

The Week in Perspective

28 October 2016

Market roundup

Shares started the week down, with the FTSE 100 index off 0.5% on Monday amid a fall in the oil price.

Cobham dived 13% after its third profit warning in a year. But EasyJet, whose shares have halved in value this year, rallied 1.4% on positive broker comment. And French Connection jumped 14.5% on speculation of a possible bid.

Renewed sterling weakness helped the FTSE 100 to a 0.5% gain on Tuesday. Rio Tinto was up 4.5% and Anglo American added 4.6% as metal prices rose.

But Countrywide dropped 7.9% to a record low after its house broker forecast a slump in earnings, while Whitbread was off 3.7% after poorly received interim results.

On Wednesday, the FTSE 100 fell 0.9% to close at a three-week low, with broker downgrades taking 4.6% off Whitbread and Antofagasta losing 3.2%.

British American Tobacco was off 2.9% amid speculation it would have to sweeten its offer to buy Reynolds American. But British Airways owner IAG soared 5.2% after a pensions agreement raised hopes of a dividend increase.

Barclays led the FTSE 100 gainers on Thursday, climbing 4.8% as it reported a rise in quarterly profits. The blue-chip index was up 0.4% as official data showed the UK economy grew by a better than expected 0.5% in the three months following the Brexit vote. Lloyds also rose 2.9%.

The market was down in early trading on Friday ahead of the release of US GDP data.

Company focus: GlaxoSmithKline

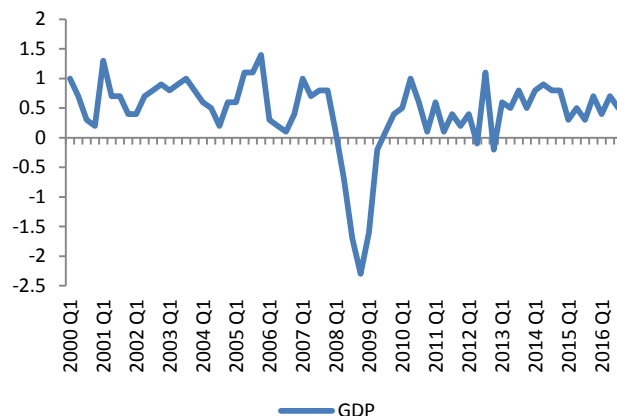
GlaxoSmithKline has been a big winner from the pound's slide since the EU referendum. On Wednesday, the pharmaceutical giant reported that group sales rose 23% to £7.5bn in the three months to 30 September. However, at constant exchange rates (removing the benefit of the slide in the pound) the rise was a more modest 8%.

Core operating profit jumped 35%, or 13% at constant exchange rates, to £2.3bn. In general, the business performed much as expected, with legacy pharmaceuticals declining in value and the newly reorganised vaccines and consumer businesses performing well.

Outgoing chief executive Andrew Witty said: "Our most recent review of the group's pipeline reinforces our confidence in the near-term portfolio and the options we have in early-to-mid stage development."

New product sales topped £1.2bn, compared to £1.05bn in the second quarter, driven by HIV, respiratory and meningitis vaccines. New product sales represent a quarter of total pharmaceutical sales. The group declared an unchanged dividend of 19p for the quarter.

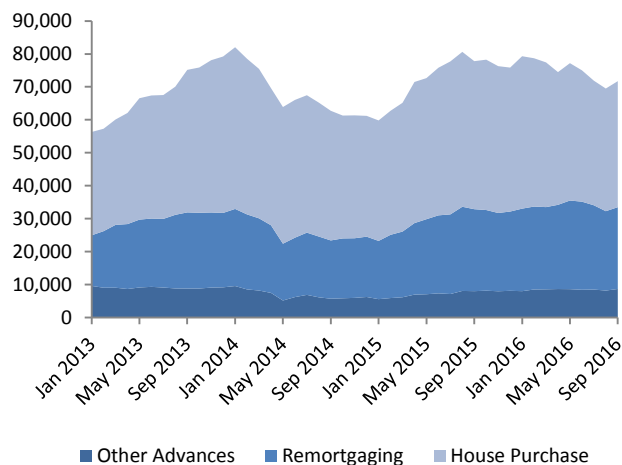
Chart 1: UK GDP, quarter-on-quarter growth (%)



Source: ONS

Data at 27/10/2016

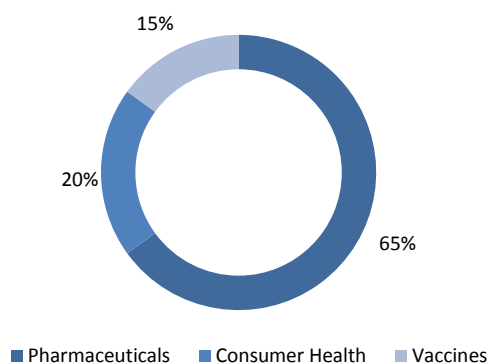
Chart 2: Mortgage approvals



Source: BBA

Data at 27/10/2016

Chart 3: GlaxoSmithKline, sales by division 31/12/2015



Source: client note Data at: 27/10/2016

Economic outlook

Manufacturing orders fell sharply in October, according to a Confederation of British Industry (CBI) survey. And, while export demand has picked up, nearly half of exporters say the weak pound has had a negative impact by increasing their input costs.

"Manufacturers are optimistic about export prospects and export orders are growing, following the fall in sterling. However, the weaker pound is also feeding through to costs, which are rising briskly and may well spill over into higher consumer prices in the months ahead," said Rain Newton-Smith, CBI chief economist.

