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The Great Migration

Yes, it is that time of year again, with the start of the great migration. No, not families heading off to Cornwall, nor the movement by investors from bonds into equities but **the Great Wildebeest Migration**, which is one of the "seven wonders of the natural world".

Nowhere in the world is there a movement of animals as immense as the wildebeest migration, over two million animals migrate from the Serengeti National Park in Tanzania to the greener pastures of the Maasai Mara National Reserve in Kenya during July through to October. The migration has to cross the Mara River where crocodiles will prey on them. Once across and in the Maasai Mara they will be hunted, stalked, and run down by the larger carnivores.

Which reminds us that investment is also a long journey with many obstacles in the way and that investors can sometimes adopt a herd mentality. While there is safety in a herd following everyone one else is not always the best course of action. A portfolio contains a range of investments and like a herd of wildebeest the aim is to get all of these safely through the long journey to a pre-determined point. Typically in the herd it is the young, old or lame that fall behind in the herd that are most vulnerable to predators. We therefore constantly monitor the health of our investments to ensure that not only do all our 'wildebeest' survive the journey but that none lag at the back of the herd.

What are we watching this week?

Markets have continued to see thin summer trading volumes but **have become more cautious with European woes back to the fore focusing on the health of periphery banks** and the French economy. Safe haven assets have remained in demand with gold hitting a four month high of $1,345 while German Bund yields fell to 1.17%, the lowest level since early 2013. The developments in the Portuguese banking sector are a reminder for those fixed interest investors who have chased bond yields down in the periphery countries to record lows that **Eurozone debt is still a threat to recovery.**

In the **UK manufacturing output recorded a surprise 1.3% decrease** in May. While this may have reflected the relative lateness of Easter this year it nonetheless calls into question just how strong the balancing of UK growth really is. The British Retail Consortium announced that **UK shop prices fell at their fastest pace since 2006**. In some ways **this should not come as a surprise given the fierce price competition amongst supermarkets** and growth of food and general discounters such as Aldi/Lidl. Despite the general improvement in the UK economy it is **the value for money sector which is winning**. Last week we highlighted the 26% increase in London house prices over the last 12 months. This was better reflected in an article in the Evening Standard showing a garage near the Royal Albert Hall which is up for sale for £500,000 making it one of the most expensive places in the world to park a car. A clear sign if one was needed that the London property market may be overheating!

German industrial production fell by 1.8% MoM in May, the biggest such decline for two years. **France and Italy also fared badly** with falls of 1.7% and 1.8% respectively. Elsewhere in Europe, **Air France –KLM issued a profit warning** and like Lufthansa a few weeks ago mentioned weak freight volumes and overcapacity on a number of core routes. The main shock out of Europe however came from Portugal. The parent company of **Portugal's largest lender** Banco Espirito Santo **delayed coupon payments relating to some short term debt securities**. The market has suggested a €2-3bn capital shortfall that may require state intervention. This highlights the problems of early bail-outs whilst the economy, the public finances and the banking system are in a shaky state. It has raised concerns about the health of banks in weaker Eurozone countries and will sharpen minds ahead of the latest European bank stress tests due in October.

In the USA the Fed minutes revealed more details about the exit strategy from extraordinary policy stimulus. **Asset purchases will end as scheduled in October**. Many members expressed a preference for the current approach of announcing a target range for Fed funds when rates begin to rise. The **overall assessment of the US economy remained dovish** and there was **no suggestion that the tightening phase with interest rate increases would begin any earlier than mid-2015**. The £/$ held around $1.71.

The main focus is now on the US second quarter earnings season which got off a re-assuring start with a forecast beating set of results from Alcoa. However some uncertainty remains as US corporate profits have reached record highs relative to GDP, turnover growth is hard won and may now require an increase in capital expenditure.

Chinese inflation eased slightly to 2.3% YoY in June and as usual food prices were the main factor. China's trade data for June showed exports up 7.2% slightly light of forecast although imports returned to positive territory. The authorities retain the scope to provide selective monetary policy stimulus which sounds as if it is still required.

In summary, sounds like a good time to go on holiday! For those of you "up north" who are heading down to Cornwall this summer in the great migration, don't forget to set off early to get past the M4/M5 interchange and across the River Avon, which is the wildebeest equivalent of the Mara River. Oh, and once across don't forget to keep a sharp lookout for the larger carnivores - unmarked police patrol cars.

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

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