THOMAS MILLER INVESTMENT

View from the Front

23rd January to 29th January 2017

In the rear view mirror of last week we saw

- A busy week in the US finished up with the inauguration of Donald Trump, his speech on Friday though was something of a let-down for market bulls. Before then we saw inflation (as measured by CPI) continue on its upward trajectory, where the 2.1% annual increase was the highest growth rate in two and a half years. Fed Chairperson Janet Yellen, also spoke last week as she warned of a "nasty surprise" if the central bank were to hold off from raising interest rates again.
- Whilst the ECB expectedly announced no changes to monetary policy in this month's meeting, comments from President Mario Draghi caused some reverberations in currency markets. Question marks remain over the current policy stance as inflation ticks up, this is no more pressing an issue than in Germany where the rate rose at an annualised rate of 1.7% last month, just under the target rate of 2%. Inflation for the Eurozone as a whole remains tepid at 1.1% though and highlights how the two-speed economy will generate much debate within the ECB.
- Cynics would argue that China did well to grow at an annualised rate of 6.8% in the fourth quarter of 2016 after the first three quarters of last year each reported a growth rate of exactly 6.7% (as measured by GDP). It marked the slowest full-year of growth since 1990 but remains within the government's target range of 6.5-7.0%. This came during the week in which President Xi Jinping opened the World Economic Forum in Davos where he extolled the virtues of free trade and globalisation in the keynote address. Those same cynics might just have raised an eyebrow at such a speech.
- Economic data in Japan continues to paint a mixed picture despite ongoing signs of strength in the global economy. Machine orders, often seen as a proxy for corporate capital expenditure, dropped more than expected in November by 5.1% having grown by 4.1% in October. Whilst the series can be volatile, reflecting the behaviour of investment spending by corporates, weak data on department store sales in December suggested that consumers are reigning in spending too. Sales at department stores in Japan fell in every month in 2016, except February.
- Theresa May's speech outlining plans for Brexit last week, spelled out 12 key objectives and provided further details on the government's approach. Whilst the tone was broadly 'hard' Brexit in nature, the pound rallied to its best one-day gain versus the dollar since 2008 as markets received more clarity on the UK's position. However the release of inflation data that morning (CPI rose to 1.6% in December, the fastest jump in 18 months) also helped pushed the currency higher. Unemployment remained at its 11-year low of 4.8% while yearly wage growth continues to pick up with November data showing a 2.8% rise, higher than the 2.6% forecast.

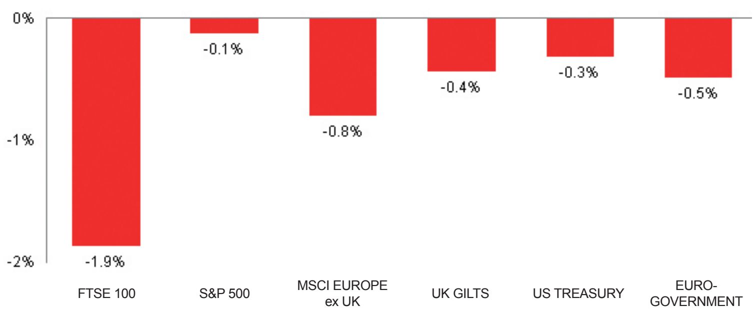
Front and centre of our thoughts this week include

- With little detail in President Trump's inauguration speech, markets will be focused on the first 100 days in office. If the post-election rally in US equities is to continue, campaign promises will need to turn into legislation quickly. To add fuel to the fire, the latest snapshot of US GDP is released where economic growth is expected to have slowed in the final quarter of 2016.
- The first estimate of fourth quarter GDP in the UK is released towards the end of this week, which will reveal the extent to which the UK economy has been resilient in the face of an uncertain future. Friday saw a materially weaker retail sales figure for December, the worst monthly decline in five years, which sent the pound lower after a strong week. Expect this week's economic growth estimate to have a similar effect, in either direction.
- Another busy week for PM Theresa May, today she sets out the government's new industrial strategy in a visit to North-West England while tomorrow sees the UK Supreme Court deliver its ruling on the Article 50 case. By Friday the PM will be the first world leader to meet the new US President, where a wide range of issues are set to be discussed.
- Earnings season in the US continues at pace this week. After hearing from most of the banks, this week sees the big tech companies report results – most notably the company formerly known as Google (now Alphabet), alongside fellow heavyweights Microsoft and Intel. More than 20% of companies in the S&P 500 will report earnings results this week.

In the side view mirrors of corporate activity we notice

- A tough week for British publishing house and FTSE 100 constituent, Pearson. Having reported "an unprecedented decline" in it US educational business, the company issued their fifth profit warning in four years. Shares fell by almost 30% on the day of announcement.
- Italy's Luxottica and France's Essilor agreed to a €50bn merger that would create a global leader in the eyewear industry. The deal would bring together the world's leading consumer eyewear group with the biggest manufacturer of lenses.

Jordan Sriharan
Senior Portfolio Manager



Source: Bloomberg. Figures are for the period 16th January to 22nd January 2017. Where the index is in a foreign currency, we have provided the local currency return.