The Week in Perspective

25th January 2019

Market Roundup

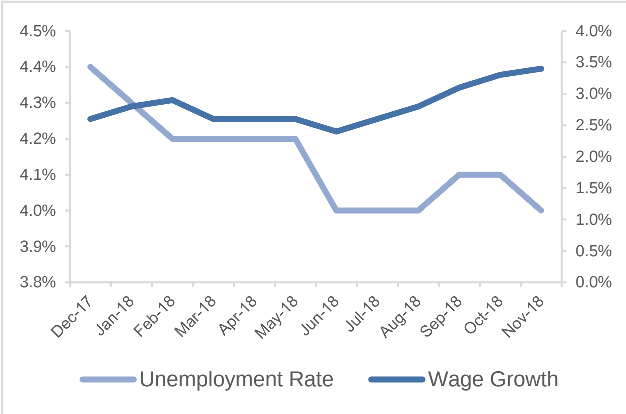
Stocks started the week flat as investors waited on Theresa May's 'Plan B' on Brexit. China also released some downbeat Chinese economic growth figures (see below). The FTSE 100 closed up 0.03% to 6,971. The pound was stronger against both the euro and the dollar amid growing hopes of a soft Brexit.

B&Q owner Kingfisher was the biggest loser on the day, down by 4%, following a broker downgrade. The market fell back on Tuesday as a strengthening pound hurt international companies with dollar-based revenues. The FTSE 100 fell by 1% to 6,901.4 as sterling rose 0.6% against the dollar. The rise was caused by optimism about a Brexit deal and also by strong employment data (see below). Blue chips fell again on Wednesday amid worries about escalating trade tensions between the US and China and a flurry of downbeat economic news. However, shares in EasyJet rose by over 3% as brokers raised their price targets for the stock. Wetherspoon shares dropped after it warned first-half profit is likely to be lower than last year. Thursday was another down day for the FTSE100, as there was little direction provided by the news flow. No progress was made on Brexit and the US and China were said to be far from agreeing a trade deal. The blue-chip index fell by 0.4% at 6,818.9 but the FTSE250 index, which is more domestically focused, rose 0.2%. In early trade on Friday shares were heading up.

Company Focus: G4S

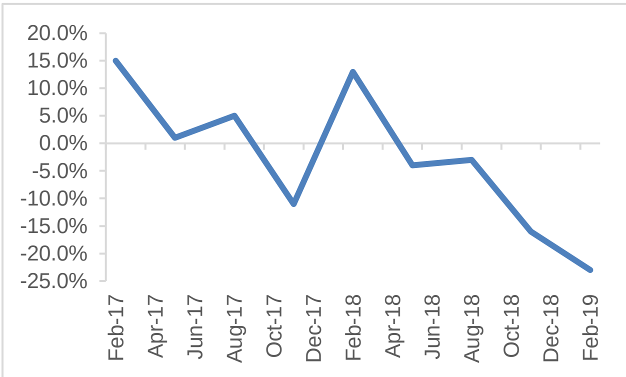
G4S announced a settlement in a long running class action case in the US that could cost it in the range of US$100m to $130m (£77m to £100m). The FTSE 250 company said it has agreed to settle the dispute, relating to rest and meal breaks for 13,500 employees over the period 2001 to 2010 at its Secure Solutions operations in California. G4S said that the financial settlement will be paid in the second half of 2019 and will be recognised as a specific item in its full year results in March. The precise amount to be paid will be finalised during the settlement administration process. This is the third-class action the security company has faced in recent years in California and will be by far the largest settlement. In 2015 and 2017 the company paid a combined $7.6m to settle similar claims. However, California case law has become more onerous since then. The group said that it currently has no other significant labour claims in California or elsewhere in the US. However, given the slowdown in global economic growth, G4S could struggle to make up the shortfall resulting from the settlement. As a result, it could add another $103m (after tax) to the company's debt.

Chart 1: UK Wage Growth and Unemployment Rate



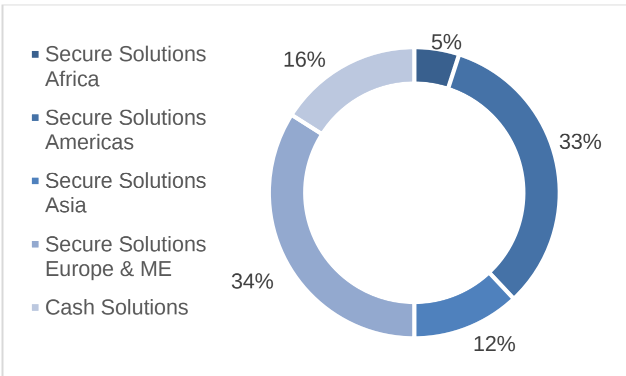
Source: ONS Data at 23/01/2019

Chart 2: UK CBI Business Optimism



Source: ONS Data at 24/01/2019

Chart 3: G4S – EBITDA Breakdown



Source: Brewin Dolphin client note Data at 23/01/2019

Economic Roundup

The latest figures from China showed that its economy slowed to an annual growth rate of 6.4% in the fourth quarter, the worst since the financial crisis, but full-year growth exceeded expectations at 6.6%.

The news follows the announcement of a large-scale stimulus programme in China to help avert a slowdown, although a breakthrough in trade talks with the US is still much-needed and apparently some way off.

