The Week in Perspective

26th October 2018

Market Roundup

It has been a rollercoaster week for global shares. The FTSE100 closed down on Monday by just a fraction, but then on Tuesday the blue-chip index finished at its lowest level in more than six months, dropping 1.2% to close below the 7,000 mark for the first time since March. Markets in Europe slumped to their lowest levels in nearly two years and then the US market tanked, with the S&P500 falling by 2.3% during Tuesday.

A cocktail of factors including deteriorating relations with Saudi Arabia, the US/China trade war, Italian debt worries, falling corporate earnings and concerns about rising interest rates are all weighing on markets.

Wednesday saw shares essentially flat in London but in the US, markets were battered again by fears that earnings had peaked. The S&P500 closed down by 3.1% and the Nasdaq by 4.4%. The US market has now entered correction territory and has lost all of its gains for 2018. On Thursday, share markets bounced back, with the FTSE100 gaining 0.6% and creeping back over the 7,000 mark. European markets also proved resilient after the Italian government pledged support for any troubled bank that needed help. The US market recovered somewhat on Thursday, with the Dow Jones up 1.6%, the S&P500 up 1.9% and the Nasdaq up by 3.3%, although disappointing results from tech giants Amazon and Alphabet (owner of Google) late in the day are expected to take their toll.

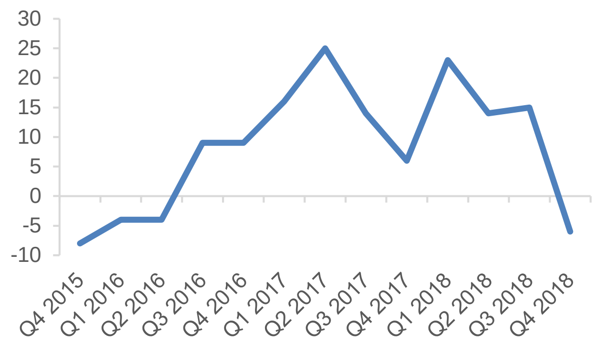
In early trade on Friday, shares were heading lower.

Company Focus: Barclays

Barclays reported a strong rise in profits on Wednesday, as the bank's management prepared for another meeting with activist investor Ed Bramson. The group's pre-tax profits rose 32% to £1.5bn in the three months to 30 September. Net profit came in at £1bn for the quarter, versus £583m a year ago, on revenue of £5.13bn. Income at Barclays' investment banking arm rose 19% to £1.2bn during the quarter, seeming to vindicate the strategy of chief executive James Staley to allocate more capital to the group's trading business. Mr Staley said that the bank's strategy is paying off despite concerns that Brexit will "weigh heavily on market sentiment."

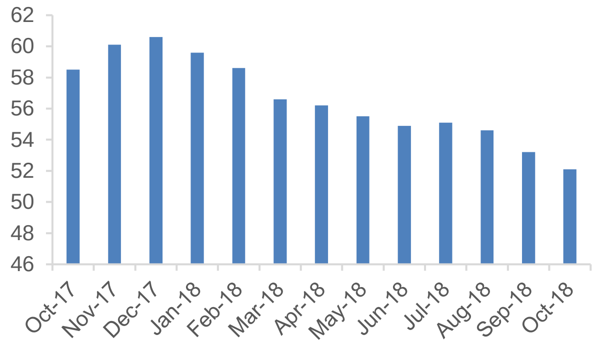
"During the third quarter our Corporate and Investment bank outperformed peers again in Markets," said Mr Staley. "In Banking, while we saw a dip in income, we have seen strong completion activity in October," he continued. The encouraging results suggest the bank is on track to deliver management's medium-term target of 10% return on equity (ROE). Management also reiterated its intention to pay a 6.5p dividend this year and hinted at significantly higher capital returns further ahead.

Chart 1: Quarterly CBI Industrial Trend



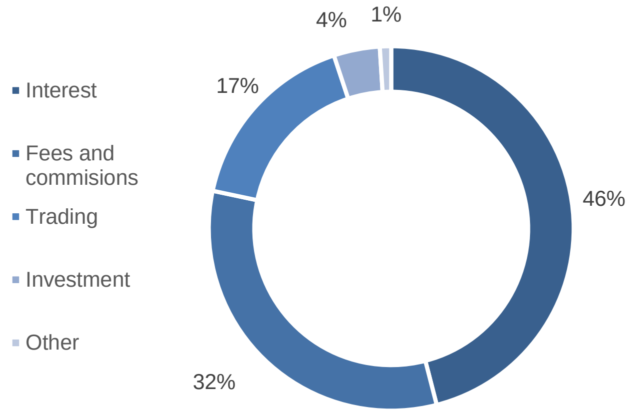
Source: Thomson Reuters Data at 25/09/2018

Chart 2: Eurozone Monthly Manufacturing PMI



Source: Bloomberg Data at 25/10/2018

Chart 3: Barclays – 2017 Total Income



Source: Brewin Dolphin client note Data at 25/10/2018

Economic Roundup

UK manufacturing reported new orders falling at the fastest pace in three years this week. Investment plans were torn apart and amid falling optimism thanks to the stuttering Brexit negotiations.

The Confederation of British Industry's industrial sector survey found a balance of 6% of companies reporting lower orders in the quarter to October, down from a -1% balance in the previous survey as both domestic business and export orders both fell. Analysts had forecast another -1% reading. Worryingly, a balance of 4% of manufacturers expected new orders to fall over the coming quarter. Investment intentions – an important leading indicator – fell significantly for the year ahead, making it harder for companies to grow. A balance of 19% of companies in the manufacturing sector said they were going to cut back on spending on plant & machinery, the sharpest drop since July 2009.

