BREWIN DOLPHIN

The Week in Perspective

25 November 2016

Market Roundup

UK shares started the week flat on Monday, in marked contrast to the US, where the four major stock indices (the S&P 500, Dow Jones, Nasdaq and Russell 2000) all reached record highs, fuelled by hopes of US tax cuts and fiscal expansion.

Among UK blue chips, Sky fell 2.2% to a four-year low amid concerns that a reduced appetite for live sport would hit subscription sales. Fresnillo was up 3.2% as gold bounced from a five-month low, while Anglo American advanced 3%.

Tuesday saw the FTSE 100 up 0.6% on the back of a buoyant mining sector. Anglo American climbed 7.6% amid optimism about its De Beers diamond business, while BHP Billiton gained 4.9%.

The FTSE 100 closed virtually unchanged on Wednesday following the Autumn Statement. But Foxtons dropped 14.3% and Countrywide was down 5.2% after Chancellor Philip Hammond confirmed plans to ban letting agents from charging fees to tenants.

On Thursday, the FTSE 100 edged up 0.2% but the market generally lacked direction with the US closed for the Thanksgiving holiday.

Direct Line led the blue chip risers after positive comment from its joint house broker, while buy-to-let lender Paragon dropped 6.5% after a broker downgrade and Countrywide was off 12.6% on a profit warning. But Thomas Cook was up 2.4% following better-than-expected earnings news on Wednesday.

UK shares were up in early trading on Friday, ahead of a shortened trading session in the US because of Thanksgiving.

Company Focus: Countrywide

Shares in Countrywide sank to a record low this week after the lettings and estate agency group warned that profits would be hit by changes to stamp duty and uncertainty following the Brexit vote.

In a third-quarter trading update on Thursday, the UK's biggest estate agent said it expected transaction volumes this financial year to be down 6% compared to last year - with transactions likely to be even lower next year.

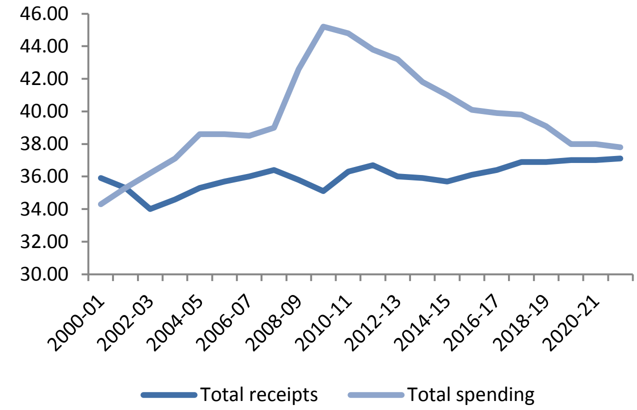
The reduced level of transactions would lead to its 2016 profits being at the "lower end of expectations".

In the three months to the end of September, group revenue was £188.5m compared with £197.1m for the same time last year. Property exchanges fell 1% across the company's retail business, and slumped 29% in London. Mortgage approvals were also 12% down on last year.

The disappointing results came after Chancellor Philip Hammond announced a ban in the Autumn Statement on lettings agents charging fees to tenants.

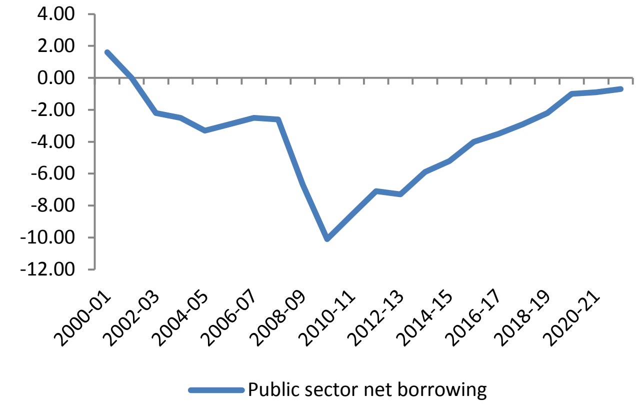
Countrywide said that in the three months to the end of September residential lettings were up 14%, though in London they rose just 1%.

Chart 1: Public finances – spending and receipts, % of GDP



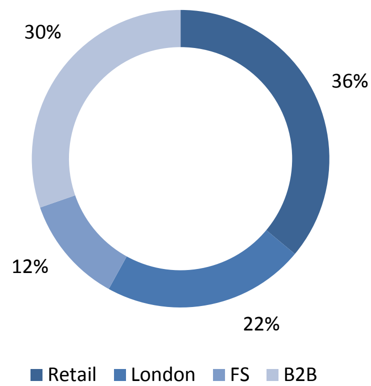
Source: OBR Data at: 24/11/2016

Chart 2: Public sector net borrowing, % of GDP



Source: OBR Data at 24/11/2016

Chart 3: Countrywide income by segment, H1 2016



Source: Countrywide Data at 24/11/2016

Economic Outlook

Speaking on Monday at the CBI's annual conference, Prime Minister Theresa May suggested she was open to agreeing a transitional deal for when Britain leaves the UK, to avoid a "cliff edge" that could harm the economy. The process of leaving the EU will not be rushed, she said.

She also dropped a previous pledge to put workers on company boards.

On Tuesday, the Office for National Statistics revealed an improvement in the public finances in October, with public sector net borrowing of £4.8billion, compared with £9.7billion in September. However public sector net debt was up £50.9billion compared to a year ago.

