The Week in Perspective

21 October 2016

Market Roundup

Stocks began the week on the back foot as the FTSE 100 Index declined on fears about the economic impact of Brexit. The index dropped by more than 1% on Monday, back below the 7,000 mark.

Tuesday saw a recovery, with the FTSE 100 up 0.8%. Next jumped 5.3% as an upbeat note from Deutsche Bank highlighted that the retailer was gaining market share despite difficult trading conditions.

Tesco shares also climbed 3.5% following a report that the supermarket had increased its market share for the first time in five years.

But Burberry dropped 7.2% on a trading update and a downgrade from house broker Bank of America Merrill Lynch, which said the shares had "limited upside from here".

The FTSE 100 made a further gain of 0.3% on Wednesday as oil prices rose following an announcement by Saudi Arabia that non-OPEC countries were prepared to join it in curbing production. Brent crude jumped by 2.3% to $52.90 a barrel.

Housebuilders were strong following a positive earnings announcement from mid-cap Bellway, whose shares rose 4.6%, and a positive sector note from Barclays. Persimmon was up 3.3%, Taylor Wimpey gained 2.6%, and Barratt Developments added 2%.

But Laird, the FTSE 250 electronic components maker, collapsed 49% after a profit warning.

Sky and ITV were down 3.6% and 3.7% respectively on Thursday amid concerns about the outlook for television advertising. Royal Bank of Scotland, up 3.5%, was the biggest FTSE 100 gainer while the index was virtually unchanged for the day.

Shares were up in early trading on Friday, with British American Tobacco higher after revealing plans to pay US$47bn for a merger deal with Reynolds American.

Company focus: Standard Life

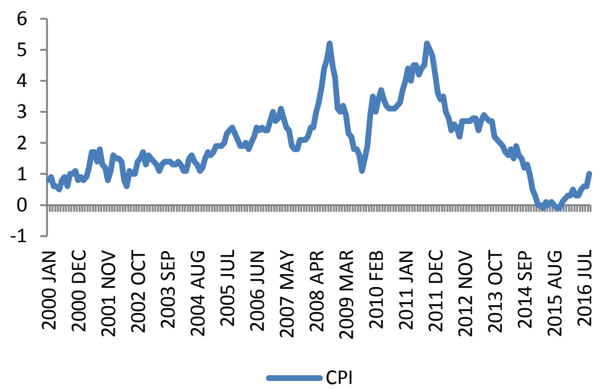
Last week the Financial Conduct Authority published the results of a review into the UK annuity market that looked at whether "non-advised customers" had missed out on an enhanced annuity (which pay higher rates for those with a health condition) because of firms' sales practices.

The FCA concluded that there was no industry-wide issue, but some firms were found to have a high non-compliance rate and the regulator wants these providers to review non-advised sales from July 2008 to the present.

Standard Life confirmed on Monday that it has been asked to review its sales. It said: "Standard Life will conduct a review of all non-advised annuity sales from July 2008 to identify whether our customers received sufficient information about enhanced annuities to make the right decisions about their purchase. It is not yet possible to determine a reliable estimate of the quantum of any redress associated with this process."

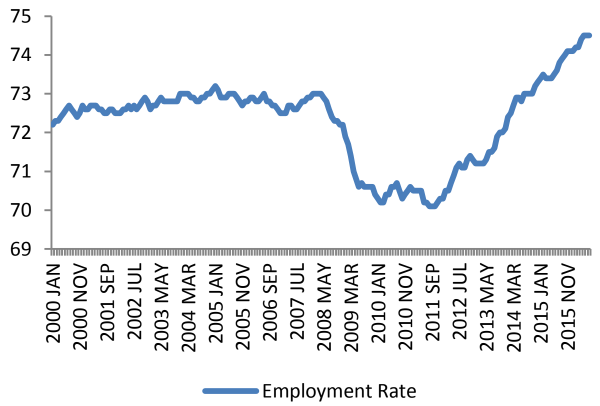
While negative from a sentiment and reputational point of view, the financial impact for Standard Life should be relatively small and partially mitigated by group professional indemnity insurance. Other companies may also issue statements following the FCA review.

Chart 1: UK inflation (CPI)



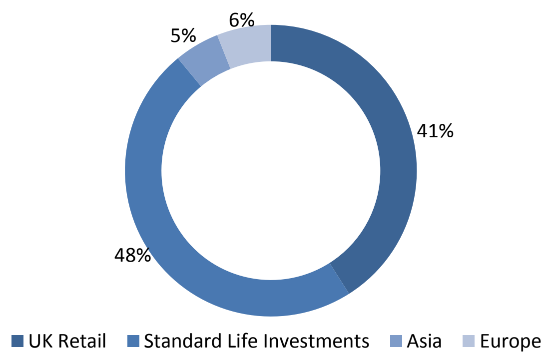
Source: ONS Data at: 21/10/2016

Chart 2: UK employment rate



Source: ONS Data at 21/10/2016

Chart 3: Standard Life, underlying profits breakdown, June 2015



Source: Standard Life client note Data at 21/10/2016

Economic Outlook

UK inflation hit its highest level since 2014, rising sharply to 1% in September, with many economists expecting it to peak at between 3% and 4% in coming years.

The higher-than-expected consumer price index (CPI) reading was driven by a surge in clothing costs and the recent oil price recovery

The Office for National Statistics (ONS) said “there is no explicit evidence the lower pound is pushing up prices of everyday consumer goods”.

