THOMAS MILLER INVESTMENT

Investment Commentary

September 2018

Recent economic developments

■ While economic reports over the past few months have been mixed, the broad-based improvement relative to a soft Q1 2018 was illustrated by a recent report from the OECD. The report showed that the pace of economic growth picked up across the OECD area in Q2. Provisional estimates showed that growth of real GDP across the OECD area rose to 0.6% in Q2 from 0.5% in the previous quarter.

■ As previous economic data has confirmed, the bulk of the increase in economic activity has been in the US where OECD's data showed acceleration in growth to 1% compared to 0.5% in the preceding quarter. The recovery in Japan was also notable as growth rebounded to 0.5% following a contraction of 0.2% in Q1. To a lesser extent, growth also picked up in Germany (from 0.4% to 0.5%) and the UK (from 0.2% to 0.4%). The growth rate was flat in France (0.2%) and the Euro Area as a whole (0.4%). On an annual basis, the US recorded the best performance (2.8%) while Japan recorded the slowest annual growth (1.0%). In the second quarter, annual growth slowed to 2.5% from 2.6% for the OECD area as a whole.

■ The chart below compares GDP growth data over the first two quarters of 2018 for selected countries and regions.

■ Looking ahead to the next 6–12 months, the evidence from a range of leading economic indicators points to muted, if any, improvement in the pace of economic activity from current growth rates. Indeed, composite leading indicators published by the OECD show signs of easing growth momentum across the OECD area.

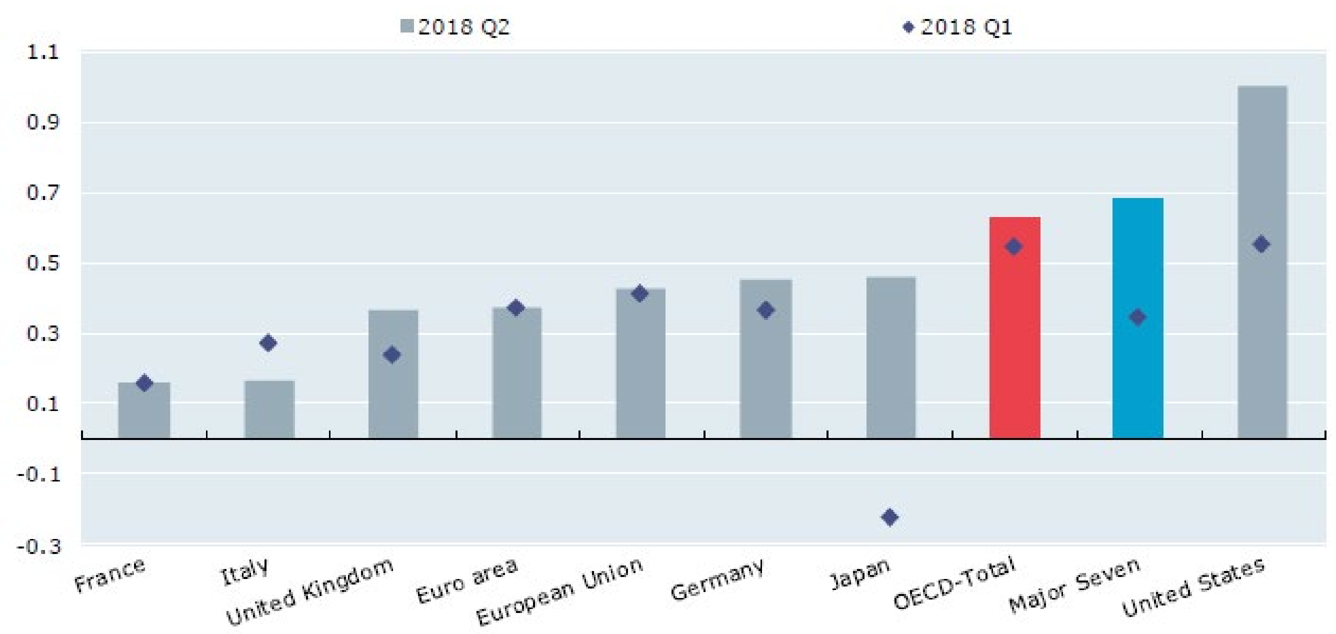
■ In the US, the short term boost from fiscal stimulus (recent tax cuts and increase in government spending plans) will fade in the months ahead. In the UK and the Euro Area the uncertainty surrounding Brexit will continue to take a toll on consumer and business sentiment. From a global standpoint, the risk of further escalation in the ongoing tit-for-tat imposition of trade tariffs between the US and its major trading partners introduces further negative skew to the distribution of probable outcomes.

