

# View from the Front

9th January to 13th January 2017

## In the rear view mirror of last week we saw

- Not quite the calm and relaxed return to markets that many may have hoped for. The release of economic data came thick and fast last week, where right at the end we saw the US unemployment rate tick up by 0.1% to 4.7% - in line with expectations. The most significant takeaway from the labour report centered around the increase in wage growth which is accelerating at the fastest rate since 2009.
- This came following the minutes of the last FOMC meeting where the Federal Reserve raised interest rates. Those meeting minutes revealed how the Committee appear to be getting nervous over the strength of the US job market. Further still the minutes included a suggestion that rates might need to be lifted higher again if Congress were to pass many of Donald Trump's economy-boosting fiscal policies.
- Closer to home, three key UK business surveys published last week indicated that economic growth was particularly strong in the final month of last year. Across the board, manufacturing is growing at the fastest pace in 2 years, the construction sector saw new orders increase the most in 11 years while the services sector is growing at the fastest pace for 18 months. Whilst the UK is contending with the fallout from the referendum vote, it is clear the country is benefitting from a cyclical uptick in the global economy.
- The Chinese currency (the renminbi) has started the year off with a series of daily appreciations (known as increasing the trading band) as instructed by the central bank. This sudden strength has caught investors off guard after last year's gradual slide of the currency against the US dollar. China have been introducing a series of regulatory measures to tighten the outflow of capital from the country.
- In a similar theme to the UK, key business surveys released in Europe last week suggested a strong end to the year. The region's largest economies were the key drivers of overall business growth as Spain, Germany and France reported strong numbers. Taken at the composite level the eurozone PMI was recorded at its best level since 2011. Adding to confidence in the area was the higher inflation figures, at 1.1% for December the ECB can rest a little easier over the threat of deflation.
- Not to be left out, Japan's service sector also enjoyed a third consecutive month of growth at the end of 2016. The manufacturing sector is enjoying an even stronger run as the PMI for December hit a 12 month high of 52.4 driven by a weaker currency, making exports more attractive to overseas buyers.

## Front and centre of our thoughts this week include

- On Tuesday Barack Obama will deliver his farewell address in his hometown of Chicago. Never one to be outdone Donald Trump follows soon after on Wednesday with his first press conference since the election.
- Company earnings for Q4 2016 kick-off in the US this week (also known as earnings season). Analyst expectations are more upbeat than previous quarters, particularly for the banks where rising interest rates should improve profitability.
- This week also sees the release of the ECB minutes for December when the central bank announced an extension of QE. We will scan the detail of the minutes to better understand how one-sided the debate was and what it means for further action.
- Keep an eye on the Dow Jones index this week to see if it breaks 20,000 for first time. The index reached 19,999.63 last week but finished at 19,963 on Friday.

## In the side view mirrors of corporate activity we notice

- Ford have confirmed that they will not be building a plant in Mexico to produce the Ford Focus range. Whilst this might appear as pandering to Donald Trump, others would argue that the small car market in the US is in decline and this action reflects sensible corporate behaviour.
- UK fashion retailer Next cut their full-year profit guidance after a weak trading period over the holiday season, sending the share price lower. We have seen a similar story in US where both Sears and Macy's have reported similar guidance. Look out for Tesco and M&S who report results this week to establish if there is a trend.



Source: Bloomberg. Figures are for the period 2nd January - 8th January 2017. Where the index is in a foreign currency, we have provided the local currency return.

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The above charts provide the performance for the three developed market geographies where the TMWM MPS portfolios maintain their largest exposure. **All investments and indexes can go down as well as up. Past performance is not a reliable indicator of future performance.**

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