

View from the Front

6th March to 12th March 2017

In the rear view mirror of last week we saw

- An important period for the Chinese economy moved sharply into focus this week as the manufacturing sector survey for activity (PMIs) revealed an uptick higher. However construction and service PMIs were weaker but all remain above the important 50 number which indicates growth. Over the weekend, Premier Li Keqiang in his annual report to China's parliament has lowered China's annual growth rate to 6.5%, down from the previous target range of 6.5% to 7.0%. The National People's Congress runs for the next two weeks and is the last before the Communist party convene in December.
- The rhetoric from officials on the Federal Reserve intensified this week as indications that an interest rate rise in the US may occur this month were reinforced by a number of members. Yields on US government bonds rose last week as speeches made by officials hinted at a robust economy and a buoyant stock market that was ready for higher rates. Stronger inflation numbers last week also pushed expectations higher however it was a speech by Fed Chair Janet Yellen, late on Friday evening that has almost sealed the decision. In front of an audience in Chicago she said that an increase in rates was 'appropriate' at the next policy meeting on March 14-15.
- Having been on an upward trajectory for the previous six months, industrial production in Japan unexpectedly contracted by 0.8% in January. Last July was the last time we witnessed a negative

number, one of only three occasions last year. In better news, core inflation (i.e. excluding fresh food) was up by 0.1% in January. While much of this was driven by higher energy prices the country has struggled to escape from a long period of deflation which has dogged wage rises and impacted living standards for many of the country's citizens.

- Inflation releases in the Euro area last week also appeared to suggest a step in the right direction with prices reported as having risen 2% in the year. After a period of nearly four years of weak economic and inflation growth, prices rises have picked up materially more recently. Notably, some of this has been driven by Germany, the area's largest economy. With savings rates at such low levels this may quickly become an issue for the ECB who recognise that savers are suffering. This Thursday sees the ECB policy meeting where we expect Chairman Mario Draghi to resist calls to end QE and focus on potentially raising rates in 2018.
- A mixed week for the UK economy last week. After a run of strong data, following the June referendum, the service sector PMIs fell in February to their slowest rate since September. A similar story appears to be occurring in the manufacturing sector which has brought the overall composite reading for the UK to its lowest level in five months. This follows weaker retail sales figures recently released, reflecting the fact that sharp falls in the pound have led to higher prices on the high street.

Front and centre of our thoughts this week include

- French President, Francois Hollande, will host the leaders of Italy, Spain and Germany this week in advance of a larger EU meeting this month that will mark the 60th anniversary of the Treaty of Rome. Whilst we don't expect any significant soundbites to move financial markets, the debate around the future of Europe in a post-Brexit environment remains important.
- The OECD present their twice yearly assessment of global economic growth later in the week, including specific

projections for G7 countries. Whilst the output from these meetings are frequently revised through the course of time, they nonetheless have the ability to influence shorter-term investment sentiment.

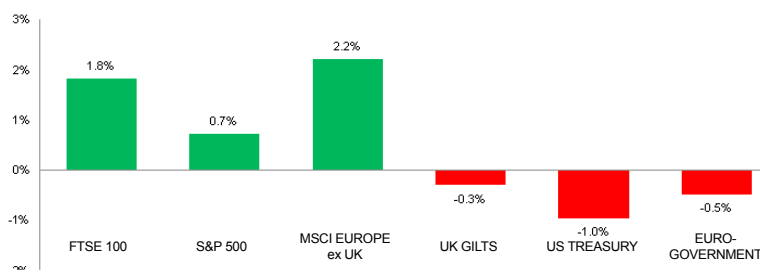
- In a wonderful example of British politics, this week's Budget will be the current Chancellor's first and last Spring budget. After which we return to the decades-old format of an Autumn Budget which will cease to be called the Autumn Statement. Much ado about nothing then? Most likely. This week's Spring Budget will include little

in the way of tax and spending measures as Phillip Hammond tries to place an emphasis on the Autumn meeting as the principal fiscal event of the year.

- Right at the end of the week sees the release of the US unemployment rate, arguably the most widely watched economic data release of every month. With the Federal Reserve days away from a potential rate rise, watch for fireworks if the number released is a particularly weak one.

In the side view mirrors of corporate activity we notice

- Over the weekend Standard Life and Aberdeen announced a merger, creating the second largest asset manager in Europe with £660bn in assets. Reports suggest the all-share deal is worth £11bn. The deal would bring synergies, with analysts suggesting that 10% of the combined 9,000 staff could lose their job.
- PSA, the owner of Peugeot and Citroen, have announced a €2.2bn deal to acquire the Opel and Vauxhall division from General Motors. The deal would mark the end of an unprofitable venture into Europe by the US giant and would make PSA the second largest car maker in Europe after VW.



Source: Bloomberg. Figures are for the period 27th February to 5th March 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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