

The Week in Perspective

3 August 2018

Market Roundup

Vodafone jumped 3.6% on Monday, after hitting a five-year low the week before, on reports that activist hedge fund Elliott Advisors had taken a stake in the mobile phone giant.

GVC led Monday's FTSE 100 gainers with a 5.4% rise after the gambling group announced a joint venture with US hotel and casino operator MGM Resorts International. But Sage sank 5.1% ahead of its third-quarter trading update on Thursday.

The FTSE 100 rallied 0.6% on Tuesday, with miner Fresnillo leading the risers with a 4.2% gain. BP added 1.4% after the oil giant's second-quarter profits surged (Company Announcements, below).

Wednesday saw the FTSE 100 drop 1.2%. Next was the biggest faller (Company Focus, below). Rentokil was also hit heavily, losing 3.8% as a broker advised taking profits.

But Smurfit Kappa was a bright spot, rising 2.7% after the packaging company posted strong first-half profits.

Thursday was another poor day for the FTSE 100, with the blue-chip index down 1% to a one-month low. EasyJet led the fallers, down 3.7%, while mining stocks Rio Tinto, Anglo American and Fresnillo all lost more than 3% on trade war fears.

Over in the US, however, Apple became the first listed company to reach a \$1 trillion market capitalisation after reporting strong quarterly results on Tuesday.

UK shares were up in early trading on Friday ahead of US jobs data.

Company Focus: Next

Next's share price tumbled 7% on Wednesday, despite the retailer reporting a 2.8% rise in full-price sales in the second quarter.

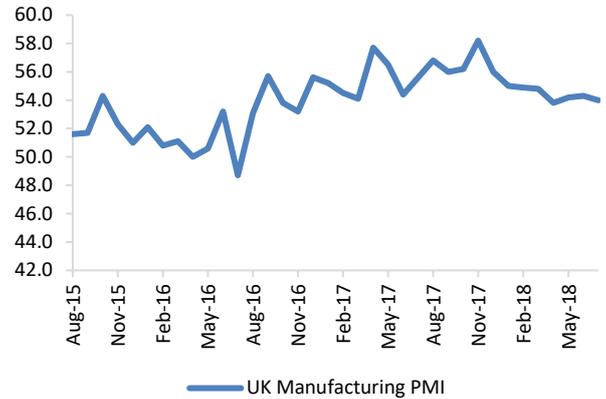
Some investors were disappointed that the retailer failed to upgrade its profit expectations for the year after the better-than-expected quarterly performance. Taking a cautious stance, Next said it would wait to see how the rest of the summer goes before moving guidance.

Growth was driven by online sales, which were up 12.5% in the 12 weeks to 28 July. This offset further weakness in store-based sales, which were down 5.9%. So far this year, Next's online sales are up 15.5%, while in-store sales are down 5.3%.

The retailer said: "We believe that this over-achievement in [second-quarter] sales was due to the prolonged period of exceptionally warm weather, which greatly assisted the sales of summer weight product. It is almost certain that some of these sales have been pulled forward from August, so we are maintaining our sales and profit guidance for the year to January 2019."

Next highlighted its strong cash flow, having returned £300m of surplus cash to investors in share buybacks since the start of the year.

Chart 1: UK Manufacturing PMI



Source: Bloomberg

Data at 3/8/2018

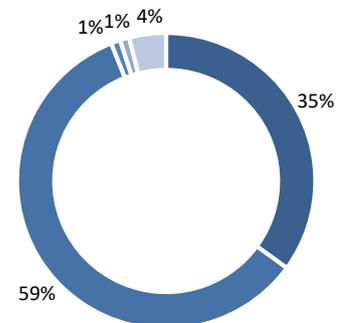
Chart 2: UK Mortgage Approvals (thousands)



Source: Bank of England

Data at 3/8/2018

Chart 3: Next, profits by segment



■ Retail ■ Online ■ International Retail ■ Sourcing ■ Other

Source: Next Annual Report 2018

Data at 3/8/2018

Economic Roundup

The Bank of England's Monetary Policy Committee voted unanimously to raise interest rates by a quarter of a percentage point to 0.75%.

The widely expected increase took the UK base rate to its highest level for almost a decade. Interest rates were slashed to 0.5% by the Bank in the 2008/9 global financial crisis.

Some economists and business groups criticised the Bank for Thursday's increase amid continuing Brexit uncertainty and weak economic growth in the UK. But the Bank said recent data indicated that the first-quarter slowdown in UK growth was temporary, and slightly raised its GDP forecasts.

It now expects the UK economy to grow 1.5% this year, compared with 1.4% forecast previously, and then by 1.8% in 2019.

However, the pound dipped below \$1.30 on Friday as Bank governor Mark Carney warned of an "uncomfortably high" risk of a no-deal Brexit.

