THOMAS MILLER INVESTMENT

Investment Commentary

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Economic & Financial Market Commentary

Global economic conditions have softened in recent weeks as the pace of growth has slowed since the end of the third quarter.

The weakness has centred on the Euro-zone and parts of the Emerging markets, but even the US and UK have experienced declines in growth momentum in recent weeks—despite remaining global growth leaders.

The easing in global demand has resulted in sharp falls in the price of oil. This will have strong disinflationary effects across the globe in the year ahead. It should also boost disposable income and thus consumer spending. It remains unclear which of these effects (inflation dampening effect or growth boosting effect) will carry a greater weight in monetary policy deliberations at the major central banks, particularly in the US and UK where both the Federal Reserve Bank and the Bank of England are widely expected to begin raising interest rates during 2015.

A guide to the outlook for the next few months is provided by recent updates of the OECD composite leading indicators which are designed to anticipate turning points in economic activity relative to trend. They suggest that the momentum of growth is likely to continue to weaken in Europe while remaining stable in most other major economies and in the OECD area as a whole. Overall, we expect global economic growth in 2015 to show a modest improvement on the pace seen in 2014.

In response to the benign backdrop, financial markets delivered strong returns in November. In the equity markets, the S&P 500 index, FTSE All Share index and the Eurostoxx 50 index returned 2.7%, 3.0% and 4.6% respectively in local currency terms. However, the US dollar strengthened against both the GBP and Euro during the month and that meant that returns in US dollar terms were much lower for both the UK and Euro-Area financial markets. Emerging market equities were flat overall but there were some notable exceptions, particularly Chinese equities which again delivered double-digit returns.

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Fixed income markets also performed well as yields on government bonds fell (and capital values rose) across the US, UK and Germany. The decline in yields was driven largely by a combination of weaker growth and lower inflation expectations (on the back of the collapse in oil prices).

In the months ahead, the outlook for the major asset classes is likely to be determined primarily by the monetary policy decisions of the major central banks. This is rather unfortunate as it indicates the extent to which markets remain dependent on monetary stimulus. The decline in oil (and broader commodity) prices may be a bonus in this regard, if it brings about a sufficient decrease in inflation expectations that causes the Fed in particular to signal a delay to the start of rate hikes. Such an outcome will benefit both equities and bonds. For now, the evidence suggests that conservative investors should not stray too far from benchmark allocations to the major asset classes. For more risk tolerant investors, a small bias in favour of risk assets, including equities and a selected range of alternative investments remains appropriate.

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TMI ASSET ALLOCATION SCORECARD

	United States	Euro-Zone ex Germany	Germany	United Kingdom	Japan	Emerging Markets
Equities (overall)	+					
Equity allocation by region	+	0	0	+	+	+
Bonds (overall)	-					
Corporate bonds	0	0	0	0	0	0
High Yield bonds	0	0	0	0	0	0
Govt guaranteed bonds	+	0	0	+	0	0
Index-linked bonds	0	0	0	0	0	0
Alternatives	0					

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

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