THOMAS MILLER INVESTMENT

View from the Front

20th February to 26th February 2017

In the rear view mirror of last week we saw

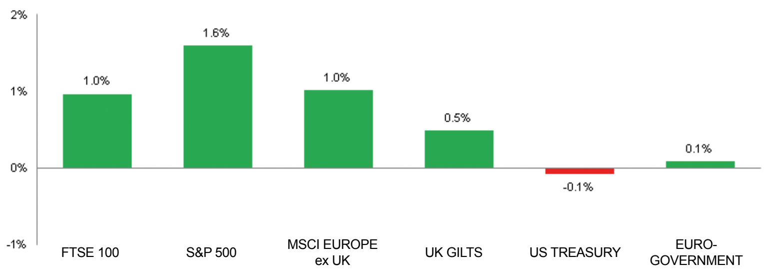
- At the end of last week in the UK we saw the release of retail sales, which fell for the second consecutive month. Whilst inflation figures at the start of the week rose slightly less than expected, the weak sales figures suggest that UK consumers are starting to feel the bite of higher prices. Further bad news for the UK consumer as figures during the week showed that wages were growing at their slowest rate for two years (1.4% for the final three months of 2016). Whilst the employment rate rose to 74.6%, its highest rate since records began in 1971, it seems that disposable income is now starting to fall.
- Growth in the Eurozone economy for the last quarter of 2016 was only 0.4%, and 1.7% for the whole of 2016 - this is below the initial estimate of 0.5% and 1.8% respectively. Some of this weakness has been driven by poor December industrial production numbers for the single bloc economy, allied to further evidence that German industrial output has hit an eight-year low. Minutes from the recent ECB meeting released last week suggested that the central bank were happy to look past the current rise in inflation, which they saw as transitory.
- Last week saw Janet Yellen's semi-annual testimony to both Congress and the House of Representatives, where many investors hoped to gain some insight into the (immediate) future direction of US monetary policy. Her language in both meetings remained in line with much of what we have heard her say recently, indeed she repeated some lines, verbatim. Alongside the release of stronger inflation numbers in the US last week (as measured by CPI) markets have begun pricing in a higher probability for an interest rate increase at the next policy meeting in March.
- There were a raft of inflation releases across the globe last week but nowhere was it more prominent than in China where a significant increase in food prices has pushed CPI higher to 2.5%, just above the forecast figure of 2.4%. The most significant measure to push higher, was producer prices which grew at the fastest rate in five years, at 6.9% this marked the fifth consecutive month of expansion. Credit growth remains robust as the central bank's broadest measure (known as total social financing) rose 7.6% on a year-on-year basis.
- Early last week saw economic growth figures (as measured by GDP) for Japan that were higher than expected, driven by a weaker currency which has spurred on exports and business investments. 1% growth in 2016 follows a growth rate of 1.2% last year, however consumer demand remains a lacklustre component of the calculation. Given this is the largest contributor to total demand it is imperative this element expands in order to help both prices and wages move higher.

Front and centre of our thoughts this week include

- Bank of England Governor, Mark Carney will testify to the Treasury Committee on Tuesday. He is expected to be questioned over the recent upgrade to economic forecasts from the Bank, despite expectations for inflation and interest-rate policy being kept on hold. We also see two by-elections this week, in the north-west constituency of Copeland and Stoke-on-Trent Central.
- The US are on holiday today for President's Day, which means all markets over the pond are closed. However when they reopen on Tuesday we are due important business sentiment data in the form of flash PMI readings for February while the following day sees the release of the most recent minutes from the Federal Reserve monetary policy meeting.
- Euro area finance ministers meet in Brussels in anticipation of finalising the details of the third Greek bailout. Statements from both Athens and the IMF continue to show conflicting signals over the progress in talks. Timing is extremely important as many observers suggest that a deal would need to be done before European elections begin next month, starting with the Dutch elections on March 15th.

In the side view mirrors of corporate activity we notice

- The big news at the end of last week was the potential takeover by Kraft Heinz of Unilever, the Anglo-Dutch consumer goods company. Unilever declined the proposal and by the end of the weekend Kraft Heinz had agreed to pull out of the bid. The share prices of both companies have risen and fallen in line with the news.
- Whilst fourth quarter earnings releases in the US have begun to meaningfully slow down, attention now turns to European and British companies which typically release their results later. Many of the large UK high street banks will be reporting alongside the big mining companies, which include BHP Billiton and Anglo American. Keep an eye out for Pearson results too, the struggling education group has issued five profit warnings in four years.



Source: Bloomberg. Figures are for the period 13th February to 19th February 2017. Where the index is in a foreign currency, we have provided the local currency return.

Jordan Sriharan
Senior Portfolio Manager

If you would like to recieve this update every Monday morning, please fill in your details on this form and we will add you to our mailing list.

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.