More than 850,000 jobs could be lost to robots by 2030, with the public sector taking the biggest hit, according to a report by Oxford University and Deloitte. Even some teaching, policing and social worker functions could be automated, it suggests.

High street shops are closing at their fastest rate in four years, with more than 2,600 closures in the first six months of the year, according to a report by PwC and the Local Data Company. The number of new shops opening fell to its lowest level in five years, at 2,153.

The number of mortgage approvals by high street banks rebounded in September after hitting their lowest level in 19 months in August, the British Bankers' Association (BBA) reported on Wednesday.

There were more than 38,000 approvals in September, up by about 1,000 compared with August, although still 15% lower than the previous September.

The BBA said that consumer credit overall was growing at its fastest rate since 2006, fuelled by low rates tempting more people to borrow using personal loans and credit cards. It said the trend has increased since the Bank of England cut the base rate to a record low of 0.25% in August.

London house prices are set to fall by more than 5% in 2017 as Brexit negotiations exacerbate economic uncertainty, according to a forecast by the Centre for Economic and Business Research (CEBR). Across the UK, house price growth is predicted to slow to 2.6% from 6.9% this year.

The UK economy grew faster than expected in the three months following the Brexit vote, with GDP rising 0.5% between July and the end of September, the Office for National Statistics (ONS) said on Thursday. While this was a slowdown from the 0.7% increase in the second quarter, the annual rate of GDP growth was 2.3%.

The solid third-quarter performance was driven by 0.8% growth from the services sector, with production down 0.4% and construction off 1.4%.

"The pattern of growth continues to be broadly unaffected following the EU referendum", said the ONS, adding that the UK's dominant services sector showed "no sign of a slowdown in growth".

However, rising inflation and the weak pound is hitting consumer confidence, according to October's consumer confidence index from GfK. The survey showed confidence has edged down from September - though it is still well above the level it slumped to following the Brexit vote. Consumers are worried that higher prices will hit their living standards next year, said GfK.

Company announcements that caught our attention this week

Date	Company	Comment
26/10/2016	Lloyds Banking Group	It has been a busy week for Lloyds Banking Group investors. On Thursday, the government announced it has reduced its stake in the bank to just below 9% following a share sale worth more than £340m. And on Wednesday, Lloyds reported that pre-tax profits dropped to £811m in the three months to the end of September, down from £958m in the same period last year. The government-backed bank also set aside a further £1bn to pay compensation for mis-sold payment protection insurance (PPI). Total income for the quarter rose 1% to £4.27bn. Capital generation, which is important for dividends, remains on target. The bank's capital reserves, or common equity tier one ratio, increased to 13.4% as at 30 September, compared to 13% at the end of last year.
26/10/2016	Airbus	Airbus reported a mixed set of third-quarter results, with revenues falling 1% to €13.95bn in the three months to the end of September. This was below expectations of €14.05bn. Revenues in the commercial aircraft division were up 4%, with helicopters up 8% but defence and space down 20%. Europe's largest aerospace group said earnings before interest, tax and exceptionals (EBIT) were €731m, 21% below the same quarter last year. By division, EBIT was 18% lower in commercial aircraft, 29% lower in helicopters, and 30% lower in defence and space. CEO Tom Enders, said: "For the remaining months of the year we remain totally focused on deliveries to achieve our earnings and cash guidance."

Key company diary dates

Mon 31 Oct	WPP	Trading update
Tue 1 Nov	Royal Dutch Shell	Quarterly results
Tue 1 Nov	BP	Quarterly results
Wed 2 Nov	Persimmon	Trading update
Thu 3 Nov	Smith & Nephew	Quarterly results

Economic highlights over the next week

Tue 1 Nov – **Manufacturing** – The latest Markit/CIPS Purchasing Managers' Index (PMI) survey will show the continuing effect of the weak pound on the UK's manufacturing sector. September's PMI reading of 55.4 was up from 53.4 in August, ahead of market expectations and the highest reading since June 2014.

Wed 2 Nov – **Construction** – October's Markit/CIPS UK Construction PMI survey will also be scrutinised for the sector's progress since the Brexit vote. September's reading of 52.3 was up on August's 49.2. A reading above 50 indicates growth for the sector.

Thu 3 Nov – **Interest rates** – When the Bank of England Monetary Policy Committee (MPC) last met it voted unanimously to hold the base rate at a record low of 0.25% and not to expand its QE bond purchasing programme. The Bank has indicated that that it would cut rates further if the UK economy weakened following the Brexit vote. But with few signs yet of the economy worsening, rates are expected to remain unchanged this month.

Index Movements*

Index	Value	%Change
FTSE 100	6,986.57	-0.57
FTSE 250	17,581.32	-2.03
AIM	823.01	-0.50
Dow Jones	18,169.68	0.04
S&P 500	2,133.04	-0.39
Hang Seng	23,132.35	-1.04
Nikkei 225	17,336.42	0.59

Currency Movements*

Currency Pair	Value	%Change
£:\$	1.22	-0.56%
£:€	1.12	-0.49%
£:¥	127.87	0.43%

Best & Worst performing sectors (relative to FTSE 350)*

Sector	%Change
Basic Resources	4.1%
Banks	2.7%
Telecoms	1.8%
Industrial Goods & Services	-2.0%
Chemicals	-2.6%
Healthcare	-3.1%

Best & Worst performing stocks*

Company	%Change
Rio Tinto	6.8%
Royal Bank of Scotland	5.4%
Barclays	4.0%
Hikma Pharmaceuticals	-7.7%
Whitbread	-7.7%
Barratt Developments	-9.4%

*Weekly movements up until close of business Thursday

Important Notes:

Main source of information: Company Report and Accounts, Bloomberg

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