The Week in Perspective

26 Aug 2016

Brewin Dolphin Research

Market Roundup

The week started with the FTSE 100 lower as commodity prices fell, pulling down shares of mining and oil companies which make up a significant part of the blue chip index. However housebuilders were up on Monday following a report that suggested house prices will fall by just 1% next year and then rise again by 2% in 2018 - a much more benign scenario than some have feared following the Brexit vote. Taylor Wimpey and Berkeley Group were among the best FTSE 100 performers over the day.

Housebuilders had another good day on Tuesday as Persimmon (see Company Announcements below) revealed a rise in pre-tax profits for its first half. Its positive outlook spread optimism through the sector, with Barratt Developments and Berkeley Group also rising.

Wednesday saw the FTSE 100 down 0.5% as mining shares slumped again. However Lloyds was higher as it emerged that chief executive Antonio Horta Osorio has sent a memo to his staff to apologise for "adverse publicity" following reports of an affair.

In the FTSE 250 Index, buy-to-let lender One Savings Bank jumped 15.5% on the back of strong half-year results.

On Thursday the FTSE 100 was off 0.3%, with pharmaceutical shares among the biggest blue chip fallers following comments by US presidential nominee Hillary Clinton criticising high drug prices.

But Marks and Spencer shares were up 2.6% amid positive comments from joint house broker Morgan Stanley. Meanwhile, challenger banks continued to rally, with Shawbrook climbing 9.3% and Aldermore up 8.9%.

The UK stock market opened lower on Friday ahead of a key speech by Janet Yellen, Chair of the US Federal Reserve, which will be closely followed for indications of when the US might raise interest rates.

Company focus: WPP

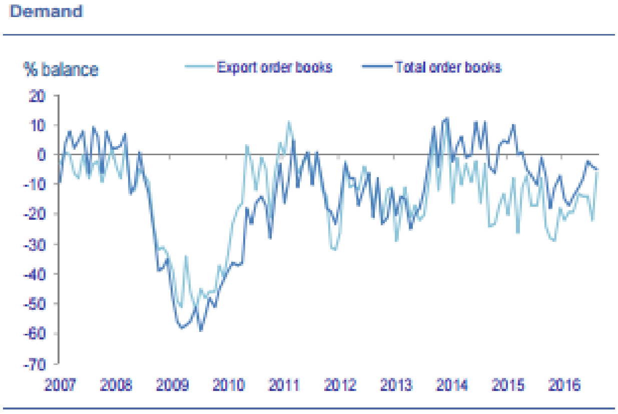
WPP's half-year results beat expectations, helped by a weaker pound which may be fuelling a "post-Brexit vote recovery" in the UK. But despite delivering a pre-tax profit of £690m in the first six months of 2016, 15.8% higher than in the same period last year, the advertising giant remains cautious.

The group warned that a post-Brexit UK could move into recession and that, even if it doesn't, economic weakness in the UK, the European Union and possibly globally is making businesses wary about investing cash. Companies "in a sense, may be shrinking," WPP said, as businesses sit on large cash piles or return money to shareholders through dividends or buybacks rather than investing in growth.

WPP managed to generate like-for-like revenue and net sales growth in all regions and business sectors, except "data investment management". Like-for-like sales rose 3.8% in the first half, boosted by advertising spend associated with Euro 2016, the Rio Olympics and the looming US presidential election.

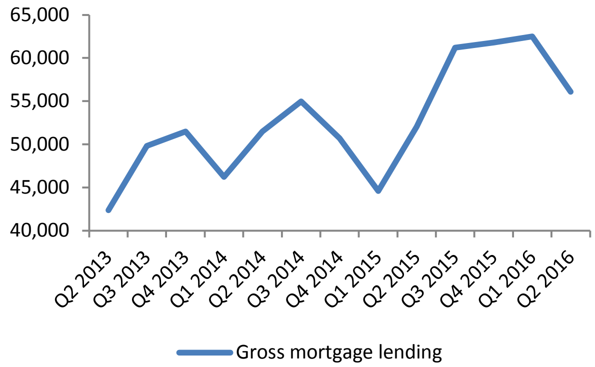
The group is expected to produce pre-tax profits of £1.8bn for the full year. Looking ahead to 2017 it expects revenues to continue to grow at well over 3%.

Chart 1: CBI Industrial Trends Survey - export orders



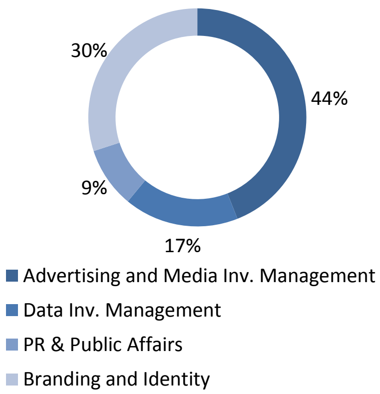
Source: Financial Times Data at: 26/8/2016

Chart 2: CML Gross Mortgage Lending



Source:Council of Mortgage Lenders Data at: 26/8/2016

Chart 3: WPP - net sales by division 31/12/2015



Source: Brewin Dolphin; company reports
Data at: 26/8/2016

Economic Outlook

Spending on infrastructure has fallen sharply since the vote to leave the EU in June, according to research by consultancy Barbour ABI. Figures published by the group on Monday showed that the value of infrastructure contracts fell 20% in July to £1.5billion, and by 23% year-on-year. New construction contracts were also down by £5.8billion.

Separately, media reports said the government is preparing to launch a multi-billion pound infrastructure fund to back property developers and encourage more building in the wake of the referendum result.

