter to just 0.1%. Chief executive Frank van Zanten described the firm's performance as 'resilient' despite slowing economic and market conditions. The company has also maintained expectations for the full year.</p>
28/08/2019	Thomas Cook	<p>Travel company Thomas Cook has agreed the main terms of a £900m rescue package but warned on Wednesday that it would "significantly" dilute shareholders' stakes and could lead to the company de-listing from the stock market. Shares in the company plunged by 17% on the news. Chinese company Fosun, the largest stakeholder in Thomas Cook, will take 75% of the tour operating business and a 25% stake in Thomas Cook's airline for £450m. This is in addition to the company's banks paying £450m for a 75% stake in the airline and a 25% stake in the tour operator.</p> <p>"The board continues to proceed on the basis that a recapitalisation, achieved with the support of shareholders, is the preferred means of securing the future of the group for all its stakeholders (including customers, suppliers and employees), while at the same time enabling the existing shareholders to continue to retain an investment in the company," the company said in a statement.</p>

Key Company Diary Dates

02 Sep	Dechra Pharmaceuticals	Final results
04 Sep	Walkers Crisp Group	AGM
06 Sep	Greene King	AGM

Economic highlights over the next week

2 Sep – UK PMI Manufacturing – The UK saw its lowest reading since the 2008 financial crisis earlier in the summer.

4 Sep – US Balance of Trade – Last week's escalation of the US/China trade war came too late to impact these figures, but they will be an important indicator on the situation.

6 Sep – US Non-Farm Payrolls – These increased by 164,000 in July of 2019, following a downwardly revised 193,000 in June and in line with market expectations.

Index Movements*

Index	Value	%Change
FTSE 100	7,184	0.79%
FTSE 250	19,293	0.45%
AIM	871	0.17%
Dow Jones	26,362	0.42%
S&P 500	2,925	0.06%
Hang Seng	25,704	-1.33%
Nikkei 225	20,461	-0.81%

Currency Movements*

Currency Pair	Value	%Change
£:\$	1.22	-0.39%
£:€	1.10	-0.27%
£:¥	129.91	-0.41%

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

Sector	%Change
Basic Resources	1.42%
Chemicals	0.10%
Oil & Gas	-0.04%
Financial Services	-0.46%
Insurance	-2.77%
Technology	-9.02%

Best & worst FTSE 100 performing stocks*

Company	%Change
Fresnillo	10.22%
Ocado Group	6.39%
Melrose Industries	5.16%
Aveva	-3.14%
British American Tobacco	-3.58%
Micro Focus Intl.	-33.82%

*Weekly movements until close of business 30 08 2019. Sources: Bloomberg, Refinitiv

Important Notes:

The value of investments and any income from them can fall and you may get back less than you invested. Past performance is not a guide to future performance and performance is shown before charges, which would reduce the illustrated performance. No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition, we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our [conflicts policy](#). If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset. The opinions expressed in this document are not necessarily the views held throughout Brewin Dolphin Ltd. The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.

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