Tom Crotty, chair of the CBI manufacturing council, said: "These figures are concerning and must not be taken lightly."

He also said that manufacturers will be "deeply concerned" with the government's proposals for an immigration system after Brexit that "risks worsening skills shortages".

In Europe, economic news was also poor. Business activity fell faster than expected in the Eurozone in October. The IHS Markit purchasing managers index for the manufacturing sector dropped to 52.1 from 53.2, more severe than the dip to 53.0 that analysts had expected. The services PMI reading also surprised with a fall from 54.7 to 53.3, just above the long-term average.

The European Central Bank kept its interest rates unchanged on Thursday and said it would continue with its QE programme only until the end of the year, when it would stop. Markets took the news in their stride – many economies are withdrawing the emergency stimulus put in place during the financial crisis. But some analysts say that the asset purchasing programme could be extended if the economy runs into more trouble. China, for example, has introduced tax cuts for households and is currently mulling adjustments to VAT and further tax reductions to boost the economy after it reported it recently reports its worst GDP in a decade.

In the US, the number of Americans filing for unemployment benefits increased by more than expected last week, according to figures from the Labor Department. Initial jobless claims rose by 5,000 to 215,000, just above expectations for a rise to 214,000.

Meanwhile, the four-week moving average was unchanged from the previous week's unrevised level of 211,750. This is seen as a more reliable data point because it smooths out sharp fluctuations in the more volatile weekly figures.

UK mortgage lending fell again in September, another sign that the housing market is struggling. Gross mortgage lending was £21.5bn in September, down 1.2 per cent from the same time last year, according to UK Finance.

The number of mortgages approved by banks in September was 9.1 per cent lower year-on-year.

Company announcements that caught our attention this week

Date	Company	Comment
28/10/2018	**WPP**	WPP's shares plunged by more than 13% on Thursday after the global advertising group released disappointing numbers for the third quarter. Underlying revenues fell by 1.5% in the three months to 30 September, following weak trading conditions, particularly in the UK and North America. WPP's North American division was the biggest drag on performance, with revenue falling 3.5% on a like-for-like basis in the quarter. To compound investor disappointment, it was announced that the group finance director Paul Richardson will leave in 2019 after 22 years in the job. The company's new boss Mark Read called for "decisive action and radical thinking" to turn the business around. He has already disposed of some non-core businesses, raising £704m and reducing net debt by almost £1bn to £4.88bn, and is preparing to sell a stake in Kantar, the research and data division. Meanwhile, acquisitions are off the agenda and the share buy-back programme has been halted.
25/10/2018	**Microsoft**	Microsoft's sales and profits beat expectations in its first quarter, thanks to strong results across its product range. The technology giant reported a 19% jump in revenue to US$29bn in the three months ending in September. Gaming was a highlight, with revenue up 44%, as Fortnite drove growth in Xbox software and services, while its consumer office division grew a very respectable 16%. Meanwhile, sales at the company's commercial cloud business soared 47% from the previous year to $8.5bn. Revenues from Azure, the company's cloud computing platform, grew 76% from the year before, compared to the 85% growth of the preceding three months. Microsoft returned $6.1 billion to shareholders in the form of dividends and share repurchases in the last quarter, an increase of 27% compared to the first quarter of the prior year.

Key Company Diary Dates

Mon 29 Oct	**HSBC Holdings**	Quarterly results
Tue 30 Oct	**BP**	Quarterly results
Wed 31 Oct	**Next**	Trading update
Wed 31 Oct	**GlaxoSmithKline**	Quarterly results
Thu 01 Nov	**BT Group**	Quarterly results

Economic highlights over the next week

Wed 31 Oct – Gfk Consumer Confidence – The Gfk consumer confidence index dropped to -9 in September, two points lower than August's -7, as the approach of Brexit affected how consumers felt about the wider economy

Thu 01 Nov – BoE Interest Rate Decision – Many economists predict the Bank of England won't push its benchmark interest rate higher until the Brexit talks end. The rate rose to 0.75% in August.

Fri 02 Nov – US Nonfarm Payrolls – Total nonfarm payrolls increased by 134,000 in September, well below market expectations of 185,000 and the lowest job creation level in a year.

Index Movements*

Index	Value	%Change
FTSE 100	7,004.10	-0.33
FTSE 250	18,531.53	-2.27
AIM	973.16	-3.68
Dow Jones	24,984.55	-1.56
S&P 500	2,705.57	-2.28
Hang Seng	24,994.46	-1.81
Nikkei 225	21,268.73	-6.13

Currency Movements*

Currency Pair	Value	%Change
£:$	1.28	-0.02
£:€	1.13	-0.01
£:¥	144.22	-0.02

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

Sector	%Change
Financial Services	-0.49%
Insurance	-1.04%
Basic Resources	-1.23%
Oil & Gas	-2.39%
Chemicals	-2.81%
Technology	-5.94%

Best & Worst FTSE 100 performing stocks*

Company	%Change
British American Tobacco	10.17%
Imperial Brands	6.46%
Unilever (Uk)	6.30%
RIGHTMOVE	-7.56%
Micro Focus Intl.	-10.43%
WPP	-11.83%

*Weekly movements up until close of business Thursday