Meanwhile the fall in the value of pound since the Brexit vote appears to have given UK manufacturers a boost, with the Confederation of British Industry (CBI) reporting that its gauge of export orders hit its highest level since August 2014.

However economists warned not to read too much in to the CBI survey. Samuel Tombs, chief UK economist at Pantheon Macroeconomics said: "(The CBI report) suggests that rising export orders are cushioning the blow to manufacturers from the slump in domestic demand, but we would caution against placing much weight on this erratic survey."

Mortgage approvals for home purchases were 19% down year-on-year in July, although over the first seven months of 2016 they were 2% higher than in the same period of 2015, according to the British Bankers' Association. A separate survey published on Thursday by the Council of Mortgage Lenders (CML) found that gross mortgage lending was down 1% in July compared with a year ago and 0.1% lower than in June.

"The subdued nature of property transactions and mortgage lending in July are consistent with a less positive backdrop for house purchase activity post-referendum," said CML chief economist Bob Pannell.

In more upbeat news, retail sales unexpectedly improved in August, according to the CBI's Distributive Trades survey. Its measure of sales volumes improved to +9 in August, up from minus 14 in July.

The US Labour Department announced on Thursday that the number of Americans filing for unemployment benefits unexpectedly fell last week. Jobless claims declined by 1,000 from the previous level of 261,000 - beating expectations for a jump to 265,000. This marked the 77th consecutive week that claims were below 300,000 - the longest run since 1973 - and is seen as further evidence that the US economy is strong enough to take a rate hike.

Back in the UK, the economy expanded by a relatively robust 0.6% in the three months leading up to the EU referendum, according to a revised estimate. The official estimate covering April to the end of June was in line with a previous forecast, which was stronger than the 0.4% expansion that had been expected. Year-on-year the economy expanded 2.2% – again in line with the earlier estimate.

Company announcements that caught our attention this week

Date	Company	Comment
24/8/2016	**Glencore**	Mining group Glencore had a torrid day on the stock market on Wednesday as it reported a $369m (£280m) net loss for the six months ending 30 June 2016 compared with a $676m net loss in the same period a year ago. Stripping out exceptional items (principally the cost of thermal coal derivatives) the miner would have made a $300m profit in the first half, a 66% drop on the previous year's figure. Glencore signalled that attempts to repair its balance sheet by cutting debt are on track. However, with $23.6bn of debt and a market capitalisation of £26bn, there is no room for complacency. The aim is now to cut debt to between $16.5bn and $17bn. The company's chief financial officer said it was "very likely" that Glencore would restore the dividend next year due in part to recent improvements in the prices of zinc and coal.
24/8/2016	**Persimmon**	Housebuilder Persimmon had already said back in July that trading was strong in the first half of the year, with the number of completions and average prices both up 6%. On Tuesday it reported better-than-expected profits, helping to ease fears of a post-Brexit downturn in the property market. At £352.3m, pre-tax profits for the first half were up 29% compared with the same period last year. Management stated that the Brexit vote has created "increased economic uncertainty" but since then visitors to its developments were up 20% year-on-year and reservations were 17% higher. While the housebuilder has continued to acquire land, it said it has been more selective since the referendum. Persimmon is currently in the slower summer weeks but the group said customer demand remains encouraging and it is anticipating a good autumn sales season.

Key Company Diary Dates

Tue 30 Aug	BATM Advanced Communications	Half-year results
Wed 31 Aug	HSS Hire Group	Half-year results
Wed 31 Aug	Punch Taverns	Trading update
Thu 1 Sep	Hays	Final results
Thu 1 Sep	Safestore Holdings	Trading update

Economic highlights over the next week

Wed 31 Aug – **UK consumer confidence** – GfK's Consumer Confidence Index saw its biggest drop for decades in July as Britons became increasingly pessimistic about the economic outlook following the Brexit vote. The monthly index fell to minus 12 from minus 1 in June - the biggest drop since 1990, a year when interest rates were in double figures. Will there be any improvement this month?

Thu 1 Sep – **UK manufacturing** – Markit's Purchasing Managers' Index (PMI) for the manufacturing sector showed activity in July contracting at its fastest rate for almost four years. The index measuring activity in the sector fell from 52.4 in June to 48.2. A figure below 50 indicates the sector is contracting. Next week's index figure will be for August.

Fri 2 Sep – **UK construction** – Markit's construction sector PMI for July was 45.9, down slightly from June's figure of 46.0, indicating continuing contraction. It was the lowest reading since June 2009 but better than market expectations. Separately, Friday will also see the release of the latest US non-farm payrolls data, a closely watched survey of employment growth.

Index Movements*

Index	Value	%Change
FTSE 100	6,816.90	-0.76
FTSE 250	17,882.85	0.07
AIM	789.67	0.69
Dow Jones	18,448.41	-0.80
S&P 500	2,172.47	-0.67
Hang Seng	22,814.95	-0.90
Nikkei 225	16,555.95	0.42

Currency Movements*

Currency Pair	Value	%Change
£:$	1.32	0.21%
£:€	1.17	0.62%
£:¥	132.62	0.58%

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

Sector	%Change
Banks	2.3%
Construction & Materials	2.3%
Retail	2.2%
Healthcare	-1.0%
Oil & Gas	-1.8%
Basic Resources	-4.5%

Best & Worst performing stocks*

Company	%Change
Barratt Developments	8.9%
Lloyds Banking Group	8.4%
Travis Perkins	8.0%
Glencore	-8.6%
Randgold Resources	-9.0%
Fresnillo	-9.3%

*Weekly movements up until close of business Thursday