BREWIN DOLPHIN

The Week in Perspective

6 January 2017

Market Roundup

London equities started the new year with a bang, with the FTSE 100 hitting a fresh record on Tuesday and then again on Thursday, touching 7,206. The benchmark index has now risen by almost 25% since the EU referendum vote in June.

The shortened trading week started strongly on Tuesday. Banks including Lloyds Banking Group, Royal Bank of Scotland and Barclays all finished in the black after it emerged the Basel Committee on Banking Supervision postponed new rules on capital requirements.

Crucially this means that President-elect Trump, who is known for his anti-regulation stance, will now be involved in approving the new rules.

Mining stocks were also in the black as metal prices firmed following upbeat data from China - a major consumer of metals – with Antofagasta, Fresnillo and Glencore among the risers.

Next, Marks & Spencer and Dixons Carphone were weaker after data showed footfall on the high street fell nearly 13% nationwide at the weekend, while footfall at shopping centres was down 50%.

The upwards momentum continued on Wednesday after data showed an increase in construction output in December. On the downside, retailers were dragged lower by Next after it downgraded its full-year profit guidance and warned of another challenging year.

On Thursday the market rose once again with housebuilders performing best after Persimmon announced an 8% increase in revenues in 2016. The stock rose by over 7% by the close.

In early trade on Friday the FTSE 100 was down slightly as investors awaited the US non-farm payroll data due out later in the day.

Company Focus: Next

Next couldn’t offer any new-year cheer to its shareholders when it issued a trading update cutting its profit forecast for the current year after reporting a disappointing Christmas trading performance.

The clothing chain reported that its full price sales between 1 November and 24 December were down 0.4% on the same period last year. As a result, management said it expected profit before tax for the year ending 31 January 2017 to be £792m, towards the bottom end of its previously guided range.

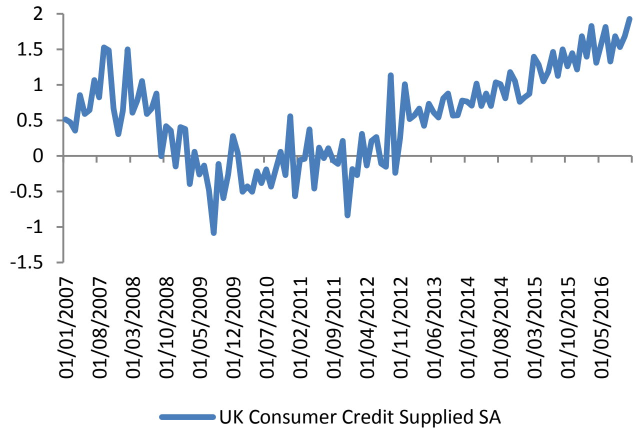
The company warned of a “challenging” year ahead as inflation begins to erode real incomes and household budgets come under pressure.

Next also cautioned that the devaluation of the pound could push up prices by 5%.This is expected to depress sales revenue by about 0.5%.

Profit before tax is expected to be between £680-780m, a decline of between 2% and 14% compared to 2015/16.

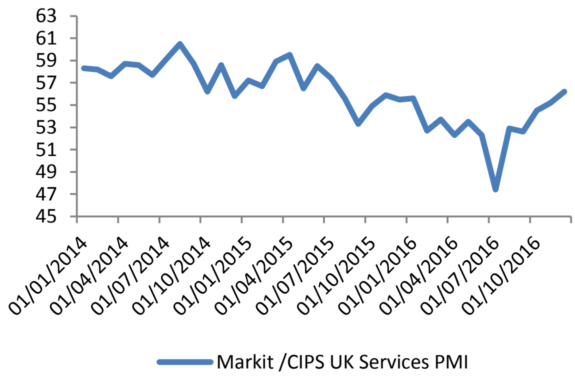
Next also declared it will pay four 45p special dividends during the year.

Chart 1: UK Consumer Credit Supplied SA, Bank of England



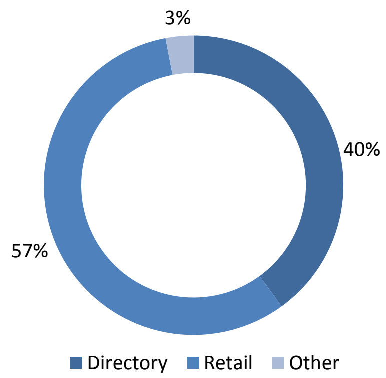
Source: Bloomberg Data at 06/01/2017

Chart 2: Markit /CIPS UK Services PMI



Source: Bloomberg Data at 06/01/2017

Chart 3: **Next** breakdown of profit, 31/01/2016



Source: Brewin Dolphin Client Note Data at 06/01/2017

Economic Roundup

It has been quiet on the economic front over Christmas and New Year, but there was some seasonal cheer with news that activity in the UK's manufacturing sector grew by more than expected in December, hitting its best level in over two years.

The boost was largely the result of the weaker exchange rate which helped increase exports, according to a survey released on Tuesday.

The Markit/CIPS services purchasing managers' index rose to 56.2 from 55.2 in November, beating expectations for a drop to 54.7. The index was above the 50.0 mark that separates contraction from expansion for the fifth consecutive month, signalling a continued recovery in growth following a contraction in July in the aftermath of the Brexit vote.

More good news came in manufacturing: the Markit/CIPS survey showed the manufacturing index up to 56.1 in December from 53.6 in November. Anything above 50 indicates expansion and economists welcomed the healthy growth.

