THOMAS MILLER INVESTMENT

View from the Front

30th January to 5th February 2017

In the rear view mirror of last week we saw

- In a widely anticipated outcome, the Supreme Court ruled last week that the UK government must hold a parliamentary vote before triggering Article 50. A small win for the government came from the Court's ruling that the devolved governments do not have a veto on the UK's decision to withdraw from the EU.
- The recent string of better than expected UK economic data continued this week with the initial estimate of Q4 2016 GDP showing the economy grew at a quarterly rate of 0.6%. Pessimists would highlight the continued unbalanced nature of UK growth, with the service sector continuing to drive growth higher, whilst industrial production and construction were broadly flat.
- Across the pond, it's been a busy first week in office for Donald Trump. The President has withdrawn the US from the Trans-Pacific Partnership, proposed a border tax on imports and signalled his commitment to "build the wall". In arguably his most controversial move, Trump has instituted a 90-day travel ban for nationals from seven Muslim countries. Investors will be disappointed with the lack of details on corporate and income tax reforms from the Trump administration so far, however we expect further details this week.
- Data wise in the US, consumer sentiment and business surveys remain strong but hard data appeared a little mixed. Q4 2016 GDP growth was slightly below expectations, growing at a quarterly rate of 0.5%, while new home sales and capital goods orders also disappointed. However, last week's flash PMI and Michigan consumer confidence surveys continued to trend higher.
- It was a mixed week for the Japanese economy, the flash PMI edged up to 52.8, its highest reading since March 2014, a reminder that the manufacturing sector is growing strongly. However, nationwide Core CPI (all items ex food) continued to decline falling at an annualised rate of 0.2%. The inflation numbers highlight the difficultly the Bank of Japan (BoJ) is having in reaching its 2% inflation target despite years of monetary stimulus.
- The Euro area PMI dipped slightly last week to 54.3, although the number remains at elevated levels when compared to recent history and points towards annual growth in the euro area of almost 2%. In December loans to households and non-financial corporations grew at a yearly rate of 2.1%. This suggests that earlier monetary easing measures implemented by the ECB are starting to have a positive impact on lending in Europe. Broad money supply (M3) remained strong at 5% (yoy).

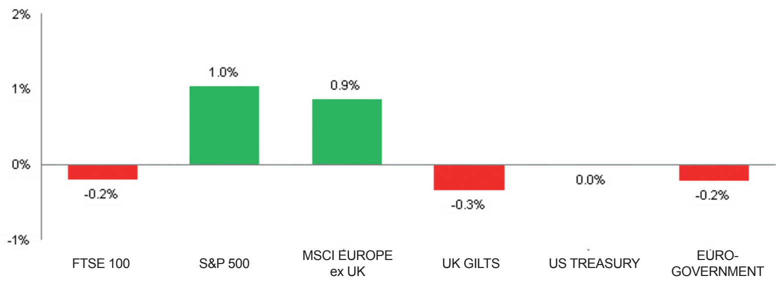
Front and centre of our thoughts this week include

- Central banks take centre stage this week, with the Bank of England (BoE), the US Federal Reserve (Fed) and the Bank of Japan (BoJ) all meeting. Friday will see the release of the closely watched unemployment report in the US, while it's another busy week for US earnings, as a further 109 companies report this week, including tech giants such as Apple and Facebook.
- This month's BoE meeting also includes the publication of the quarterly Inflation Report with updated forecasts for UK growth and inflation. We expect the report to upgrade the Banks forecasts for GDP in 2017, but continue to highlight the downside risks to growth from higher levels of inflation which diminish consumer's purchasing power. Overall we expect the tone of the report to be fairly neutral in regards to the future level of interest rates.
- The consensus expectation is for no change in the level of interest rates from either the Fed or BoJ and the messages from the policy statements are likely to be in-line with previous statements. The Fed is likely to continue to reiterate their expectations for a "few" interest rate increases this year. The BoJ is likely to continue with its bias towards monetary easing, given the continued decline in yearly inflation.
- One indicator closely watched for the timing of the next Fed rate hike will be Fridays US labour market report. The December report showed average earnings grew at the fastest rate since 2009 (2.9%yoy). If the pace of wage growth is sustained, alongside solid job creation, then the Fed may view this as a sign of underlying inflationary pressures building in the labour market, and the next change in monetary policy may not be too far away.

In the side view mirrors of corporate activity we notice

- It was a difficult week for the telecoms giant BT, as an accounting scandal in the business's Italian operations and a warning of a slowdown in public sector work caused the share price to fall 20% over the week.
- Subject to regulatory approval, Britain's biggest retailer Tesco has agreed to buy leading wholesaler Booker for £3.7bn. The merger will make Tesco the UK's leading food business with operations in retail, wholesale and supply chains. The market reacted positively to the news with Tesco's share price climbing by close to 10%.

Dan Smith
Investment Analyst



Source: Bloomberg. Figures are for the period 23rd January to 29th January 2017. Where the index is in a foreign currency, we have provided the local currency return.

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.