Britons have grown more pessimistic about the UK´s economic outlook, according to a survey by IHS Markit. Half of respondents said the Brexit vote had worsened Britain´s economic prospects over the next decade, with only 31% saying prospects had improved. The net difference of more than 18 points was considerably worse than previous readings in August and July.

Wednesday's Autumn Statement confirmed that the government will push borrowing higher to fund infrastructure spending and cushion the UK against economic slowdown following the Brexit vote.

Overall the government will borrow an extra £122billion by 2021 – around half of which the Office for Budget Responsibility (OBR) says is due to Brexit.

Chancellor Philip Hammond said that economic growth is forecast to slow to 1.4% next year, with overall growth 2.4 percentage points lower between now and 2021 as a result of Brexit.

"While the Office for Budget Responsibility is clear that it cannot predict the deal the UK will strike with the EU, its current view is that the referendum decision means that potential growth over the forecast period is 2.4 percentage points lower than would otherwise have been the case," Hammond told parliament.

Analysis by the Institute of Fiscal Studies concluded that the outlook for wage growth is "dreadful", with poorer workers the hardest hit. It said that Britons would be earning less in real terms in 2021 than they did in 2008.

On Friday the ONS confirmed its initial estimate that the UK economy grew 0.5% between July and September. Economic output increased 0.5% in the quarter and was 2.3% greater than the same period last year, it said.

The services sector, which comprises the majority of the UK's economic output, grew by 0.8% in the three months from July to September compared to the second quarter. The sector's buoyancy "suggests limited effect so far from the referendum", said the ONS.

Post-referendum growth has been fuelled by better-than-expected business investment, which increased 0.9% over the third quarter.

"Investment by businesses held up well in the immediate aftermath of the EU referendum, though it's likely most of those investment decisions were taken before polling day," said Darren Morgan, head of GDP at the ONS.

Retail sales also remain healthy, according to the CBI. Its survey of retailers showed sales growing at their highest level since September 2015, driven by clothing, hardware and DIY purchases.

Company announcements that caught our attention this week

Date	Company	Comment
22/11/2016	**Compass**	Full-year results from Compass, the catering group, came in ahead of expectations as it reported strong demand in the US and Europe. Underlying revenue - ignoring exchange rate movements - grew 5% to £19.9bn in the year ended 30 September, while operating profits rose 5.6% to £1.45bn. North America, by far the biggest business division, produced organic revenue growth of 8.1% and continues to perform strongly. In Europe, organic revenue was up 2.8%, its highest growth rate since 2008. The results were not all positive, however. While new business wins were strong, Compass' oil and gas business saw revenue declines of 25%. Revenue also declined 1.2% in the Rest of World region. Compass is predicting a slight currency headwind in 2017, after helpful moves this year.
23/11/2016	**Ashtead**	Ashtead, the machinery rental business, announced on Tuesday that it has bought parts of rival Hewden for £29m. This followed Hewden's announcement that it had gone into administration, blaming uncertainty caused by Brexit for its financial woes. The acquired assets comprise Hewden's powered access and power generation fleet; five depots which service major petrochemical customers; the Interlift lifting and materials handling business; and the Hewden brand name. Ashtead itself has performed well recently. The American presidential election result has raised expectations that the company will benefit from a significant boost to US infrastructure spending. Hewden's predicament in the UK suggests trading conditions on this side of the Atlantic remain difficult, but there are likely to be more years of growth before Ashtead reaches the top of the current cycle.

Key Company Diary Dates

Tue 29 Nov	Merlin Entertainments	Trading update
Wed 30 Nov	Brewin Dolphin	Full-year results
Wed 30 Nov	Sage	Full-year results
Wed 30 Nov	Greene King	Half-year results
Thu 1 Dec	Grainger	Full-year results

Economic highlights over the next week

Wed 30 Nov – **Consumer confidence** – Last month's GfK consumer confidence survey suggested Britons were becoming more worried about the UK's economic prospects: the survey's reading fell to minus 3, from minus 1 in September.

Thu 1 Dec – **Manufacturing** – The Markit/CIPS PMI surveys provide an indication of the health of the UK economy. The PMI figures are given as a number between 0 and 100, with over 50 signalling growth and below 50 meaning activity is contracting. October's PMI for the manufacturing sector was 54.3, down from 55.5 in September.

Fri 2 Dec – **Construction** – The Markit/CIPS construction sector PMI came in at 52.6 in October, a little higher than September's 52.3. The survey suggested that the housing industry had shrugged off Brexit fears. The services sector PMI is published on 5 December.

Index Movements*

Index	Value	Change
FTSE 100	6,829.20	0.5%
FTSE 250	17,590.62	-0.1%
AIM	818.48	0.9%
Dow Jones	19,083.18	1.0%
S&P 500	2,204.72	0.8%
Hang Seng	22,608.49	1.6%
Nikkei 225	18,333.41	2.6%

Currency Movements*

Currency Pair	Value	Change
£:$	1.25	0.25%
£:€	1.18	1.29%
£:¥	141.15	3.77%

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

Sector	Change
Basic Resources	4.4%
Technology	2.1%
General Industrials	1.9%
Telecoms	-3.7%
Healthcare	-2.2%
Retail	-1.9%

Best & Worst performing stocks*

Company	Change
Anglo American	11.3%
Glencore	7.8%
BHP Billiton	6.4%
Fresnillo	-10.1%
Randgold Resources	-6.7%
Polymetal International	-5.6%

*Weekly movements up until close of business Thursday