The US also saw growth in its manufacturing sector, rising to 54.7 in December from 53.2 in November, helping justify the Fed's rate hike in December.

On Wednesday figures on the UK construction sector showed that it increased output for the fourth month in a row in December but the industry endured the strongest rise in input costs since 2011.

The Markit/CIPS Purchasing Managers' Index gave a reading of 54.2 for December, beating the consensus of economists' forecasts of 52.5 and up from November's 52.8.

Tim Moore, a senior economist at IHS Markit, said the survey data confirmed a solid rebound in UK construction output during the final quarter of 2016, with housebuilding providing the bulk of the growth. The commercial construction sector was the weakest in the data set, with performance blamed on subdued investment and economic uncertainty.

Economic activity in the Eurozone expanded at its fastest pace since May 2011 in December.

Markit's final composite output index rose to 54.4 last month from November's 53.9. This was ahead of the consensus and flash estimate of 53.9.

In other news, mortgage lending increased by less than expected in November but consumer credit – borrowing such as personal loans and credit cards - reached an 11-year high, Bank of England data revealed.

The total amount outstanding on credit-card debts had already hit a record high last October as consumers used plastic to fund shopping, but the latest data showed that borrowing rose by £1.9billion in November, the largest amount since 2005 and pushing the annual growth rate to 10.8%.

The boom has been encouraged by credit-card companies offering shoppers zero percent interest rates for periods of several years in a fiercely competitive market.

British households now have £67 billion of credit card debt outstanding.

Guy Foster, head of research at Brewin Dolphin, said: "While official interest rates have only moved once in the last six years effective interest rates have been steadily falling making borrowing easier and more affordable for many. While the economy has done relatively well, UK consumers' predilection for debt will limit the long term growth potential."

Company announcements that caught our attention this week

Date	Company	Comment
05/01/2017	**Persimmon**	In a full-year trading update, Persimmon said private sales in the second half of the year were up 15% from a year earlier. For the year as a whole, it completed the sale of 15,171 homes, a rise of 4%. Revenues climbed 8% to £3.14bn, while the average selling price of a home climbed 4% to £206,700. The housebuilder's net cash position is higher than expected at £913m, and Persimmon said it is continuing to see good opportunities to acquire additional land. At £1.23bn, the value of its forward sales at the end of December was 12% ahead of the prior year, so it is starting the new year in a healthy position. While this was a strong performance, there was no comment on the current state of the housing market in the statement. An assessment is promised in February.
04/01/2017	**Scot Inv Trust**	Scottish Investment Trust announced a 40.6% increase in dividends to shareholders when it published its annual results on Wednesday. The FTSE 250-listed trust announced a special dividend of 9p for the most recent financial year, after a period of strong income growth. If approved, the total dividend for the year will increase to 22.5p. The Edinburgh-based trust reported earnings per share up 36% at 21.6p from 15.9p the previous financial year. The global fund is managed using a high conviction, contrarian approach. The portfolio currently contains just 68 listed equity holdings. Alasdair McKinnon, who has managed the fund since February 2015, said: "A key strength of our contrarian approach is that it provides profitable opportunities in all market environments as there are always underappreciated areas of the market."

Key Company Diary Dates

Tue 10 Jan	Games Workshop	Half-year results
Wed 11 Jan	Ted Baker	Trading update
Thu 12 Jan	Barratt Developments	Trading update
Thu 12 Jan	Hays	Trading update
Fri 13 Jan	SIG	Trading update

Economic highlights over the next week

Wed 11 Jan – **Balance of trade** – The UK trade deficit in goods and services narrowed to £2bn in October, according to the last balance to trade figures from the Office for National Statistics. The deficit fell by £3.8bn after exports increased by £2bn and imports decreased by £1.8bn from the previous month.

Thu 19 Jan – **ECB interest rate decision** – German economists have been calling on the European Central Bank to raise interest rates after eurozone consumer prices rose faster than expected in December. Annual inflation in the single currency area climbed to 1.1% in December, its highest level since 2013, according to Eurostat.

Fri 13 Jan – **US consumer sentiment** – The University of Michigan's consumer sentiment index for the US rose to 98.2 in December 2016, the highest reading since January 2004. "An all-time record number of consumers (18%) spontaneously mentioned the expected favourable impact of Trump's policies on the economy," said Richard Curtin, the survey's chief economist. Will it continue this month?

Index Movements*

Index	Value	%Change
FTSE 100	7,195.31	1.05
FTSE 250	18,308.23	1.55
AIM	858.05	1.87
Dow Jones	19,899.29	0.40
S&P 500	2,269.00	0.88
Hang Seng	22,456.69	3.06
Nikkei 225	19,520.69	1.96

Currency Movements*

Currency Pair	Value	%Change
£:$	1.24	1.57%
£:€	1.17	0.50%
£:¥	143.49	0.78%

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

Sector	%Change
Telecoms	2.9%
Banks	1.6%
Healthcare	1.6%
Utilities	-1.9%
Technology	-2.3%
Retail	-3.8%

Best & Worst performing stocks*

Company	%Change
Fresnillo	14.2%
Persimmon	11.1%
Taylor Wimpey	10.6%
Rolls-Royce Holdings	-5.7%
Marks & Spencer Group	-5.8%
Next	-17.3%

*Weekly movements up until close of business Thursday