Look before you leap

We featured an article on renowned Bristol artist **Banksy** a few weeks ago. We were therefore amused to notice that a Canadian artist who calls himself **Bricksy** had started creating copies of Banksy works in **LEGO**. 'Well hung lover' is a well- known Banksy to Bristolians that appeared on the side of a building in Park Street, Bristol a few years ago. As the Bricksy character hanging from the window is still wearing his underpants perhaps he did not have time to get his LEGO-ver? However this creative use of LEGO did make us think what a classic example of a company that has successfully evolved over time to embrace changing technology and consumer habits. From the plastic brick launched in 1958 **LEGO** has developed into theme parks, computer games and this year's highest grossing box office hit - *The Lego Movie*. We constantly challenge ourselves when selecting investments looking **to see how we can access developing technological trends or how our investments may be affected by new technological developments**. A good example is the news last week that both **Samsung** and **Apple** had launched **wearable health monitoring kits** – we have already identified a UK quoted company that could be a beneficiary possibly in the longer-term from this new technology.

What are we watching this week?

Football. The World's largest sporting event has started. 15m apparently watched our 'honourable' defeat to Italy over the weekend. The Final on 13th July will be the single most watched event in the World. This year the global audience is expected to greatly exceed the 700m people from 2010. Elsewhere Janet Yellen will present the latest thoughts of the Federal Reserve on Wednesday. Tensions in the Middle East, notably Iraq, will remain in the spotlight and will likely impact the oil price and gold. The latter regained some safe haven demand, recently touching a two week high.

In the **UK** the spotlight fell once again on energy companies with **Ofgem calling on the big six to explain the impact of falling wholesale prices on tariffs**. The high levels of forward contracting means that the majority of wholesale costs the energy firms incur this winter are not winter 2014/15 prices but those bought forward over the last 2 years. Nonetheless, Ofgem's statement **will increase risk perceptions for Centrica and SSE ahead of the 2015 election**. BoE Governor Mark Carney used his mansion house speech **to remind us that the first interest rate hike could happen sooner than markets expect** which was surprising given the recent employment data appeared to remove fears of wage inflation. Most analysts have been expecting a rate rise in either Q1 or Q2 2015. House builders and property companies, not surprisingly, reacted negatively to the news.

An interesting bit of analysis landed on our desk from one of the research houses regarding the **performance of UK new issues**. This revealed that out of some **150 companies that have floated on the market (including AIM) over the last 18 months** that 105 are currently trading at a premium but that 44 or **almost 30% were below the issue price**. This also showed that those new issues over £100m market value had **delivered an average return of 18% compared to 14% from the FTSE 100**. However if dividends were to be taken into account then the performance would be pretty close and it is worth remembering that over the comparative period that **the FTSE 250 increased by 29%. As ever with the market it's not just about picking the right shares but equally about avoiding the bad ones as well**.

We continue to watch the oil price which has been driven up to over $113 (Brent) initially on Russian/Ukraine tensions but now developments in Iraq. OPEC has been meeting to discuss supply disruptions. Libyan exports have slowed to a trickle, Iran has yet to agree a final bargain on sanctions with the West while Iraqi production has increased only marginally and Islamist militants have taken control of Iraq's second city Mosul. Saudi Arabia, OPEC's biggest producer, will 'have to go some' to make up any shortfall. **Oil remains key to continued global economic recovery** as a higher oil prices hits both the consumer (filling petrol tank) and companies (raw material costs/energy bills).

The **UK recovery** is not fuelled just by the housing market and consumer spending as industrial output data confirmed the optimism reflected in recent months in business sentiment surveys. The UK labour report for April showed the biggest increase in employment on record. **Sterling advanced to a 18 month high against the Euro** after the employment data and Mark Carney's interest rate comments, so as we've suggested before, the currency headwinds are not disappearing anytime soon for UK manufacturers/exporters/overseas earners.

In **Europe** politicians continue to express their views following the ECB meeting. Chancellor Merkel re-iterated the point that **the policy stimulus has not ended the region's crisis**, implying that governments still have more to do. However the aggregate industrial production data for the Eurozone provided some encouragement.

In the **USA** wholesale inventories in April were ahead of forecast and this no doubt reflects an element of re-stocking by US companies after the weather impacted first quarter. Retail sales in May were slightly light of expectation but April was revised upwards.

In **China,** CPI inflation increased to a 4 month high of 2.5% driven by higher food prices. The PBOC cut the required reserve ratio for financial institutions. With economic indicators pointing in different directions with positive PMI readings and exports but sluggish property investment the **government may wait for signs of a sharp downturn before introducing broad based stimulus**.

Global equity markets appear due a pull back with RSIs (relative strength indices – technical share price momentum measure) at fresh peaks in many markets such as the USA. **The World Bank cut its global growth forecast for 2014** from 3.2% to 2.8% although a large part of this was the USA which was reduced from 2.8% to 2.1% after the weak weather affected Q1. Despite European market indices at new highs with the German DAX over 10,000 it's not all plain sailing or flying for that matter. **Lufthansa came out with a major profit warning** citing excess capacity on European and American routes which in turn negatively affected sentiment towards **International Consolidated Airlines** and **Easyjet** within the FTSE 100. What the airlines won't want is any further rise in the oil price.

And finally…The World Bank has said that now is the time to prepare for the next crisis. I suspect they didn't have football in mind. A note of caution - go careful with your goal celebrations. Please don't copy England physio Gary Lewin's example. In a freak accident following Daniel Sturridge's goal he managed stand on a water bottle, dislocate his ankle and had to leave the pitch on a stretcher. He is now heading back to the UK!

Further information about Alpha Portfolio Management, our products and services, please email info@alpha-pm.co.uk or call us on 0117 203 3460.

This publication is for informational purposes only and should not be relied upon. The opinions expressed here represent analysis by an Alpha Portfolio Management representative at the time of preparation and should not be interpreted as investment advice.
You should seek professional advice before making any investment decisions. The past is not necessarily a guide to future performance. The value of shares and the income from them can fall as well as rise and investors may get back less than they originally invested. Any tax reliefs referred to are those currently applying. Tax assumptions may change if the law changes and the value of tax relief will depend upon individual circumstances. All estimates and prospective figures quoted in this publication are forecast and are not guaranteed. Alpha, its associate companies and/or their clients, directors and employees may own or have a position in the securities mentioned herein and may add to or dispose of any such securities. The sender does not accept legal responsibility for any errors or omissions, in the context of this message, which arise as a result of internet transmission or as a result of changes made to this document after it was sent.

Alpha Portfolio Management is a trading name of R C Brown Investment Management PLC who is authorised and regulated by the FCA.
Registered Office: 1 The Square, Temple Quay, Bristol, BS1 6DG. Registered in England No. 2489639