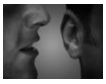
The Bristol Crocodile...snapped!

Loch Ness has 'Nessie', the Americans have 'Big Foot' and apparently Bristol has, 'the crocodile'. For all of you who have suspected for years that Bristolians and cider was not a good combination then perhaps this is the proof you have finally been seeking. Various 'sightings' have prompted a local wag to put up the attached warning sign beneath the Clifton Suspension Bridge.

When it comes to the stock market there is nothing to get imaginations running wild and stoke share prices like a good rumour. Which reminds us of perhaps one of the most famous incidents - Nathan Rothschild and the battle of Waterloo. Through his network of spies he had news of the outcome of the battle. Arriving at the Exchange amid frantic speculation he took up his usual position besides the famous 'Rothschild Pillar' emotionless and expressionless and started to sell and sell and sell as prices kept on falling. Word began to sweep through the Stock Exchange: 'Rothschild knows.' 'Rothschild knows'. 'Wellington has lost at Waterloo.' After several hours of feverish trading and prices having collapsed and on a cue from their boss, dozens of Rothschild agents made their way to the order desks around the exchange and started buying for just a 'song'. A short time later the 'official' news arrived in London that Wellington had won the battle of Waterloo and markets soared and the rest as they say is history.



While, we also enjoy a good rumour, we tend to buy companies on fundamentals in the belief that these could prove attractive one day to a larger predator if the market fails to appreciate the true value of the business.

What are we watching this week?

Market trading volumes remained very subdued, a reflection of summer holidays and geo-political uncertainties (Ukraine, Gaza, Iraq). However, **continued ultra-loose monetary policy by the main central banks, positive US company results and speculation that the Chinese government will do more to support economic growth have remained supportive of markets.**

In the US about a third of S&P 500 companies have now reported second quarter earnings and about three quarters of these have surprised to the upside. It was therefore not surprising that the S&P 500 touched a new – intra-day high. **In the UK** reporting season by comparison, **most management teams appear cautiously optimistic about meeting full year forecast expectations but are continuing to flag a degree of caution due to the strength of Sterling.**

Dividend payments by UK companies slowed to just 1.2% in the second quarter due to the strength of Sterling. However this needs careful interpretation as growth was restrained by the fact that of the top fifteen FTSE 100 constituents which accounted for over three-fifths of the second quarter's dividends, eight companies saw their pay out decline. Against this some sectors such as property, house builders and consumer services reported better than average dividend growth while in addition special dividends in the second quarter increased by 3.2%.

The **Tobacco sector came under pressure from an adverse court ruling** in Florida against RJ Reynold's with a potentially staggering $23.6bn settlement arising from a lawsuit filed by the wife of a smoker who died from lung cancer. The case is being appealed and last time something similar happened in 2002 to Philip Morris USA in a similar case, an initial fine of $28bn was reduced to $28m on appeal. However it could get the ambulance chasers going. **Food Retailing, Tesco** announced the departure of CEO Philip Clarke and appointment of new CEO Dave Lewis, a Unilever divisional director. New face but same problem in that does Tesco require a further gross margin reset? The **Pharma** sector was dragged back by **Glaxo** where Q2 results were behind already pretty low expectations with the lack of top line growth still a challenge. Political risk also came to the fore again with the **Gaming sector under pressure as Labour threatened to hike gaming taxes if it won the general election.**

In the **UK** the BoE minutes showed a 9-0 vote to hold interest rates at 0.5% given the relative weakness in wage growth and stated that **the risk that a rate rise would destabilise the economy are diminishing**. However, Mark Carney also said '**History shows that the British people do everything to pay their mortgages. That means cutting back deeply on expenditure whenever anything unexpected happens**. If a lot of people are highly indebted this could tip the economy into recession'. For which read after the first rate increase that further increases are probably going to have to be gradual and baby steps to avoid rocking the boat.

In **Europe,** there was **slight disappointment in France** where manufacturing sentiment came in slightly below expectations. However the **European composite PMI beat forecasts for the thirteenth month of expansion** and the strongest since May 2011. Outside of France and Germany, the rest of the region recorded the largest monthly increase in business activity since august 2007. **New orders also grew at the fastest rate for seven years.**

In the **USA**, the **latest benign inflation data appeared to ease the concerns** that the Fed is getting 'behind the curve'. Core consumer prices edged up only 0.1% in June to 1.9%.

Emerging market countries borrowed a record sum in the first half of 2014 of $69.5bn up 54% on the same period last year according to Thomson Reuters. Re-financing shorter term debt at times of low interest rates makes sense but the **quality of issuance has deteriorated** and **that has to be something to worry about**. Elsewhere, the deadline of the 30th July for Argentina is approaching. This as we featured some weeks ago is the deadline to make interest payments on its restructured bonds. This has been blocked by a New York judge unless it also pays its 'holdout' creditors in full which could result in the country's second biggest default in thirteen years.

Standard Chartered Standard Chartered bank estimated that **China's debt to GDP reached over 250% at the end of June placing it second behind Japan with 415%.** We continue to watch for problems in the Rmb 3trillion high yield sector where lots of maturities are due over the next 12-18 months with potential defaults possible in areas such as steel and chemicals with the Chinese authorities likely to continue to be selective about which companies they help.

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

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