THOMAS
MILLER
INVESTMENT

Investment Commentary

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Economic & Financial Market Commentary

Recent economic reports have painted a mixed picture of the state of the global economy. In general, reports have shown a slightly slower-than-expected pace of growth across key developed economies, particularly the US, UK and Japan

Data on the major emerging markets also showed disappointing rates of economic activity in China; combined with ongoing concerns about the outlook for Brazil and Russia. India continues to be a bright spot among the key emerging market economies.

In late January, the US Bureau of Economic Analysis published its initial estimate of US GDP growth during the last quarter. The estimate showed that the speed of growth slowed to just over half the pace recorded in the previous quarter (Q3, 2014). While a decline from the 5% growth rate seen in Q3 was widely expected, the Q4 estimate was still notably below consensus expectations. A breakdown of the numbers showed a strong positive contribution from consumer spending while trade and business investment dragged down growth.

Perhaps the key economic variable of interest to investors over the past month was headline inflation. Specifically, data released during the period showed that deflationary pressures remain strong across the globe. Consumer prices continue to fall, driven by the decline in oil prices. Although disinflation is a global issue, concerns about outright deflation are particularly acute in the Eurozone where the dampening effects of oil prices on inflation are amplified by a broader backdrop of economic stagnation. In the UK, inflation is now expected to dip below zero in the Spring and remain close to zero over the rest of 2015. Indeed, in its recent Inflation Report, the Bank of England anticipates an inflation rate of 0.5% for 2015.

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Looking ahead to the rest of the year, while there are notable risks to the outlook (e.g. geopolitics, Euro-zone crisis), we expect the modest pace of global growth to continue. Leading indicators remain broadly constructive, monetary policy remains very accommodative and the recent decline in oil prices should have a net positive effect.

As widely anticipated, the ECB announced QE following its meeting in January. However, while the announcement itself was expected, the size of the programme caught the market by surprise. This has resulted in a sharp rally in European equities since the announcement. Government bonds also performed well following the announcement as yields fell across the UK, US and Germany. For instance, at the time of writing, yields on 5-year German government bonds are negative.

Meanwhile, the fallout from the results of the recent Greek elections continues to rattle its domestic markets although investors have mostly downplayed the potential for contagion across the Euro zone. Negotiations continue between the Greek government and its official lenders but there are currently no signs of common ground which could form the basis of a new agreement. Overall, while most investors expect an eleventh hour deal, it should be noted that the risks of an "accident" are rising.

In our view, the re-emergence of the euro-zone crisis means that investors should err on the side of caution in making asset allocation decisions. For now, the evidence suggests that more conservative investors should not stray too far from benchmark allocations to the major asset classes. This may well mean giving up some of the upside as risk assets rally in the shorter term. But it is at times like this that capital preservation is crucial. There will be better opportunities to add to risk exposure in due course. For more risk tolerant investors, a bias in favour of equities and a selected range of alternative investments (including infrastructure and private equity) remains appropriate.

Abi Oladimeji
Head of Investment Strategy

ASSET ALLOCATION

TMI ASSET ALLOCATION SCORECARD

	United States	Euro-Zone ex Germany	Germany	United Kingdom	Japan	Emerging Markets
Equities (overall)	0					
Equity allocation by region	0 /+	0	0	0	0 /+	0
Bonds (overall)	0					
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.

THOMAS MILLER INVESTMENT

London
90 Fenchurch Street
London
EC3M 4ST
Tel +44 (0) 20 7204 2200

Edinburgh
46 Charlotte Square
Edinburgh
EH2 4HQ
Tel +44 (0) 13 1220 9310

Isle of Man
Level 2 Samuel Harris House
5-11 St Georges Street
Douglas
Isle of Man
IM1 1AJ
Tel +44 (0) 1624 645200

Birmingham
125 Colmore Row
Birmingham
B3 3SD
Tel +44 (0) 12 1265 7226

Southampton
Maritime Walk
Ocean Village
Southampton
S014 3TL
Tel +44 (0) 23 8088 1836