But economists noted that while sterling’s weakness has yet to show up in higher prices across the board it is already clear in increased petrol prices.

Sam Tombs at Pantheon Macroeconomics predicted that CPI inflation will average 3% next year and peak at about 3.5% at the end of 2017.

Meanwhile, the Land Registry announced that UK house prices rose 8.4% in the year to August, up from 8% in July.

Forecasting group the EY Item Club warned that the UK faces much lower economic growth over the next couple of years as consumer spending slows and businesses curb investments.

Chief economic advisor Peter Spencer said: “So far it might look like the economy is taking Brexit in its stride, but this picture is deceptive. Sterling’s shaky performance this month provides a timely reminder that challenges lie ahead. As inflation returns over the winter it will squeeze household incomes and spending.”

Official data showed that the headline rate of unemployment was unchanged over the summer, holding steady at 4.9% between May and August, while wage growth rose by a higher than expected 2.3%.

ONS statistician Nick Palmer said: "Employment continued to grow over the summer and vacancies remain at high levels, suggesting continuing confidence in the economy."

The Council of Mortgage Lenders (CML) said that gross mortgage lending in September reached £20.5bn, its highest level since before the financial crisis.

CML senior economist Mohammad Jamei said: "Remortgage activity looks set to grow, helped by attractively priced mortgage deals encouraging borrowers to refinance. Prospects for house purchase activity continue to look slightly subdued, when compared to the same period a year ago.”

UK retail sales showed no monthly growth in September, following a 0.1% dip in August, according to ONS figures. The data was worse than expected, although year-on-year growth was still 4%.

Increases in sales at department stores and household goods retailers last month were offset by falling sales at supermarkets and clothing outlets, said the ONS.

Public sector borrowing was much higher than expected in September, which could potentially limit the Chancellor’s spending plans in next month’s Autumn Statement. Public sector net borrowing, excluding taxpayer-backed banks, was £10.6bn – an increase of £1.3bn year on year.

Public sector net debt stood at £1.6 trillion, the equivalent of 83.3% of GDP. This was an increase of £39.5bn compared with September last year.

Company announcements that caught our attention this week

Date	Company	Comment
19/10/2016	**Reckitt Benckinser**	Reckitt Benckiser, maker of Dettol, Vanish and other household goods, issued disappointing third-quarter results on Wednesday. Like-for-like sales, excluding currency fluctuations, were up 2% in the three months to the end of September. This was lower than analysts expected and significantly down on growth of 4% in the previous three months. Overall, however, the weaker pound helped sales climb 17% to £2.6bn. By region, Europe and North America posted flat like-for-like sales growth. In developing markets, India continues to perform well, China grew strongly and Brazil was weak. The picture in other emerging markets was also mixed. South Korean sales suffered as consumers boycotted Reckitt’s products after a humidifier sanitizer was linked to lung injuries and deaths.
18/10/2016	**Burberry**	Sales at Burberry’s UK stores have jumped 30% as overseas visitors snap up luxury goods due to the weakness of the pound. That was one of the few bright spots when the coats-to –cashmere-scarves retailer published a trading update for the six months to the end of September. While chief executive Christopher Bailey said the group was “on track” to deliver its financial goals, the business remains challenged. Revenues declined 4% to £1.16bn as growth in the retail business was offset by weak wholesale performance. Outside the UK, sales in Hong Kong and Macau fell and other markets in Europe were weak. Sales in the Americas remain uneven.

Key Company Diary Dates

Wed 26 Oct	GlaxoSmithKline	Quarterly results
Wed 26 Oct	Antofagasta	Production report
Wed 26 Oct	British American Tobacco	Trading update
Fri 28 Oct	Royal Bank of Scotland	Quarterly results
Fri 28 Oct	International Consolidated Airlines Group	Quarterly results

Economic highlights over the next week

Thu 27 Oct – **GDP** – The first official estimate of UK economic growth between July and September, the quarter immediately following the EU referendum vote. The economy grew 0.7% in the second quarter of 2016, according to the Office for National Statistics (ONS).

Fri 28 Oct – **House prices** – Nationwide's house price index has recorded steady gains over the past few months, suggesting the Brexit vote has done little to dampen the property market. Last week, ONS data showed house prices rose by 8.4% in the year to August and by 1.3% month-on-month.

Fri 28 Oct – **Consumer confidence** – GfK's consumer confidence barometer rose by six points to minus 1 in September, from minus 7 in August - the biggest monthly jump since June 2015. This restored the index to pre-Brexit vote levels, as optimism returned following the collapse in confidence immediately after the referendum.

Index Movements*

Index	Value	%Change
FTSE 100	7,026.90	0.70
FTSE 250	17,945.05	0.38
AIM	827.12	0.20
Dow Jones	18,162.35	0.35
S&P 500	2,141.34	0.41
Hang Seng	23,374.40	1.49
Nikkei 225	17,235.50	2.75

Currency Movements*

Currency Pair	Value	%Change
£:$	1.22	0.42%
£:€	1.12	1.38%
£:¥	127.33	0.98%

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

Sector	%Change
Banks	3.9%
Retail	2.7%
Basic Resources	1.8%
Media	-2.2%
Personal & Household Goods	-2.3%
Technology	-5.8%

Best & Worst performing stocks*

Company	%Change
Barclays	10.0%
Royal Bank Of Scotland	9.3%
Standard Chartered	9.0%
Antofagasta	-5.0%
DCC	-5.4%
Pearson	-6.0%

*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.