The Week in Perspective

9 September 2016

Brewin Dolphin Research

Market Roundup

The FTSE 100 Index was down 0.2% on Monday despite a Markit/CIPS survey which showed the UK's services sector rebounded strongly in August, calming fears of a Brexit-related recession.

A stronger pound hit dollar-earning shares, including Imperial Brands, off 1.8%, and British American Tobacco, 1.3% lower.

However, property website Zoopla jumped nearly 8% amid hopes of strong trading after its recent acquisition of price comparison website Uswitch.

Banks led the market lower on Tuesday, with the FTSE 100 off 0.8%. But housebuilders rallied on reassuring trading updates, with Berkeley Group up 3.5% and Redrow soaring by more than 8%.

On Wednesday the blue chip index was 0.3% higher as Bank of England Governor Mark Carney defended the central bank's cut in interest rates last month to the Treasury Select Committee hearing.

Pump maker Weir rose 4.5% to hit a one-year high amid hopes of the firm being an early beneficiary of a mining sector recovery. Capital expenditure among miners appears to be stabilising after four years of declines, Morgan Stanley analysts said. Industrial equipment rental firm Ashtead led the FTSE 100 gainers, up 3.3% to a record high after better than expected quarterly earnings.

Thursday saw FTSE 100 firm Micro Focus rise more than 14% after announcing its takeover of Hewlett Packard Enterprise's software division. But Pearson fell 7.7% to a three-month low amid concerns about a downturn in academic publishing. The FTSE 100 ended the day up 0.2%.

The market was down in early trading on Friday.

Company focus: Barratt Developments

The UK's largest housebuilder Barratt Developments reported encouraging trading since the Brexit vote as it announced a 21% increase in profits to £682m for the year to 30 June.

Its sales' rate has risen in the first two months of the new financial year from 0.69 sales per site to 0.75 and reservations of new homes are up 6%.

"We had a very strong start to the (2016/17) year – the prior year is a strong comparator so this is very pleasing. We really see that this is about business as usual," said chief executive David Thomas.

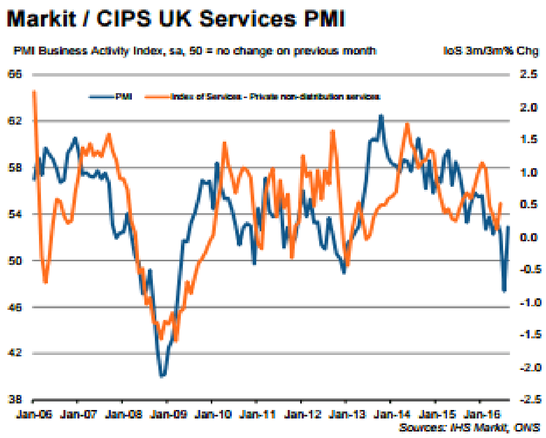
The full-year numbers were slightly ahead of Barratt's previous guidance, with a 5.3% increase in completions including joint ventures to 17,319 (its highest figure since the 2008 credit crunch), a 10.4% rise in the average sales price to £289,800, and some modest margin growth to 15.8%. Revenue was up 12.7% to £4,235m while net cash rose to £592m.

Trading conditions in the North and Midlands have been stronger for the Leicestershire-based firm than those in the South.

The group declared a final dividend of 12.3p, up 19%, together with a 12.4p special dividend.

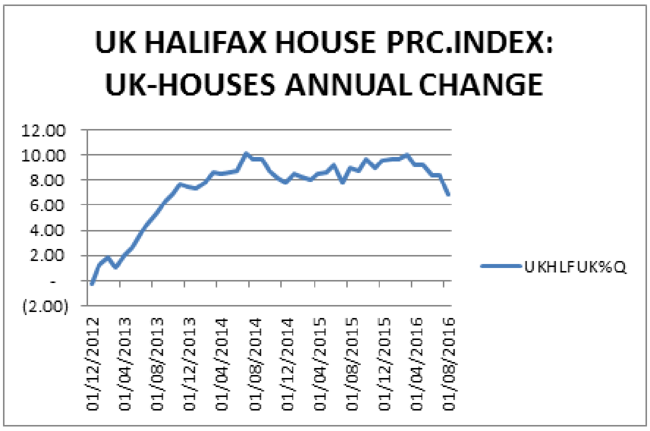
Management reiterated its cash return plan of an ordinary dividend of one-third of earnings and a special dividend of £400m spread over the three years to November 2017.