Also on Monday the International Monetary Fund (IMF) cut its forecast for the global growth for the second time in three months on Monday, predicting it will grow at the weakest pace in three years this year and warning that trade tensions present further downside risks. It blamed weaker demand across Europe and volatility in financial markets. It now predicts global growth of 3.5% this year, down from the 3.7% forecast in October. It then cited risks such as a renewed tightening of financial conditions, a “no deal” Brexit and a deeper-than-anticipated slowdown in China.

Positive news from the UK this week as data showed employment hitting its highest level on record at the end of 2018, with pay also growing at the fastest pace for a decade. Regular pay excluding bonuses rose by an annualised 3.3% in the three months to November, according to the Office for National Statistics (ONS). When including bonuses, pay grew by 3.4 per cent, the most rapid growth since 2008. Thanks to lower inflation regular pay is now up 1.1 per cent in real terms i.e. once inflation is taken into account.

The unemployment rate over the period matched its previous low of 4% and the employment rate rose to 75.8%, the highest since records began in 1971. Encouragingly, full-time work accounted for most of the rise in employment.

The data jars with reports of a slowdown in the economy and businesses being reluctant to invest because of Brexit uncertainty. In addition, an increase in the number of unfilled vacancies suggests that wage inflation could continue to rise.

Clashing with the good news on wages, sentiment in the UK manufacturing sector fell sharply in January because of uncertainty over Brexit, according to the latest industrial trends survey from the Confederation of British Industry (CBI).

The CBI's monthly gauge of industrial orders fell to -1 this month from +8 in December, below expectations of +5.

The gauge of manufacturing expectations declined to -23 in the three months to January from -16 in the three months to October, marking its lowest level since July 2016. Meanwhile, optimism about exports for the year ahead fell at the fastest pace since 2009. Manufacturing output grew at an above-average rate in the three months to January. Total orders were flat, however, with domestic orders steady and export orders up only slightly from a drop in October.

Company announcements that caught our attention this week

Date	Company	Comment
23/01/2019	**Burberry Group**	Burberry said sales declined over the key Christmas trading period, but the fashion retailer maintained its full-year guidance. In the three months ended 29 December, retail revenue totalled £711m, down 2% at constant currency rates. On a like-for-like basis, store sales were up 1%, a slowdown on the 2% growth reported a year earlier. Guidance is for flat revenue and operating profit in the two years to March 2020 along with cost savings of £100m. The debut collection of new chief creative officer Riccardo Tisci will be released in stores in late February. Hired by Burberry last March, Tisci showcased his collection at London Fashion Week last September where it was well received.
23/01/2019	**Wetherspoon (JD)**	JD Wetherspoon cautioned that its half-year profits will be below the level achieved in the same period last year as cost pressures hit the company’s bottom line. The pub chain blamed a £30m increase in labour costs, plus the rising cost of interest payments, utility bills, repairs and depreciation, for the pressure on its profits. A combination of near-record low levels of unemployment and increases in the National Living Wage have had an amplified impact on Wetherspoon's profits due to its lower margins relative to its peers. However, the group said its expectations for the full year remain unchanged. Like-for-like sales in the 12 weeks to 20 January increased by 7.2% compared with the same period last year. The figure was 6.3% for the 25 weeks to the same date.

Key Company Diary Dates

Tue 29 Jan	**Crest Nicholson**	Full-year results
Tue 29 Jan	**PZ Cussons**	Interim results
Thu 31 Jan	**Rank Group**	Interim results
Thu 31 Jan	**Renishaw**	Interim results
Thu 31 Jan	**Royal Dutch Shell**	Quarterly results

Economic highlights over the next week

Wed 30 Jan – Euro Area Business Confidence – The Business Climate Indicator for the euro area decreased by 0.22 points to 0.82 in December, the lowest reading since March 2017**.**

Wed 30 Jan – BoE Consumer Credit – Consumers borrowed an additional £0.9bn in November as the annual growth rate of consumer credit declined to 7.1%, its slowest rate since March 2015.

Fri 01 Feb – UK Manufacturing PMI – A push by UK manufacturers to stockpile goods ahead of Brexit saw the Markit/CIPS UK Manufacturing Purchasing Managers' Index hit a six-month high of 54.2, up from 53.1 in November.

Index Movements*

Index	Value	%Change
FTSE 100	6,818.95	-0.23%
FTSE 250	18,627.63	0.49%
AIM	916.65	1.35%
Dow Jones	24,553.24	0.75%
S&P 500	2,642.33	0.24%
Hang Seng	27,120.98	1.37%
Nikkei 225	20,574.63	0.84%

Currency Movements*

Currency Pair	Value	%Change
£:$	1.30	1.05%
£:€	1.15	1.28%
£:¥	142.94	1.57%

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

Sector	%Change
Insurance	2.37%
Financial Services	0.68%
Technology	-0.14%
Oil & Gas	-0.95%
Chemicals	-1.36%
Basic Resources	-1.62%

Best & worst FTSE 100 performing stocks*

Company	%Change
easyJet	7.31%
Whitbread	4.43%
Barratt Developments	4.34%
RIGHTMOVE	-3.44%
British American Tobacco	-3.48%
Reckitt Benckiser Group	-4.70%

*Weekly movements up until close of business Thursday