Meanwhile, purchasing managers' surveys showed business activity slowing in the UK services and manufacturing sectors in July.

The IHS Markit services purchasing managers' index (PMI) fell to 53.5, from 55.1 in June, while the manufacturing PMI declined to 54 from 54.3. While PMI readings above 50 indicate growth, both indexes were at their lowest in three months.

Respondents to IHS Markit's services survey indicated that the heatwave had been a mixed blessing, boosting some businesses such as tourism but disrupting activity elsewhere.

For manufacturing, Markit's Rob Dawson said its survey showed the sector began the third quarter on a "softer footing".

"The upturn in the sector has eased noticeably since the back end of 2017, meaning that manufacturing has failed to provide any meaningful boost to headline [national] growth through the year so far," he said.

However, the construction PMI climbed to 55.8, its highest level for more than a year, as the sector continued its rebound from a low earlier this year.

The annual rate of house price growth recovered to 2.5% last month, according to Nationwide, after hitting a five-year low of 2% in June. The average house price rose to £217,010.

And UK mortgage approvals reached a five-month high in June, according to Bank of England data. A total of 65,519 mortgages were approved for house purchases during the month, the highest number since January and up from 64,684 in May.

Bank data also showed that annual growth in consumer borrowing, excluding mortgages, was unchanged at 8.8% in June. Total credit card borrowing was 9.5% higher in June than a year ago, up from 9.4% in May.

Company announcements that caught our attention this week

Date	Company	Comment
31/7/2018	BP	BP increased its dividend for the first time since 2014 as it quadrupled profits in the second quarter on the back of higher oil prices and production. Underlying replacement cost profit – a proxy for net profit - was US\$2.8bn in the three months to the end of June, up from \$684m in the same period in 2017. The quarterly dividend was increased 2.5% to 10.25 cents a share. Earnings were significantly higher from BP's upstream business and its stake in Rosneft. BP's US division reported its best performance since the first quarter of 2014. The company benefited from seven big new production projects, which helped deliver a 9.6% rise in underlying production in the second quarter. This helped offset a weaker performance from the group's downstream refining and marketing businesses.
1/8/2018	Lloyds Banking Group	Lloyds Banking Group reported a 23% jump in first-half profits despite taking another £550m hit from the payment protection insurance (PPI) scandal. Pre-tax profits rose to £3.1bn on revenues that were up 2% at £9.5bn. Lloyds also increased its net interest margin – the difference between the interest it pays savers and what it earns from borrowers – to 2.93% from 2.82% a year earlier. The group plans to pay an interim dividend of 1.07p a share, up 7% year-on-year. It said the latest PPI charge was "largely driven by a potentially higher total volume of complaints and associated administration costs due to higher reactive complaint volumes received over the past six months and ongoing volatility". The bank said it expects to receive 13,000 PPI complaints a week until August 2019.

Key Company Diary Dates

Mon 6 Aug	HSBC	Half-year results
Tue 7 Aug	Intertek	Half-year results
Tue 7 Aug	Standard Life Aberdeen	Half-year results
Wed 8 Aug	Prudential	Half-year results
Thu 9 Aug	Legal & General	Half-year results

Economic highlights over the next week

Tue 07 Aug – **Halifax House Price Index** – UK house prices in the three months to June were 1.8% higher than the same period a year earlier, according to the mortgage lender's data.

Fri 10 Aug – **UK GDP** – The Office for National Statistics (ONS) will publish its first estimate of the UK economy's growth in the three months to June.

Fri 10 Aug – **UK Balance of Trade** – Previous ONS data showed the UK's trade deficit narrowed by £0.3bn to £2.79bn in May.

Index Movements*

Index	Value	%Change
FTSE 100	7,575.93	-1.14
FTSE 250	20,548.97	-1.06
AIM	1,087.16	-1.16
Dow Jones	25,326.16	-0.79
S&P 500	2,827.22	-0.36
Hang Seng	27,714.56	-3.71
Nikkei 225	22,512.53	-0.33

Currency Movements*

Currency Pair	Value	%Change
£:\$	1.30	-0.01
£:€	1.12	0.00
£:¥	145.27	-0.01

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

Sector	%Change
Telecoms	3.29%
Personal & Household Goods	2.17%
Chemicals	1.88%
Utilities	-1.85%
Basic Resources	-2.30%
Construction & Materials	-3.56%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Reckitt Benckiser	7.8%
Rolls-Royce Holdings	6.3%
GVC Holdings	3.0%
Kingfisher	-6.7%
Micro Focus International	-8.4%
Just Eat	-10.9%

*Weekly movements up until close of business Thursday

Important Notes:

Main source of information: Company Report and Accounts, Bloomberg

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