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Consumer & Technology Sectors Look to Continue Strong Showing in 2015

Writing in this publication early in 2014, I commented on some of the trends that had underpinned the performance of the London capital markets in 2013. Notable amongst these was the strong showing of technology which had been the stand out sector in what was a good year overall for London's capital markets.

A quick look at the LSE's market statistics for 2014 reveals that the technology sector continued to perform well in 2014 thereby consolidating on the gains made in 2013. For example, on AIM, technology and telecoms companies accounted for 18 out of 118 new issues (15%) and if you add biotechnology companies and technology-based business support service companies to this, the figure is over 20%. Technology companies also now represent over 20% of the largest AIM companies by market capitalization. Whilst the 2014 numbers are not quite as strong as they were in 2013, they are nonetheless a clear sign that the sector has re-established a strong platform on the UK's public markets and continues to be one to watch as we move through 2015.

Elsewhere, the consumer sector also produced a strong showing in 2014 and was perhaps the star performer of the year with both the goods and services sub-sectors contributing to this. The sector was particularly well represented at IPO accounting for 32 out of 118 new issues on AIM (27%) raising over GBP1.1billion along the way. Whilst on the Main Market the sector raised an impressive GBP5.7billion from new and further issues combined.

In light of the above it is perhaps not surprising that there were several IPOs by companies spanning the technology and consumer sectors, particularly in the e-commerce space. These included AO World (online kitchen appliance retailer), boohoo.com (online fashion retailer), Just Eat (online takeaway ordering service), MySale Group (online b2b inventory sales platform) and Koovs (online Indian fashion retailer). These companies raised an aggregate of GBP1.3billion in 2014.

In a February 2015 investor bulletin Blackrock tipped technology as one of their overweight picks whilst also noting that they anticipate the current low oil price environment will have an ongoing positive impact on the global consumer sector which seems to support further good news for these sectors ahead.

So having shone in 2014, can these sectors continue this good performance in 2015? And if so, what will be the key drivers of these sustained levels of sector activity?

- For the technology sector a number of key themes have accounted for much of the recent growth in the sector and seem set to continue to do so this year. These include cloud computing, big data, analytics and the internet of things (IoT).

- Fundamentally, many companies in the technology sector are still characterized by their readily scalable technologies and business models relative to those in more traditional and/or capital intensive sectors. As such, they are seen as attractive propositions in an environment where debt remains significantly constrained.

- For the consumer sector the key global themes driving growth continue to include the growing depth and affluence of the middle classes in emerging markets coupled with the increasing affordability and enhanced accessibility of the consumer experience being driven by technology and in particular mobile smartphone penetration.

- As demonstrated by some of the IPOs cited above, the growing use of technology to drive scalable e-commerce enterprises has also been a key driver of growth in the consumer sector as online players continue to challenge the high street and more high street players move online. Again it is difficult to see this trend reversing. Moreover, continuing improvements in e-payment platforms should further support e-commerce players.

- Of course, to some extent, the popularity and performance of the consumer and technology sectors on the London markets has also resulted indirectly from problems elsewhere. One obvious benefit has been the fall from grace of other, previously popular, sectors, most notably, mining and resources which have been out of favour – at least for new issues – for some time now. With this state of affairs looking unlikely to change in the short term it augurs well for other sectors generally.

- The ongoing malaise in commodity prices has had a similar effect and more recently the drop in oil prices has further exacerbated this effect and on current estimates this looks set to continue. Again, this will force investors to look elsewhere to deploy their funds.

- Finally, on a more general level, relative to the majority of the Eurozone economies the UK has recovered well in recent years and this recovery has supported both an uptick in equity capital market investment and consumer spending which has helped both sectors to rise.

So, having looked at some of the factors that should support continued positive performance in the technology and consumer sectors for the remainder of 2015, it is worth pausing to consider whether there are any forces at play that might arrest this progress. A number come to mind.

- Firstly, in the UK context one obvious factor is the impending general election. Typically, during the period in the run up to an election investment activity slows as people adopt a wait and see attitude whereby they put off important spending decisions until they have better visibility of the longer term metrics. On the flip side those looking to raise funds may try and push deals through if they fear a less receptive environment post-election. Given the uncertainty surrounding the outcome of the vote in May (and indeed the ensuing landscape at Westminster) it is likely that both of these considerations will come into play. However, whilst we may see some short term uplift from deals being accelerated, the potential adverse effect of a hung parliament or weak coalition could be more telling on overall performance in the year.

- Economists are increasingly of the view that the continued prevalence of quantitative easing (QE) and the low interest rate environment that QE supports is now doing more harm than good. In particular, the lower carrying cost of underperforming businesses and/or assets tends to militate against the need to dispose of such investments in favour of new projects, causing stagnation and a stifling of innovation. For the technology sector in particular, with its heavy dependency of innovation-led growth, this could be particularly damaging.

- Continued instability in the Eurozone may also have an effect. Whilst the ECB's extensive purchasing of Eurozone sovereign debt in the wake of the GFC did much to prevent a short term collapse it has not addressed the more fundamental structural problems that led Greece, Spain, Ireland and others into difficulty. As such, these issues remain to be resolved and the price of doing so may be further significant reductions in domestic demand within the Eurozone countries. Needless to say, this is likely to impact consumer sector companies in particular.

- We should also not lose sight of the fact that, notwithstanding the good performance of the London capital markets in 2013 and 2014, we continue to be in a period of relative economic fragility with lackluster performance levels compared with previous boom periods. For the reasons stated above this is unlikely to change in the short term such that competition for both investment and customers will remain tough. With high levels of government debt in many developed economies it will also remain difficult to stimulate domestic demand via public spending. Again, this is likely to be negative for consumers.

- Finally, it is worth noting that the continued success of these sectors on the London capital markets may, to some extent, depend on the origins of existing and aspiring issuers and the location of their present and future customer markets. Those with a heavy reliance on a US or European customer base may find it harder to maintain growth compared with those selling to emerging markets typified by growing middle classes and increasing levels of consumption – albeit from a lower base.

So, in summary, both sectors had a good year on the London capital markets in 2014. The technology sector continued to perform well on the back of a strong showing in 2013 although it fell back somewhat from its 2013 levels in terms of market share. Meanwhile the consumer industry, which had a more modest time in 2013, came through well and swallowed up much of the ground lost by the technology players. As 2015 unfolds, the early signs are that both sectors are capable of turning in a repeat performance, although there are a number of clouds on the wider economic and political horizon that have the potential to drop challenges in the way of this. In the short term the UK elections will be an obvious bellwether for consumer and investor sentiment for the remainder of 2015 whilst wider macro-economic issues continue to pose a more serious threat.

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