BREWIN DOLPHIN

The Week in Perspective

16 December 2016

Market Roundup

The FTSE 100 Index closed down 0.9% on Monday as investors took profits on bank and insurance stocks after recent rises.

Capita hit another 10-year low, dropping 5.3%. But Marks and Spencer was up 1.4% on positive broker comment.

The blue-chip index rebounded 1.1% on Tuesday as telecoms and healthcare shares rallied. Unilever was up 2.6% after a broker upgrade while Diageo added 1.9%. But Tesco fell 3.8% on industry reports that its recovery is slowing.

On Wednesday, caution ahead of the Federal Reserve's US interest rate announcement held back the UK market, with the FTSE 100 slipping 0.3%. Dixons Carphone dropped 6.6% after warning of tough times ahead. British Airways owner IAG was off 2.8% following cabin crew voting to strike over Christmas and the New Year.

Mid-cap JD Sports lost 7.1% after a Channel 4 investigation alleged working conditions in the retailer's Rochdale warehouse were "worse than a prison."

Thursday saw the FTSE 100 add 0.7%, with Royal Bank of Scotland up 3.5% and Barclays climbing 4% as the US rate rise improved the outlook for banks' interest margins.

Aggreko was up 4.7% on positive broker comment while Centrica (see below) added 5.6% on a well-received trading update. InterContinental Hotels climbed 2.4% to a record high, but the dollar's strength hit miners, with Randgold down 7.9% and Fresnillo off 5.6%.

In early trading on Friday, the FTSE 100 broke through the 7,000 level.

Company Focus: Centrica

Centrica, Britain's largest energy supplier, lifted its annual profit forecast on Thursday. Adjusted operating cashflow is now expected to be in the range £2.4bn to £2.6bn, compared with the "more than £2bn" it previously forecast, with adjusted earnings per share of around 16.5p - some 6% above the current consensus.

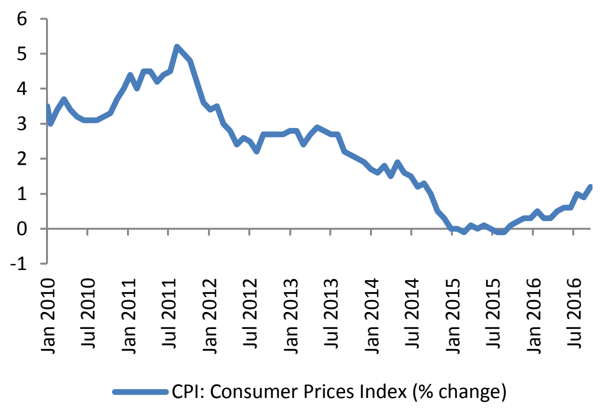
The British Gas owner attributes the earnings boost to increased cost savings and a strong performance in energy marketing and trading. However, much of the improvement is likely to have resulted from higher commodity prices.

Group capital investment, including small acquisitions, is now expected to be around £900m, below the £1bn limit set in its previous guidance.

Management also expects to make efficiency savings of more than £300m, a slight improvement on the £300m guidance given at the interim results.

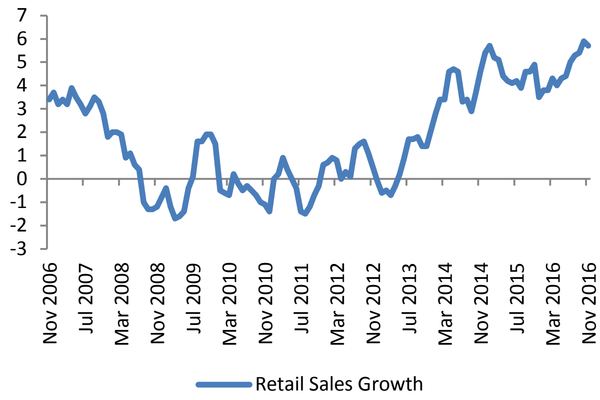
Back in May, Centrica knocked investor confidence when it announced a surprise share placing to reduce its debt load and protect its investment-grade credit rating.

Chart 1: Consumer Prices Index (CPI) inflation



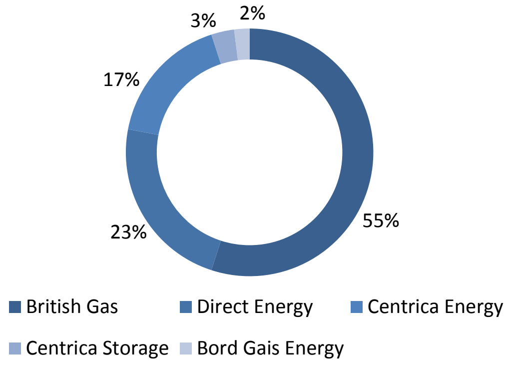
Source: ONS Data at 16/12/2016

Chart 2: Retail sales growth (%)



Source: ONS Data at 16/12/2016

Chart 3: Centrica adjusted operating profit, 2015



Source: Centrica 2015 annual report Data at 16/12/2016

Economic Roundup

Big companies are deeply gloomy about the UK's economic prospects in 2017, according to research by ICSA, a governance group.