Financial market developments & asset allocation summary

■ On the whole, financial market performance in August was weak, with the notable exception of the US where the S&P 500 index gained 3.3% to mark a second consecutive month of total return in excess of 3%. The US index of technology stocks (Nasdaq Composite) gained 5.9% for the month, buoyed by a remarkable performance by Apple, which rose

Chart 1: Gross Domestic Product

Percentage change on the previous quarter, seasonally adjusted data



Source: OECD, August 2018

20% during the month (its best monthly performance since 2008). At the time of writing, Apple's market capitalisation had surpassed $1 trillion, having risen by $178bn during August alone. Likewise, Amazon saw its market cap rise by an equally remarkable $115bn during the month.

■ Beyond the US, stock market returns were largely negative. In local currency terms, losses were led by emerging market equities, where the Bovespa (Brazil) and Shanghai Composite (China) were down by -3.2% and -5.1% respectively. The broad MSCI Emerging Market index lost about -2.7% in USD terms for the month. In other major developed markets, the UK's FTSE 100 index declined -3.3% while the German DAX was down -3.4%. The broader DJ Stoxx 600 index of European companies lost -2.1%.

■ Losses were not confined to equities as EM bonds declined about -4.9% in aggregate. A range of EM currencies suffered severe losses (Argentinian Peso was down -25.8% while the Turkish Lira fell -25.0%) and the broad CRB commodity index lost -0.8% for the month. In the developed market fixed income space US Treasuries (+0.8%), UK Gilts (+0.2%) and German Bunds (+0.7%) were slightly stronger but Spanish (-0.6%) and particularly, Italian government bonds (-3.1%) suffered large losses.

■ The sharp divergence in market performance mirrors the ongoing divergence in both economic and corporate sector performance across countries. Specifically, US economic data and corporate earnings have been notably stronger than elsewhere. However, it is arguable that at least some of the turmoil going on in emerging markets has roots in the monetary policy divergence between those countries and the US. Higher US rates weaken EM currencies against the USD and drive fund outflows from EM. However, domestic issues (e.g. political uncertainty, unsustainable deficits etc) within several EM countries have exacerbated the problems.

■ Looking ahead, the evidence suggests that rather than pull the rest of the world along, the US is more likely to succumb to the downward pull from elsewhere. As noted above, a large part of the US economy's resilience has been driven by short term fiscal stimulus which will fade in the coming months while corporate earnings growth looks set to slow notably from the recent tax-cut fuelled growth rates. Moreover, as the Fed continues to tighten interest rates, the US government bond yield curve should continue to flatten, ultimately fuelling concerns about the economic outlook.

■ Overall, we continue to believe that the balance of macro risks and opportunities warrants a neutral stance on the major asset classes relative to longer term strategic allocation. Therefore, we maintain a broadly neutral asset allocation across all asset classes within client portfolios.

Abi Oladimeji
Chief Investment Officer

ASSET ALLOCATION

TMI ASSET ALLOCATION SCORECARD (as at 6 September 2018)

	United States	United Kingdom	Euro-Zone ex UK	Asia ex Japan	Japan	Emerging Markets
Equities (overall)	0					
Equity allocation by Region	0	0	0	0	0	0
Bonds (overall)	0					
Agency/ Supra	0	0	0	0	0	0
Corporate bonds	0/-	0/-	0/-	0/-	0/-	0/-
High Yield bonds	-	-	-	-	-	-
Govt guaranteed bonds	0	0	0	0	0	0
Index-linked bonds	0	0	0	0	0	0
Alternatives	0					
Cash	0					

The scorecard above represents our current tactical asset allocation position relative to portfolio benchmark. 0 = neutral, + = overweight, - = underweight.

London
90 Fenchurch Street
London
EC3M 4ST
T: +44 (0) 207 204 2200

Birmingham
2nd Floor
Trigate Business Centre
210 - 222 Hagley Road West
Birmingham
B68 0NP
T: +44 (0) 121 222 5070

Isle of Man
Level 2 Samuel Harris House
5 - 11 St Georges Street
Douglas
Isle of Man
IM1 1AJ
T: +44 (0) 1624 645 200

Southampton
Ocean Village Innovation Centre
Ocean Way
Southampton
SO14 3JZ
+ 44 (0) 23 8038 1667

ARC's 3D Award is an independent endorsement of an investment manager's commitment to the principles of transparency, engagement and integrity.

tminvestment.com