Chart 1: Services sector Purchasing Managers Index (PMI)



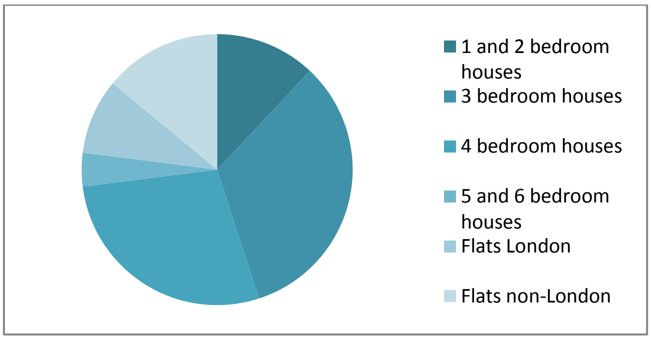
Source: Markit/CIPS Data at 9/9/2016

Chart 2: Halifax house price index



Source: Halifax Data at 9/9/2016

Chart 3: Barratt Developments - completions by unit type



Source: Barratt Developments annual report 2015

Data at: 9/9/2016

Economic Outlook

The UK's dominant services sector recovered strongly in August, according to a key survey published on Monday. The Markit/CIPS Purchasing Managers Index (PMI) for the services sector rose to 52.9 from 47.4 in July, its largest monthly gain in 20 years, and easing fears that a recession could be looming. A PMI reading above 50 indicates that the sector is expanding, below 50 it is contracting.

Following the survey, several leading City institutions revised their growth forecasts upwards from previous predictions of recession after the Brexit vote. Both Credit Suisse and Morgan Stanley said they now expected GDP growth of 1.9% for 2016 and about 0.5% in 2017.

However, on Tuesday, figures from the British Retail Consortium and KPMG showed UK retail sales deteriorated in August. Total sales fell 0.3 per cent year-on-year, compared with a 1.9 per cent gain in July. The reduction was the weakest monthly performance in two years. Like-for-like sales fell 0.9 per cent, down from a 1.1 per cent gain in July.

On Wednesday, Bank of England Governor Mark Carney conceded the economy had held up better than forecast since the Brexit vote as he was interviewed by the Treasury Select Committee. The admission is likely to add to the growing chorus that the Bank acted a little hastily in cutting interest rates in August.

However he left open the possibility of further rate cuts and said that part of the recent recovery in business and consumer sentiment was because of the stimulus announced by the Bank last month. He added that while the risk of recession had receded, growth was still likely to be about half the level prior to the referendum.

Data from the Office of National Statistics (ONS) showed UK manufacturing production fell by a steeper-than-expected 0.9% in July, although industrial production as a whole edged up 0.1%. The drop in manufacturing output in July was the biggest monthly decline in a year. The figures are among the first official statistics showing how the economy may have been affected by the vote to leave the EU.

House prices dropped by 0.2% in August, after falling 1.1% in July, according to Halifax. The annual rate of increases also moderated to 6.9%, the lowest in almost three years.

On Thursday, official figures showed the number of people working via zero hours contracts has surged a fifth in the past year, fuelling the debate over job insecurity in the UK economy. The increase is despite unemployment being at an 11-year low of 4.9%. .

There was better news on the housing market from the Royal Institution of Chartered Surveyors' latest monthly survey, where a net balance of 12% of surveyors reported an increase in house prices in August. However Rics also pointed out the August reading was the second weakest of the past 18 months and in London the net balance was negative for the sixth successive month.

ONS data on Friday showed that the UK's trade deficit shrank in July, as exports rose and imports fell, following the sharp depreciation of sterling in the wake of the Brexit vote. Total goods' exports grew by £0.8bn, while imports fell by £0.3bn. However, over the three months to the end of July 2016, the trade deficit widened by £5.1bn to £14.1bn.

Britain's construction sector, which went into recession in the first half of the year, put in a better-than-expected performance in July, according to the ONS. Output was flat over the month and fell by a smaller percentage than forecast on an annual basis. On an annual basis, construction output has fallen every month in 2016.