Three-quarters of the company secretaries surveyed expect UK economic conditions to worsen during the next 12 months, with only 8% expecting a "slight" improvement.

More than half of respondents say that leaving the EU will have a damaging effect on their own company, with only 9% thinking it will be positive.

On Tuesday, the Office for National Statistics (ONS) announced the biggest jump in inflation for two years Consumer prices were 1.2% higher compared to November last year, with all categories except food contributing to the pick-up.

Factory gate prices – the level at which manufacturers sell to retailers – increased by 2.3%, but manufacturing input costs soared by 12.9%. With oil priced in dollars, the weaker pound exacerbated rising fuel costs.

The unemployment rate remained unchanged at 4.8% in the three months to October, although the number of Britons in work fell by 6,000 to 31.76m. Average pay growth edged up to 2.6%.

Retail sales growth slowed in November from a high in October. Total retail sales including fuel rose by an annualised 5.9% compared with October's 7.2%.

Spending is being supported by strong growth in personal debt, with high street shoppers borrowing to fund their purchases. Bank of England figures show credit card debt hit a record of £66.2bn in October.

On Wednesday, the Federal Reserve raised US interest rates for only the second time in 10 years, to a 0.5% to 0.75% range.

The Fed also signalled that 2017 could see three further hikes, a more aggressive pace of increases than previously suggested.

However, the Bank of England's Monetary Policy Committee did not follow the Fed's lead, keeping the base rate unchanged at a record low of 0.25% when it met on Thursday.

Meanwhile, a CBI survey reported that manufacturing order books are at a 20-month high, while export orders have softened for a second successive month.

But expectations for output price inflation have risen to their highest for five years, as the cost of imported raw materials continues to be pushed up by sterling's depreciation.

Chief economist Rain Newton-Smith said: "It's good to see our manufacturers ending the year on a high note with growth in production the strongest since summer 2014 and total orders still robust."

"But the weakness of sterling is pushing up the cost of imports, and our survey shows strong signs of this feeding through to higher factory gate prices."

Company announcements that caught our attention this week

Date	Company	Comment
13/12/2016	**UBM**	UBM, the events and exhibitions group, has announced the acquisition of Allworld Exhibitions for US$485m. The acquisition strengthens the FTSE 250 company's market position in Asia and gives it an entry into the Middle East. Allworld Exhibitions operates 51 trade shows in 11 countries including Singapore, China and Hong Kong. As such, it looks to be a good fit with UBM's existing operations. Allworld has a good track record, with compound annual revenue growth of 7.3% over the last 10 years. The acquisition is expected to be earnings enhancing in 2017. UBM chief executive Tim Cobbold, said: "The acquisition of Allworld is wholly in line with our Events First strategy and represents an exceptional opportunity to accelerate growth by investing in a high-quality events business."
14/12/2016	**Wood Group**	Wood Group's trading update was surprisingly upbeat given difficulties in the oil and gas industry. The oil services company said it expects earnings to be in line with consensus expectations: on that basis, full-year revenue will be US$5.19bn, with pre-tax profit of $247m. The Aberdeen-based company said it had "significantly reduced" its cost base, improved its customer relationships, and refined its operating structure in response to lower oil prices. It remains on course to increase its dividend by at least 10%. Looking ahead, management said the market continues to present significant challenges, although in selected markets there are indications of modest recovery.

Key Company Diary Dates

Mon 19 Dec	Fidelity Special Values	Final dividend payment
Mon 19 Dec	Collagen Solutions	Half-year results
Fri 23 Dec	Burberry Group	Interim dividend record date
Fri 23 Dec	CMC Markets	Interim dividend payment

Economic highlights over the next week

Wed 21 Dec – **Consumer confidence** – The GfK consumer confidence index dropped five points last month after a two-point fall in October, taking it to minus eight. GfK said the survey suggested consumers are "resolutely gloomy about the outlook".

Wed 21 Dec – **US home sales** – The strengthening US property market has been one of the most obvious signs of the US economy's recovery following the 2008 financial crisis. Sales of previously-owned houses rose 2% to 5.6m in October.

Fri 23 Dec – **UK GDP** – The ONS publishes its final estimate of UK economic growth in the three months to September, the quarter following the Brexit vote. Its previous estimate was that the economy was 2.3% larger than a year ago.

Index Movements*

Index	Value	%Change
FTSE 100	6,999.01	0.97
FTSE 250	17,769.35	0.49
AIM	823.41	1.26
Dow Jones	19,852.24	1.21
S&P 500	2,262.03	0.71
Hang Seng	22,059.40	-3.51
Nikkei 225	19,273.79	2.71

Currency Movements*

Currency Pair	Value	%Change
£:$	1.24	-1.19%
£:€	1.19	0.68%
£:¥	147.10	2.56%

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

Sector	%Change
Media	5.2%
Autos & Parts	3.5%
Healthcare	3.5%
Construction & Materials	-1.5%
Insurance	-2.2%
Basic Resources	-7.8%

Best & Worst performing stocks*

Company	%Change
Sky	25.1%
ITV	8.3%
Centrica	7.5%
Randgold Resources	-7.7%
Antofagasta	-9.1%
Glencore	-10.1%

*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.