

View from the Front

16th January to 20th January 2017

In the rear view mirror of last week we saw

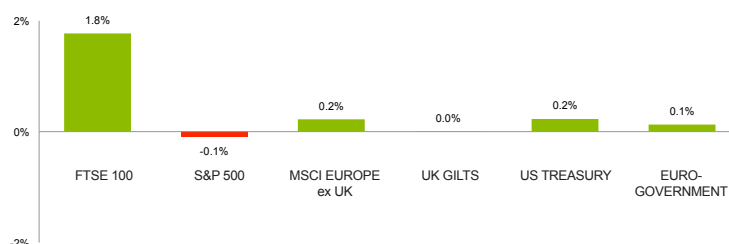
- The release of the ECB minutes last week revealed a material level of support for the December decision to slow the pace of QE purchases. Much of the reason behind the support was over concern for the Bank's ability to find enough assets to buy. Another indication of an improving Eurozone economy came in the form of industrial production data for November which beat forecasts to register annual growth of 1.5% over the month.
- After a strong period of economic data for the US, the retail sales figure for December grew slower than expected at 0.6% for the month. The outlook for retailers remains challenged despite the improvement in consumer sentiment over the past few months. In the US this week we also witnessed Donald Trump's fractious press conference, which was light on further policy detail. The dollar was weaker in the aftermath, with emerging market currencies the main beneficiary.
- As China continues to stem the tide of capital outflows we see casualties in their current approach. The country's foreign exchange reserves fell again in December by \$41bn, taking the overall amount of reserves to \$3.01tn. Indeed remaining reserves are large but it should be noted that this total fell 10% during 2016, which is why the monetary authorities have been busy deploying new capital controls since the start of 2017.
- Sterling encountered a volatile week, set off by PM Theresa May's comments around a potential hard Brexit. The currency has since fallen to levels close to last October's flash crash. There are some winners though, the FTSE 100 – a concentrated mix of international companies with global revenue streams (the majority of which are denominated in US dollars) – has risen for a record 14 days in a row.
- Despite the politics in the UK trying hard to derail the economy, the data continues to suggest that growth remained robust in the last quarter of 2016. Industrial production grew by 2.1% in November, far higher than analyst estimates of 1%. Whilst there were some one-off factors that contributed to outperformance, the data is symptomatic of a more widely improving trend in the UK economy. However the external fiscal situation in the UK remains weak as data released by the ONS last week revealed that the trade deficit widened in November.

Front and centre of our thoughts this week include

- There is a raft of inflation data for many developed economies being released this week. As the energy price falls of 2015 start to fall out of the year-on-year comparisons we may see a large, but temporary, spike higher. For the UK there is the added impact of a significantly weaker Sterling which has made the price of imported goods more expensive. Last month saw CPI meaningfully rise from 0.9% in October to 1.2% in November and on Tuesday we'll see the December number.
- You won't need reminding that on Friday we will see the inauguration of the 45th US President, Donald Trump. After a controversial week of leaked intelligence reports, alleged ties to Russia and sniping at the CIA, it is clear that the former reality TV star will have much work to do in uniting, what appears, a deeply divided country.
- Anyone who is anyone in the world of politics, business, economics, technology and finance will be in Davos from Tuesday. The week-long event in Switzerland plays host to the World Economic Forum where Chinese President, Xi Jinping, will open the meeting. Expect quite a few soundbites during the week from these titans of industry.
- PM Theresa May has a busy week, not only will she be making the trip to Davos, she will also make a speech on Tuesday evening about the government's long awaited plans for Brexit. We expect it to be relatively light on details as the PM attempts to avoid speculators taking a run on Sterling whilst keeping the government's cards close to their chest.

In the side view mirrors of corporate activity we notice

- US earnings season moves up a gear this week with further blue-chip companies reporting. We'll see more banks reporting at the start of the week and as it progresses we'll also hear from IBM, McDonalds and the US economic bell weather that is General Electric.
- Car manufacturers came under regulatory pressure again last week as Fiat Chrysler were probed by the US Department of Justice for violating diesel emission laws. The story was released the day after VW agreed to pay \$4.3bn as it tries to draw a line under its own emissions scandal.



Source: Bloomberg. Figures are for the period 9th January to 15th 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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