The Week in Perspective

21 September 2018

Market Roundup

Stocks were up at the start of the week despite the prospect of Donald Trump imposing further tariffs on Chinese goods. The FTSE100 closed 0.03% up at 7,302, while the pound edged up against both the dollar and the euro. The market closed down by the same amount on Tuesday after Donald Trump announced further tariffs on China (see below).

Emerging Markets' shares also had a positive day despite the escalating trade tariffs. While the UK market edged up by 0.3% on Wednesday with miners leading the way. Shares in Sainsbury's fell for the second consecutive day after its proposed merger with Asda was referred to the Competition and Markets Authority.

Royal Mail shares fell by 2.7% after chairman Peter Long stood down. UK shares rose on Thursday as miners, financial stocks and retailers were all boosted by an unexpected rise in retail sales (see below). Marks & Spencer shares rose by 2.3% on the day.

Shares in fashion group Burberry, however, fell by 4.9% as the debut collection unveiled by its new creative director failed to impress fashion critics and investment analysts. Its shares closed down by 4.9% yesterday. In early trade on Friday the FTSE 100 was heading up, buoyed by the US market hitting a new record high on Thursday.

Company Focus: Kier Group

Revenues at Kier Group climbed to £4.5bn in the year to 30th June, the company announced on Thursday. The construction and services group also reported a record order book of £10.2bn, while underlying pre-tax profit rose to £137m, 9% higher than a year earlier.

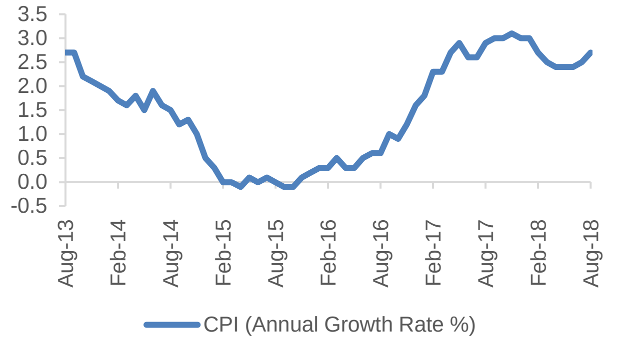
Kier, which works in sectors including defence, housing and mining, said it had seen "significant turbulence' in its markets during the year. However, the group confirmed that it had profited from the high-profile collapse of outsourcing company Carillion, acquiring a greater share of the contract to build the High Speed 2 railway and Highways England's Smart Motorways programme.

Kier, which launched a major cost-savings plan in July, including the sale of non-core assets, said it expected profit and cash flow improvements of at least £20m in its full-year 2020.

The costs of the "Future Proofing Kier" programme will mainly occur in the current year, but the benefits will be better cash generation, profitability and a reduction in the group's £375m net debt burden.

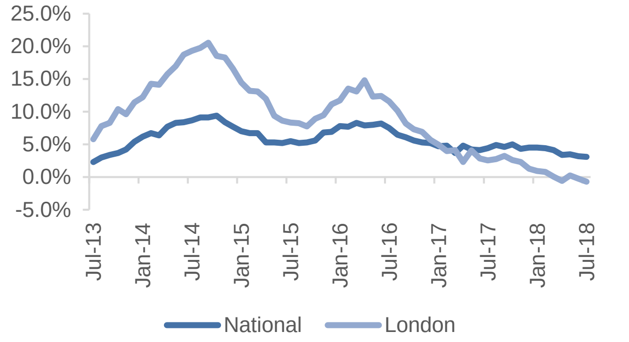
Haydn Mursell, chief executive, said: "The Future Proofing Kier programme positions the Group well for an improvement in operating margins and higher cash generation, culminating in a net cash position for FY21 [the 2021 financial year]." The company has proposed a 2% increase in its full year dividend to 69p a share.

Chart 1: UK Consumer Price Index



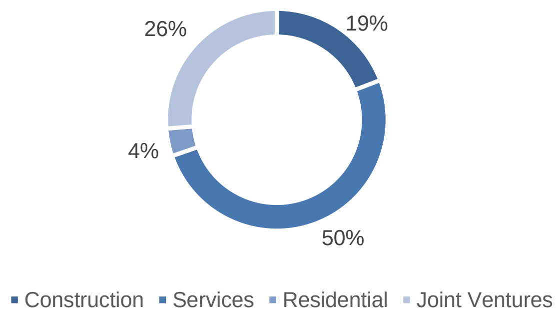
Source: ONS Data at 20/09/2018

Chart 2: UK Housing Price Growth (Y-o-Y %)



Source: ONS Data at 20/09/2018

Chart 3: Kier Group plc – 2017 adjusted operating profit



Source: Brewin Dolphin client note Data at 20/09/18

Economic Roundup

The likelihood of a no-deal Brexit seemed to increase on Thursday after the EU rejected Theresa May's "Chequers" proposal for an orderly UK withdrawal. However, Donald Tusk, the chief of the European Council, said simply that the plans would not work. The rebuttal means time is running out to find a mutually acceptable compromise.

