



ALPHA BITES Rovers Return?

Half of the City in mourning this week at the relegation from the football league of Bristol Rovers

Post the weekends trauma - what are we watching this week?

Tough times ahead for the 'Gas' and a tricky start to the week for the rest of Europe. With the UK market taking an extended weekend holiday we start the week with ongoing uncertainty about escalating violence in Ukraine and weak Chinese data - HSBC manufacturing index still in contraction territory has **kept the risk appetite subdued**. Gold is trading close to a three week high.

 Following disappointing Q1 GDP the **US is clearly showing the economy re-bounding** from the severe weather at the start of the year with very strong non-farm payrolls for April and a very positive reading for ISM non-manufacturing. One would expect the \$ to rally on this data but this morning **the £:\$ is 1.695 creating more headwinds for UK exporters** and overseas earners at a time when share ratings still require earnings upgrades. One possible reason could be the weekend press which featured a lot of comment on the BOE restraining mortgage lending in the housing market. Most economists still expect a rate rise in Q1 2015.

Profit warnings are still coming thick and fast with Balfour Beatty this morning which, had been expected to be benefiting from an upturn in the UK economy and construction activity. This looks like a company specific issue, the CEO is going and a potential sale of its Professional Services business which was only acquired in 2009 is being considered.

 Turning to **Europe, deflationary concerns remain** with the European Commission having lowered its inflation expectations for both 2014 and 2015. Mr Draghi is set to reiterate the dovish message at Thursday's ECB press conference although this appears built into market expectations. The IMF also warns that the rally in the Eurozone bond market could end in disappointment with yields assuming the region's recovery is glitch free.

 In **China concerns about the property sector and shadow banking** continue to refuse to go away with one major London broking house downgrading its 2014 and 2015 GDP estimates slightly to 7.3% and 6.8%. The FT also highlights that a survey of smaller Chinese banks shows non-standard credit products in 2013 were 23% of their assets compared to 1.7% for Hong Kong quoted larger Chinese banks.

The main positive feature however remains **the mega –bids** with Pfizer and Astra Zeneca filling most of the financial press. A major UK broker has highlighted that **US companies are sat on \$1.64trillion of cash overseas** and that due to high US equity valuations that share buy backs are less attractive while as per the Pfizer situation there are tax advantages to overseas acquisitions. Even Warren Buffet at the Berkshire Hathaway convention has told shareholders that far from returning cash that it is in the mood for a \$50bn deal.

Avoiding the ‘mines in the minefield’ is just as important as picking the winners at the moment. We **continue to focus on businesses with strong cash flow** given that these can weather challenging trading conditions and are more likely to attract the attention of potential acquirers if business confidence particularly in the USA and UK continues to improve.

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

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