# Myths, margins and growth

Economic releases gained a heightened importance in the second quarter as the market tried to gauge the risk of over-heating and monetary tightening. By the end of June, however, a soft landing became an increasing reality. This belief in a US – and thus global – soft landing has started to shake the market from its recent torpor.

### *Stagnation*

The stagnation of equity markets in part resulted from a three-month rotation from TMT-inspired growth stocks to more value-based investment styles. This process came to a halt in June. The net result was to leave the market without any clear direction. But a soft-landing scenario will mean that once again a growth bias will be key.

Cyclical and commodity effects are currently at their peak in the US, Europe and the UK – yet, looking forward, only a series of mini-cycles and around-trend growth is in prospect for 2000 and 2001.

This apparently benign environment however disguises a more brutal reality – in an extended growth phase, the structural forces of globalisation, price-awareness and technology will come to dominate and they will be largely negative.

### *Increasing dispersion*

Consensus analysts expect companies to extract a growing level of profitability out of the GDP cycle but much of the recent developments (such as B2B and pricing pressures) argue that margins will not prove to be pro-cyclical. In fact, at a micro level, the dispersion of profit margins is set to increase.

The dispersion of profit margins has been rising in the UK for the last 25 years. This secular trend has been interrupted by cyclical forces but what is clear is that a significant demand shock is needed to reverse the process. Furthermore this dispersion has not been driven by the margins of the top decile of companies but the collapse of those in the bottom decile. The ability to use pricing or the cycle to reflate margins is being constrained by the macro environment.

Traditional defensives will succumb to the pricing pressures too. The best protection will come from stocks with stable margins but high volume growth. Behind the sidewards volatility in the market, a growth bias will be key. ■

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## INTERNATIONAL EQUITIES

These are a selection of issues announced recently. The details, updated to the middle of last month, were supplied by *IFR Securities Data, London* and other sources.

| Issuer | Amount raised (m) | Type of issue | No shares (m) | Offer price | Pricing date | Exchange listing | Fees (%) | Bookrunner |
|---|---|---|---|---|---|---|---|---|
| **Claims Direct** | GBP108 | IPO | 60 | GBP1.8 | | LSE | | Investec Henderson Crosthwaite (a) |
| *Comment: Claims direct personal injury specialist. (a) Sole adviser.* | | | | | | | | |
| **Deutsche Telekom** | EUR13,300 | S | 200 | (a) | 17 Jun/00 | New York<br>Tokyo<br>Frankfurt | | Deutsche Bank(b)<br>Dresdner Kleinwort Benson(b)<br>Goldman Sachs(b) |
| *Comment: German telecommunications company. (a) EUR66.50 institutions; EUR63.50 retail. (b) Global co-ordinators.* | | | | | | | | |
| **Granada Media** | GBP1,545 | IPO | 300 | GBP5.15 | | LSE | | ABN AMRO Rothschild(a)<br>CSFB(a)<br>Lazard(a)<br>Deutsche Bank(b)<br>Schroder Salomon Smith Barney (b) |
| *Comment: Media group. (a) Global co-ordinators. (b) Co-lead managers.* | | | | | | | | |
| **Robert Walters** | GBP135 | IPO | 79.9 | GBP1.70(a) | 5 Jul/00 | LSE | 4 | CSFB(b)<br>CSF Charterhouse(c)<br>West LB Panmure(c) |
| *Comment: Recruitment consultancy. (a) Excluding the greenshoe (b) Global co-ordinator. (c) Co-lead managers.* | | | | | | | | |
| **Telework** | GBP90.53 | IPO | 62.4 | GBP1.45 | 27 Jul/00 | LSE | | Dresdner Kleinwort Benson (a) |
| *Comment: Milton Keynes-based software company. (a) Global co-ordinators.* | | | | | | | | |
| **Turbo Genset** | GBP53.6 | P, S (a) | 4.1 | GBP13 | 4 Jul/00 | LSE | (b) | WestLB Panmure |
| *Comment: Ofex-listed high-tech engineering company. (a) Placing. (b) Average 2.2% fee.* | | | | | | | | |

*P = primary; S = secondary; IPO = initial public offering; D = demerger.*