FINANCIAL TIMES

THURSDAY 8 FEBRUARY 2018 | WORLD BUSINESS NEWSPAPER | UK £2.70 Channel Islands £3.00; Republic of Ireland €3.00

Political risk

Latin America faces a series of critical elections — BIG READ, PAGE 9

Social work

The enticing business of modern members' clubs — JOHN GAPPER, PAGE 11

Buy the dip?

Weighing up when it is time to step back into the market — PAGE 25

Zuma's grip on South African power loosens

South African President Jacob Zuma, left, seen yesterday with deputy president Cyril Ramaphosa — the man who replaced him as head of the ruling African National Congress and who now leads an effort to take over the country's presidency as well.

Allies of Mr Ramaphosa said the second day of transition talks were "moving in the right direction", with Mr Zuma agreeing in principle to step aside. "The details will follow," said one senior ANC official. Mr Ramaphosa said that both he and Mr Zuma were "aware that our people want and deserve closure", adding the face-to-face negations offered "the greatest opportunity to conclude this matter without discord or division".

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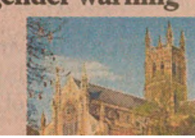
Briefing

▸ **Rio to issue biggest payout in 145 years**
The mining group has rewarded investors with the biggest dividend in its 145-year history and added $1bn to a buyback plan as profits surged due to higher commodity prices.— PAGE 11; LEX, PAGE 10

▸ **US lawmakers agree deal on budget**
Senate leaders have reached a bipartisan deal that will keep the government funded for two years, lifting caps on military and domestic spending and breaking a cycle of budget crises.— PAGE 7

▸ **Fresh Irish border skirmish over Brexit**
Ministers have clashed over the future of the Irish border after claims of Treasury "scaremongering" over the implications for the peace process of no deal.— PAGE 2; FOOD BOOST, PAGE 3; BANKS ALERT, PAGE 6

▸ **Christian investors in gender warning**
A $17bn group of churches, many of which have struggled with roles for women, have warned companies to appoint



Growth and profit fears leave UK stock market trailing global rivals

● Blue-chip index down 5.3% this year ● US and eurozone show strength despite turmoil

CHLOE CORNISH AND MICHAEL HUNTER

A rebound in UK equity markets, which yesterday posted their biggest gains since April, was not enough to erase the deep losses that have made London the worst performing major stock market in the world this year.

The benchmark FTSE 100 rallied 1.9 per cent to 7,279.42, keeping pace with gains in Germany and France, but is down 5.3 per cent for the year in local currency. New York's S&P 500 is up nearly 1 per cent this year despite this week's turmoil, while Paris's CAC index has dropped just 1.1 per cent. Japan's Nikkei is down 4.9 per cent, the closest to the FTSE's poor performance.

Yesterday's gains came a day after the FTSE suffered its biggest drop since Britain's June 2016 vote to leave the EU.

The 2018 slide reflects increasing concern about growth, with Britain becoming one of the slowest expanding large economies just as the US and eurozone recoveries show signs of enduring strength. Last year the UK expanded at its slowest pace since 2012.

"We're one of the few regions slowing in economic growth, whereas the rest of the world is the same or improving," said Caroline Simmons, deputy head of the UK investment office at UBS. "So that's not a great sign for companies that have exposure to the UK."

Analysts also point to jitters surrounding financial performance at British companies. Société Générale's monthly list of companies offering high dividends despite poor quality balance sheets was dominated by the UK. Of the 50 companies on the risk list, 21 are listed in London.

The SocGen warning comes after several high-profile profit warnings that have sent individual company shares plummeting, including subprime lender Provident Financial and, more recently, support services provider Capita. Last month, Carillion, the UK's second-largest construction company, collapsed under a huge debt burden.

While UK equities benefited from the plunge in the pound that followed the vote for Brexit, investors are turning a more critical eye on a market that was the least favoured among global fund managers, according to the latest survey from Bank of America Merrill Lynch.

Unlike the US, where the recently passed tax cuts helped fuel big gains before the three-day sell-off began on Friday, or Asia, where economies are fuelled by strong Chinese growth, the UK suffers a dearth of the big tech companies that helped power market gains.

The FTSE 100 gained 1.9 per cent yesterday but fund managers still view the market with caution

The London sell-off has been broad-based. Although the FTSE 100 has suffered the most, the FTSE 250, home to smaller companies more reliant on the UK economy, fell 5 per cent this year.

Some investors believe the weak showing from UK equities has thrown up opportunities. Neil Woodford, one of Britain's best-known fund managers, believes the economy will defy gloomy forecasts and that UK stocks look cheap.

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Stock markets pages 25-26

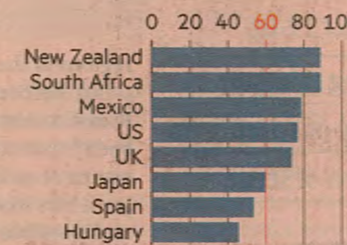
▸ Creditor closer to Four Seasons takeover
The second largest care home chain in the UK has moved closer to takeover, after the hedge fund that holds most of its debt agreed to inject a further £70m to enable it to keep operating.— PAGE 18

▸ Musk's heavy rocket impresses Pentagon
The Pentagon is eyeing the successful launch of Elon Musk's Falcon Heavy rocket as a way to erode the monopoly that has held sway over military space launches for the past dozen years.— PAGE 7

▸ Less efficient work drags on productivity
The ONS has said weak productivity growth in the past five years can largely be explained by workers switching from more to less efficient industries, such as from aviation to hospitality.— PAGE 2

Datawatch

Budget transparency
Index score, selected countries



Source: Open Budget Survey 2017

Three in four countries fail to provide sufficient public information on their budgets, scoring below the threshold of 60 laid down in an index compiled by the Open Budget Survey. Those publishing more extensive data include S Africa

Top London property sells at decade-high discounts

Buyers waiting for a bargain in the luxury London property market might think about striking now. Top-end

Merkel gives ground to revive grand coalition and end German stalemate

GUY CHAZAN — BERLIN

Angela Merkel ended months of political paralysis yesterday by reaching a deal for a coalition with the Social Democrats that awarded the centre-left higher spending on pensions and public services, and greater sway over the future of the eurozone.

The agreement to renew a "grand coalition" between Germany's two largest by the SPD's 460,000 members — the deal would close Germany's longest period without a government since the second world war and end a stalemate ushered in by September elections that saw both leading parties lose support.

The enhanced status of the SPD, which has called for a "United States of Europe" by 2025, could herald greater openness to French President Emmanuel Macron's ideas for reform- had dominated eurozone policymaking for the past eight years. But she praised the deal as providing a "good foundation for a stable government".

The coalition agreement also hints at a desire to poach financial services from the UK after Brexit. "In view of the upcoming exit of the UK from the EU, we want to make Germany more attractive for financial institutions," it says.

The appointments of Mr Schulz and