

Alpha Bites...bites sized bits of information



NIL POINT



We will let our loyal readers decide for themselves whether the popularity of last weekend's Polish Eurovision entry was based on the quality of the song, the multicultural nature of the UK or the fact that the act featured a number of attractive female performers, dressed as milk maids, who suggestively churned butter and washed laundry on stage. Nevertheless, it did prove popular with UK viewers who gave Poland's entry top marks but, sadly, the UK jury thought they were the worst act of the night. Result? Nil points. Which got us thinking. **Is the City a bit like Eurovision?**

AstraZeneca  We are not referring to the winner, a man with a beard in a dress although one former fund manager famously made a court appearance dressed as a woman! No we are thinking of shareholders, management teams and Government intervention. The Board of Astra Zeneca have consistently rebuffed Pfizer's approach as it feels it does not fairly reflect the true value of its longer term drug development pipeline. However politicians have now become involved due to concerns over job security with Labour demanding a public interest test. Is there an election looming? **Surely the fate of a company should ultimately rest in the hands of its shareholders?** They, not politicians must decide between the attractions of receiving cash in hand now against the longer term rewards that they may be forgoing if they do so. If today's price reaction to the "Final Offer" is anything to go by, neither shareholders nor politician may get the option as Pfizer appears to have walked away. However, multi-billion pound bids are likely to continue to be a feature of the market.

What are we watching this week?

 We have highlighted currency headwinds in previous Alpha-Bites. **The BOE is clearly worried about Sterling's strength hampering re-balancing the economy towards an export driven recovery.** At the BOE press conference there was a clear attempt to talk Sterling down which seems to have worked with the £/\$ down from its peak to \$1.675. Mark Carney said that while the UK has **edged closer to a point where interest rates would need to rise, he indicated that this remains some way off. Any increases would be gradual and the rate may stay at historically low levels for some time.** This appeared to help some interest rate sensitive sectors of the UK market. Interestingly, veteran fund manager Neil Woodford at his new fund roadshow has taken a contrarian view suggesting that the UK economy is even more unbalanced (housing/consumer/debt) than before and cannot withstand interest rate rises until much further down the road. Mark Carney has again expressed concerns about the housing market and it looks as if the Help to Buy Scheme will be amended.

The other main feature of the week in the UK was special dividends with Taylor Wimpey flagging higher cash returns and Compass announcing a £1bn special dividend. The FTSE 100 doesn't appear in any mood to go down at the moment despite the escalating crisis in the Ukraine. However the **FTSE 100 has been supported by positive developments in three major sectors** – **Oil** (higher oil price/Ukraine and Shell positive update), **Pharma** (Astra/Pfizer bid approach) and **Mining** (hopes of cash returns). The rest of the market particularly FTSE250 and Small Cap which are exposed to currency headwinds are still seeing profit downgrades as illustrated by Renishaw, and last week saw something of a selloff in those companies with stretched valuations.

 In **Europe** sentiment was helped by reports of **more re-assuring noises from the Bundesbank** confirming its full support should the ECB choose to deliver further policy stimulus. Corporate news from the likes of ThyssenKrupp and Airbus remained supportive.

 In the **USA** the Dow and S&P touched new all-time highs albeit the advance is gradually becoming narrower. However US retail sales data for April tempered some of the recent positive views about a consumer led recovery.

 In Asia, Japan revealed stronger than expected Q1 GDP albeit ahead of the sales tax while in China inflation was at an 18 month low which seems to leave the way clear for further stimulus if necessary which no doubt helped global mining companies.

Despite global equity indices challenging recent or all- time highs, investors remain cautious with a BoAML **monthly forward looking survey showing fund managers in a generally more defensive mode**. Cash levels are rising and overweight positions in global equities are being reduced. We continue to focus on companies with strong cash flow in the belief that this will provide share price support in any selloff while hopefully we may see more special dividends.

 Next year's Eurovision is being hosted in Austria but before you ask the Alpha team will not be submitting an entry dressed in lederhosen (that conjures up a horrible mental image!)

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