Company announcements that caught our attention this week

Date	Company	Comment
6/9/2016	**Ashmore Group**	Emerging markets investment manager Ashmore was optimistic about the asset classes it specialises in as it reported results for the year to 30 June, but its own outlook was less positive than expected. Assets under management were down 11% to $52.6bn, hitting revenues by 18% and operating profits by around 25%. Foreign exchange gains offset the operating headwinds and pre-tax profits declined by 8%. The dividend has been maintained at last year's 16.65p. Our concern is the proliferation of emerging market funds (and passive instruments) makes Ashmore's propositions less niche than a few years ago. Institutional investors have greater choice and we expect margin pressure to continue. These concerns do not appear to be captured by Ashmore's lofty P/E multiple of 18.
7/9/2016	**Hargreaves Lansdown**	Fund supermarket Hargreaves Lansdown released good full-year numbers, generating £6bn of net inflows in the year to 30 June to take assets under management above £60bn for the first time. Revenues were up 11% to £326.5m and profits up 10% to £218.9m. Hargreaves continues to attract new clients - 100,000 this year, bringing the total to 836,000 – and now has a 38% share of the direct-to-consumer (D2C) investment market. It remains the largest D2C investment platform by some distance, which gives it economies of scale in terms of marketing costs and IT spend. The total dividend is up 3% to 34p. . Since Brexit, there has been increased stockbroking activity to take advantage of market volatility while fund investment has been subdued. Separately, Ian Gorham has decided to step down as chief executive by September 2017. Chris Hill, the recently appointed chief financial officer, will become deputy CEO with a view to replacing Gorham after he leaves.

Key Company Diary Dates

Mon 12 Sep	Associated British Foods	Trading update
Tue 13 Sep	JD Sports Fashion	Half-year results
Wed 14 Sep	Dunelm Group	Final results
Wed 14 Sep	Alliance Pharma	Half-year results
Thur 15 Sep	Premier Farnell	Half-year results

Economic highlights over the next week

Tue 13 Sept – **UK inflation** – Consumer inflation figures (CPI and RPI) will be published for August. The fall in the value of the pound following the Brexit vote has increased inflationary pressures, and there was a slight rise in the annual rate of CPI inflation to 0.6% in July. Any increases are expected to be modest for a few months. Producer Price Inflation (PPI) figures are due the same day.

Wed 14 – **UK employment** – The record number of individuals in employment in the three months to June, at 31,750,000, was more than 600,000 higher than the same period last year. Average wages including bonuses also rose by 2.4%, well ahead of inflation and supportive of consumer demand. What effect did the Brexit vote have on the labour market in July?

Thu 15 Sep – **Bank of England interest rate decision** – Following its monthly Monetary Policy Committee Meeting, the Bank of England announces any change to interest rates at midday. In August, the Bank cut rates for the first time in seven years to a new low of 0.25% in a bid to counter fears of a recession following the Brexit vote.

Index Movements*

Index	Value	%Change
FTSE 100	6,858.70	1.67
FTSE 250	18,193.13	1.92
AIM	808.87	2.23
Dow Jones	18,479.91	0.33
S&P 500	2,181.30	0.48
Hang Seng	23,919.34	3.27
Nikkei 225	16,958.77	0.19

Currency Movements*

Currency Pair	Value	%Change
£:$	1.33	0.11%
£:€	1.18	-0.61%
£:¥	135.35	-1.40%

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

Sector	%Change
Oil & Gas	3.1%
Basic Resources	2.9%
Technology	2.0%
Auto's & Parts	-3.4%
Chemicals	-1.8%
Construction & Materials	-1.7%

Best & Worst performing stocks*

Company	%Change
Micro Focus Intl.	13.5%
Anglo American	8.9%
International Consolidated	8.2%
Carnival	-7.6%
Pearson	-7.2%
Mediclinic International	-3.6%

*Weekly movements up until close of business Thursday

Important Notes:
Main source of information: Company Report and Accounts, Bloomberg
The value of investments can fall and you may get back less than you invested. Past performance is not a guide to future performance and performance is shown before charges, which would reduce the illustrated performance. No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our conflicts policy. If you invest in currencies other than your own, fluctuations in currency value will mean that the value of your investment will move independently of the underlying asset. The opinions expressed in this document are not necessarily the views held throughout Brewin Dolphin Ltd. The information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness.