THOMAS MILLER INVESTMENT

Investment Commentary

NOVEMBER 2015

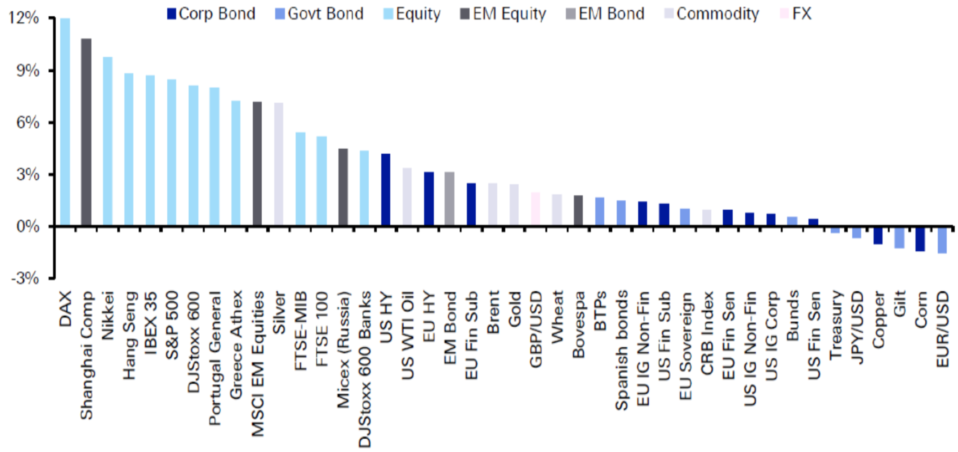
Financial market performance

The performance of financial markets in October confirmed the enduring dominance of monetary policy over fundamentals in driving market direction. Following the sharp sell-off during August and September, new stimulus measures by major central banks helped to calm investors' nerves. In recent weeks, those measures have included strong signals from the ECB that it intends to expand its quantitative easing (QE) programme at the turn of the year in an attempt to fend off deflationary pressures and boost growth. Elsewhere in Europe, the Swedish central bank announced a 50% expansion of its QE programme. Finally, as part of its ongoing efforts to boost growth, the People's Bank of China cut interest rates for the sixth time in twelve months and also lowered the reserve ratio requirement for commercial banks.

These developments were well received by investors and the renewal in risk appetite meant that global equity markets delivered their strongest monthly returns in about four years. So, equity investors will have seen their portfolios deliver multi-year monthly gains in October right on the back of multi-year quarterly losses in the third quarter. This encapsulates the current investment environment, with higher volatility but lower returns.

Within equities, cyclical sectors such as energy and materials delivered the strongest returns in October while defensive sectors such as healthcare and utilities lagged. In terms of regional breakdown, the best gains were seen in Asia, the Euro-zone and emerging markets. US equities also delivered strong returns but the UK equity market lagged. Investment grade corporate bonds and high yield debt also recorded strong gains during the month. Towards the end of the month, the US Dollar rallied against other currencies as investors anticipated the start of a long awaited divergence in monetary policy settings between the Fed and other major central banks.

Figure 1: Total Return Performance of Major Global Financial Assets - October 2015 (Local Currency)



Source: Deutsche Bank, Markit, Bloomberg Finance LP

Global economic activity & monetary policy outlook

The sluggish growth environment persists

In last month's commentary, we noted that "for some time now the evidence has been clear that the global economy is going through another soft patch." Economic reports released since then have largely confirmed the slowdown in growth and, perhaps more importantly, the ongoing outlook for the pace of economic activity to remain muted.

In the US, initial estimates of real GDP showed an increase of 1.5% in the third quarter of 2015, following a rise of 3.9% in the second quarter. The slowdown has been pervasive and growth has also been weaker than expected in the UK, Euro-zone and across the emerging markets. Indeed, in recent weeks, the OECD has joined the IMF and World Bank in cutting its forecasts for global economic growth this year. The organisation noted that "a further sharp downturn in emerging market economies and world trade has weakened global growth to around 2.9% this year – well below the long-run average – and is a source of uncertainty for near-term prospects." Looking ahead, the OECD projects a "gradual strengthening of global growth in 2016 and 2017 to an annual 3.3% and 3.6% respectively." It goes on to assert that "a clear pick-up in activity requires a smooth rebalancing of activity in China and more robust investment in advanced economies."

It is important to note that the OECD's projections assume effective policies and collective action across the globe. Consequently, there are notable risks to the downside.

Figure 2: Real GDP – annual percentage changes

	2014	2015	2016	2017
World[1]	3.3	2.9	3.3	3.6
United States	2.4	2.4	2.5	2.4
Euro Area	0.9	1.5	1.8	1.9
Japan	-0.1	0.6	1.0	0.5
China	7.3	6.8	6.5	6.2
India[2]	7.3	7.2	7.3	7.4
Brazil	0.2	-3.1	-1.2	1.8

[1] Moving nominal GDP weights using purchasing power parities. [2] Fiscal years starting in April.
2014: Actual GDP % change. 2015-2017 OECD Forecast GDP % change.

Source: OECD November 2015 Economic Outlook database.

The Fed turns again

While the idea of forward guidance[1] works brilliantly in theory, its implementation on both sides of the Atlantic has left a lot to be desired. For months, the US central bank (Fed) had led the markets to believe that interest rates would start to rise in September 2015. Having unexpectedly decided to leave interest rates unchanged in September, the Fed has again conditioned investors to expect the first rate hike in December 2015. Likewise, the Governor of the Bank of England has engendered widespread confusion with his utterances on the likely start of interest rate hikes in the UK.

As things stand, the Fed looks set to hike in December. However, the likely speed of tightening seems somewhat more uncertain now than a few weeks ago. This is because while inflationary pressures have remained muted, improvements in the labour market could start to generate upward pressures on wage growth. This would present a conundrum for the Fed and could raise the risk of policy errors in the year ahead.

> **"Our reading of the evidence has led us to reduce our overweight allocations to equities to a neutral stance relative to longer term strategic benchmark weightings"**

Asset allocation summary

The strength of the rally across equity markets in October has shifted investor sentiment away from the bearish extreme that we observed in late September/ early October. Meanwhile valuations are not compelling and leading economic indicators point to muted pace of growth.

On balance, our reading of the evidence has led us to reduce our overweight allocations to equities to a neutral stance relative to longer term strategic benchmark weightings. We have also moved to neutral allocations in fixed income and alternative investments. We believe that the current environment calls for greater tactical flexibility and we will seek opportunities to vary risk exposure in line with the available market opportunities.

Abi Oladimeji
Head of Investment Strategy

ASSET ALLOCATION

TMI ASSET ALLOCATION SCORECARD (as at 4th November 2015)

	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
Alternatives	0					

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

[1] The notion that a central bank can influence market expectations of the future path and level of interest rates through its published forecasts and verbal assessments.

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

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

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

Southampton
Ocean Village Innovation Centre
Ocean Way
Southampton
S014 3JZ
+44 (0) 23 8038 1670

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

Professional Adviser 2015 awards
WINNER
Best DFM

defaqto
2015
DFM Bespoke

Thomas Miller Investment Ltd's Bespoke DFM service has been rated 5 Star by Defaqto.