

View from the Front

13th February to 19th February 2017

In the rear view mirror of last week we saw

- Following a constructive meeting between Japanese PM, Shinzo Abe and US President, Donald Trump towards the end of last week there was some better news on the Japanese economy late into Sunday evening. Growth came in at an annualised pace of 1% in the last quarter of the year driven by a significant rise in exports, spurred on by the weaker currency. This figure will assuage fears that the economy was in a rocky patch after last year's short-term wobble.
- The monthly calculation in China of foreign currency reserves showed they fell below the symbolic level of \$3.0tn, the lowest in five years. The pace of the decline has been slower in recent months as the authorities attempt to discourage renminbi outflows through tighter capital controls. Reserves had been as high as \$3.9tn in the summer of 2014, however, in order to avoid a large depreciation in the renminbi the central bank has been selling US dollars.
- A busy week for the UK government as MPs passed the Article 50 bill, we now await the ruling from the House of Lords. The bill has been passed to the Upper Chamber with no amendments who will debate the bill in 7 days' time. Whilst we wouldn't expect the Lords to block the bill, they could try to amend it which would give PM Theresa May more problems. The economic data continued to paint a rosy picture last week as the trade balance figures improved, showing exports were growing faster than imports.
- Much of the noise out of Europe last week centered around Greece and France. Greece and their creditors have been discussing how to ensure the country meets their €7bn debt payment due in July. With several key elections in Europe coming up fears remain that a deal will not be reached before July. IMF and EU officials came out on Friday suggesting that talks have advanced, pushing prices for Greek government year two bonds higher. Conversely the price for French government bonds fell last week, relative to German bonds. This comes as investors are worried about the outcome of the upcoming General Election.
- It has been a quiet week for US economic data but that hasn't stopped Donald Trump from voicing his tax policies. Described as "a phenomenal corporate tax announcement" by the US President, financial markets have taken the tweet at face value sending the US equity markets to all-time highs late on Friday evening. Whilst we are yet to see much in the way of details, for many of his pre-announced policies, it appears as though investors are giving him the benefit of the doubt. For now.

Front and centre of our thoughts this week include

- Early this week, investors will be watching for clues around US monetary policy when Fed Chair Janet Yellen speaks to the Senate Banking Committee in her semi-annual testimony. In the past two weeks expectations for an interest rate rise in the US next month have cooled. Jim Mattis, the US defence secretary, will meet NATO counterparts this week for the first time since he took office. Given the level of obfuscation on the US view over NATO, the meeting will generate important headlines.
- Inflation will be the 'hot economic topic' this week. Throughout the developed markets space, the release of consumer price indices will provide an important insight into whether the global economy is genuinely at a point of reflation. With oil prices having hit a low last February, investors will be aware of the fading impact of lower oil prices on the year-on-year calculation for inflation in the coming months.
- For many of our readers who have been suffering with the commute on the Southern Rail network, there may be some light at the end of the tunnel. Drivers are set to vote on their new deal with Southern this week which may bring an end to their long-running strike action. Ballot papers are due to be returned by Thursday.

In the side view mirrors of corporate activity we notice

- Rolls-Royce announces earnings results this week, which will be keenly awaited by investors. The company has announced a number of profit warnings in the last two years and has been recently tainted by allegations of corruption.
- A string of private equity investors have been lined up to bid for L'Oreal's Body Shop, which was put up for sale last week. The company has a price tag of €1bn which has already deterred some potential industry bidders.

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Source: Bloomberg. Figures are for the period 6th February to 12th February 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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