There was conflicting data released on the UK housing market this week. Property group Rightmove reported on Monday that house prices rose by 0.7% in September, rebounding from a 2.3% drop in August. That translates to an annual increase of 1.2%, while prices in London were also up by 1.2% month-on-month. London has been suffering over the past two years with relatively steady price declines, but Rightmove said that those price falls had let to better affordability and a consequent pickup in demand in the capital. However, data released on Wednesday by the Office for National Statistics (ONS), showed average house prices in London had fallen by 0.7% in the year to July, while the national average house price had risen by 3.1% in the year to July, down from an annualised rate of 3.2% in June. Monthly data is volatile, and broadly speaking the UK market appears to be slowing with London falling faster than any other area. There are pockets of strong growth, however, with the north west booming relative to other areas. Prospects for London are remain relatively downbeat, as it is likely to be more affected by interest rate rises and falling migration from the EU than any other area.

Donald Trump imposed a 10% tariff on a further $200billion of Chinese goods on Monday night, and will increase that rate to 25% from January. If China retaliates, the US president said he would impose tariffs on another $267billion of Chinese goods in a rapidly escalating trade war. Nevertheless, Beijing responded immediately with tariffs on $60billion of US goods. Hopes of a resolution are pinned on negotiations that are due to take place sometime before January.

The annual rate of inflation jumped to its highest level in six years in August. Consumer prices rose by 2.7% on an annualised basis, up from 2.5% in July, according to the ONS. Clothing, package holidays, toys and theatre tickets were among the highest-rising items. The increase suggests that inflation is closing in on wage price growth. Earnings including bonuses were reported as rising by 2.9% in July, although regular pay growth was just 2.6%, suggesting many people are seeing their income fall in real terms. However, retail sales increased by 0.3% in August, registering a surprising 0.3% rise in sales volumes, confounding many analysts who had predicted a fall. There was a 4.5% increase in sales of household goods while "non-food" sales were up by 2.8%. Food sales and clothing volumes fell, but not by enough to counter the strong growth in other areas.

Company announcements that caught our attention this week

Date	Company	Comment
19/9/2018	**Babcock Int**	In July Babcock International unnerved investors when it cut its full-year revenue targets. Shares in the FTSE 250 engineering outsourcer dropped 10% after it was hit by delays in government spending on submarines. On Wednesday, it delivered a more reassuring trading statement, saying it was trading in-line with expectations and was on course to deliver "low single digit" revenue growth for its year ending 31st March 2019. The group's order book stands at £18bn and its pipeline comprises £14bn. Around 87% of revenue is now in place for 2018-19 and 57% for the 2019-20 financial year. Babcock also said it has been awarded additional Ministry of Defence contracts worth around £120m. The group is undergoing a strategic realignment and confirmed that the programme to exit several small businesses is already under way.
20/9/2018	**BAT**	British American Tobacco has announced that its chief executive, Nicandro Durante, will retire in on 1 April 2019, a little earlier than had been expected. The cigarette manufacturer said it has identified a lead candidate to take on the role and plans to make an announcement in due course. Over his eight-year tenure, Durante led the cigarette manufacturer's transition towards next generation products such as e-cigarettes and heat-not-burn tobacco products. However, his tenure may be overshadowed by the company's poor recent share price performance as the group battles accelerating declines in its combustible cigarette business. Last year's acquisition of US-based tobacco company Reynolds American was completed under Durante's watch. Time will tell if the Reynolds purchase was a wise move, though it currently looks poorly timed.

Key Company Diary Dates

Mon 24 Sep	**Pennon Group**	Trading update
Tue 25 Sep	**Next**	Half-year results
Tue 25 Sep	**Thomas Cook Group**	Trading update
Wed 26 Sep	**AA**	Half-year results
Fri 28 Sep	**United Utilities Group**	Trading update

Economic highlights over the next week

Wed 26 Sep – US Interest Rates - The Federal Reserve is expected to push ahead with its third rate hike of 2018, raising its target range for the federal funds rate by a quarter point to 2% to 2.25%.

Fri 28 Sep – Consumer Confidence – In August, GfK's Consumer Confidence Index, which measures a range of consumer attitudes, stood at -7, up by three points from -10 in July.

Fri 28 Sep – GDP – The final estimate of economic growth between April and June this year. Previous estimates had GDP expanding 1.3% year-on-year in the second quarter.

Index Movements*

Index	Value	%Change
FTSE 100	7,367.32	1.18
FTSE 250	20,551.26	1.52
AIM	1,094.89	-0.21
Dow Jones	26,656.98	1.95
S&P 500	2,930.75	0.91
Hang Seng	27,477.67	1.71
Nikkei 225	23,674.93	3.74

Currency Movements*

Currency Pair	Value	%Change
£:$	1.33	0.01
£:€	1.13	0.01
£:¥	149.02	0.02

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

Sector	%Change
Basic Resources	6.12%
Insurance	1.87%
Chemicals	1.35%
Personal & Household Goods	-2.15%
Media	-2.23%
Auto's & Parts	-2.89%

Best & Worst FTSE 100 performing stocks*

Company	%Change
Evraz	12.52%
Anglo American	12.23%
Antofagasta	11.14%
Kingfisher	-6.37%
NMC Health	-7.45%
GVC HOLDINGS	-8.22%

*Weekly movements up until close of business Thursday