THOMAS MILLER INVESTMENT

Investment Commentary

MAY 2015

Economic assessment: another first quarter slowdown

The lacklustre pace of global economic growth continued over the past month as economic data, particularly from the world's two largest economies, the US and China, fell short of expectations.

In the US, the initial estimate of real GDP showed an increase of 0.2% in the first quarter of 2015. It is worth noting here that subsequent data releases have suggested that the US economy probably contracted in the first quarter. By comparison real GDP increased by 2.2% in the fourth quarter of 2014. Much of the weakness can be attributed to a combination of dollar strength which impacted on exports; trade delays due to labour disputes in key ports on the West Coast; lower energy prices which triggered a big drop in mining investment; and severe weather which curtailed economic activity particularly on the East Coast.

The weakness in US economic activity at the start of the year is reminiscent of the pattern of softness seen in the first few months of last year and indeed in recent years. This raises the possibility that seasonal adjustment issues may be driving the perception of weaker US economic activity during the winter months each year. Indeed, this possibility is currently a subject of debate and research within the Federal Reserve.

In China, data on first quarter growth showed that the economy grew at the weakest pace since 2009. This has raised the prospect of further economic stimulus from the People's Bank of China (PBOC). In response to the softer data, in recent months, the Chinese government has cut interest rates, reduced restrictions placed on the housing market and lowered the reserves banks must set aside.

UK GDP growth in the first quarter of 2015 slowed to 0.3% from 0.6% in the last quarter of 2014. The decline was largely driven by private services where growth more than halved between the last quarter of 2014 and the first quarter of 2015. This was a notably sharper reduction than suggested by the BCC and CBI surveys which had hinted at a more moderate slowdown.

In an encouraging turn of events, growth in the Eurozone has picked up in recent months. Business and household surveys show that the Eurozone is benefitting from the recent monetary stimulus undertaken by the European Central Bank (ECB). Credit conditions have turned favourable, with borrowing rates falling across the region and evidence indicating greater willingness from banks to lend. All these have led to renewed confidence in the region's economic outlook.

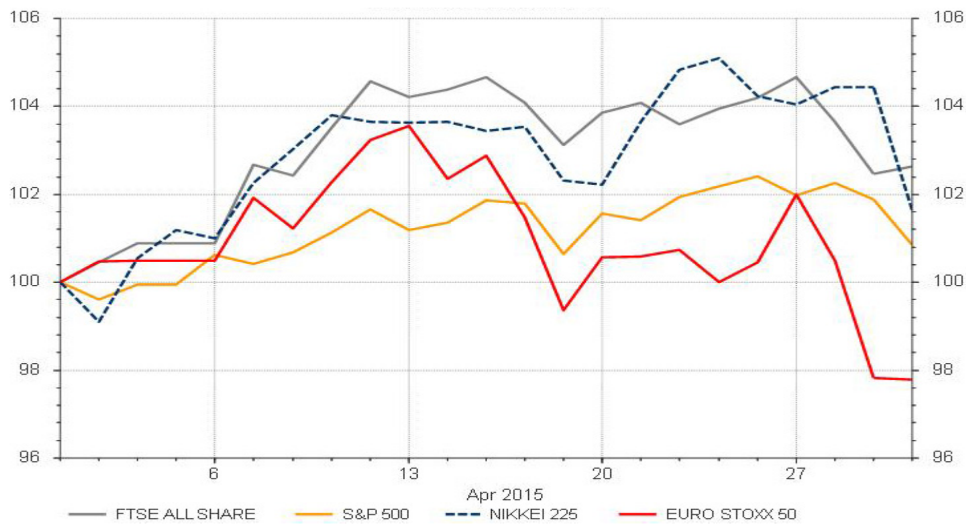
> **"Business and household surveys show that the Eurozone is benefitting from the recent monetary stimulus undertaken by the ECB."**

Looking ahead, despite the weakness in the pace of global economic activity so far this year, forward-looking business and household sentiment surveys suggest that growth is likely to trend higher in the months ahead—although the likely magnitude of the recovery remains unclear.

Financial markets and investment strategy

Turning to the financial markets, in April European equities gave back some of the impressive gains made earlier in the year, with the German, Italian and Spanish equity markets all recording declines over the month. In the UK, many analysts had expected political risks stemming from the General Elections to dampen returns from UK equities. However, contrary to those expectations, the FTSE 100 provided impressive returns for the month. The UK large-cap index benefitted from its heavy weighting to mining and energy stocks which performed strongly on the back of rising commodity prices over the month. In the US, despite concerns about the potentially negative impact of a rising US dollar on foreign income, first quarter earnings from US companies have in general beaten expectations and the S&P500 gained 1% over the last month. Despite the continued weakness in economic data, the material increase in oil prices during the month of April and the

Equity Markets: Performance in April 2015



Source: Thomson Reuters Datastream

* Past performance is not a reliable indicator of future returns.

resultant impact on inflation expectations tempered investor demand for fixed income securities. This meant bond yields rose across the board (and prices fell) in the second half of the month.

> **"Looking to the months ahead, it is important to note that the backdrop remains broadly in favour of risk assets."**

Looking to the months ahead, it is important to note that the backdrop remains broadly in favour of risk assets. Economic growth remains steady (if modest), monetary policy remains accommodative and corporate earnings continue to hold up well. While the market continues to fret about the outlook for monetary policy in the US, it is notable that a recent report by the OECD flagged that central banks of countries accounting for almost half of global GDP have eased policy in the months since December 2014. This is beneficial for risk assets. From a longer term investment perspective, the key risk for virtually all asset classes at this point is that valuations are getting stretched. This has created a situation in which no major asset class can be described as "cheap" in an absolute sense.

In terms of our shorter term positioning relative to our portfolios' longer term benchmarks, we are broadly neutral on equities. We retain a favourable outlook on a selected range of alternative investments including infrastructure, property and private equity which offer both strong return potential and diversification benefits to balanced portfolios. In the fixed income markets, we continue to prefer corporate bonds over their sovereign counterparts. In the currency markets, while we expect periodic temporary reversals, we still see a broad strengthening of the US Dollar against other major currencies as the dominant trend.

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
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.

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

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 1667

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