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ALPHA

PORTFOLIO MANAGEMENT

It's just not cricket!

Yes it's that time of year again when Simon Cowell discovers a new star to perform in front of the Queen but not one who is necessarily British. The Britain's Got Talent 2013 series was won by Hungarian artists Attraction, albeit with a very patriotic performance. The 2014 BGT series seems to have followed a similar path with a number of non –British acts reaching the semi-finals ranging from a Canadian magician and Ukrainian dance troupe to a 79 year old dancer and her much younger dance partner who live in Spain. Which got us thinking that perhaps the Stock Market is not too dissimilar? **In the FTSE 100 there appears to be a fair sprinkling of non -British businesses** such as Coca-Cola HBC, CRH, Mondi, Antofagasta, Randgold and Fresnillo. Non-British participants in our talent shows and blue chip index? What would Nigel Farage say? It's just not cricket!

What are we watching this week?

Mega bid activity is still order of the day although in two cases (**Pfizer/Astra Zeneca and Weir/Metso**) the **defending management teams have rejected the approaches. Smith &Nephew** shot up 17% in a matter of a minute or two on an FT story of an imminent bid from Stryker which was promptly denied with the price falling back to its starting point almost as quickly as it went up. However Stryker said it reserved the right to participate in an offer keeping its options open six months from now. **We are continuing to see a tidal wave of new issue activity** despite the relatively lukewarm reception by fund managers to recent new issues. The latest offerings include **Clipper Logistics**, **B&M**, **River & Mercantile**, **Zoopla** and the **TSB Bank** with v**aluations still look pretty punchy in many cases. TSB Bank** looks to be very sound financially and is being floated at a decent discount to other UK banks at possibly 0.85x-1x book value although it **is unlikely to be in a position to start paying dividends until 2017**.

In the UK the Nationwide building society **warned that the London housing market may face a natural correction** pointing out that there was already a slowing down in the market place. It also raised concerns about building societies funding channels next year with the launch of the £10bn NS&I pensioner bonds. Elsewhere MPC member Martin Weale warned that the BOE needs to start raising interest rates sooner rather than later. Despite this Sterling remained close to a six week low against the US Dollar. **House builders re-acted negatively** to the interest rate comment. The DIY home improvement sector which has been strong on the back of housing was also hit and this was exacerbated by comments from **Kingfisher** (B&Q) on margin pressure with deep discounting on kitchens which in turn affected sentiment towards **Travis Perkins** (Wickes), **Home Retail** (Homebase) and **Howden Joinery**. Elsewhere, Mining stocks were under pressure as **iron ore** slipped below $100 a tonne for the first time in 20-months. While the long-term Chinese

urbanisation story is still intact debate currently centres around new seaborne supply coming on stream from Australia and Brazil against the closure of high cost Chinese domestic producers.

 **In Europe anti- establishment and euroskeptic parties** won 143 seats or about 19% of the European parliament **with these winning first place in France, UK, Greece and Denmark**. Many parties in government fared poorly in the face of such voter discontent. While the extremists have little in common to unite them in Strasbourg the likely policy impact will come from national governments who may feel compelled to strike a more popular tone. Both **France and the UK have already called for EU reforms**. All eyes therefore now on Mr Draghi and the ECB to address the economic problems in Europe the main cause of voter discontent. At a meeting of European central bankers Mr Draghi **flagged interest rate cuts and stimuli for small company lending a**t the start of June. Whether this will be sufficient to tackle disinflation remains to be seen and may fall short of some wider hopes for more full blown QE. Nonetheless, in anticipation of some action by the ECB, bond yields moved lower with Spain's 10 year benchmark bond yield hitting a new low (the lowest since 1789!). EU economic sentiment indicators for May showed continued gradual improvement across the region touching a three year high.

 **Tensions in the Ukraine continue to rumble on** with the new President committing to stepping up actions against the separatists in the east of the country.

 In the **USA the S&P closed at another all -time high** albeit in thin volume and despite revised Q1 GDP of -1%. **The S&P trailing earnings ratio is 19x against a long term average of 17.5x. Furthermore S&P call options are at a 5 year low** suggesting the **options market is not seeing a lot of upside potential**. Having said this **economic data is still supportive of a recovery in the US economy** following the weather impacted weak Q1. Durable goods orders expanded greater than expected while consumer confidence also edged up.

 In Asia, the main regional benchmark closed at a six month high with Chinese companies boosted by a report showing industrial profits up by 10% so far in the current year. China's May manufacturing PMI hit a 5-month high ahead of expectations. Japanese retails sales dropped by over 4% in April as the sales tax began to take effect.

Market volumes were very subdued last week with half term and bank holiday in the UK and Memorial Day in the USA. **This week the focus will be on Mr Draghi and the ECB and possibly a British winner of Britain's Got talent on Saturday evening?**

If you wish to discuss any aspect of this newsletter, please do not hesitate to contact us.

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