THOMAS MILLER INVESTMENT

View from the Front

13th March to 19th March 2017

In the rear view mirror of last week we saw

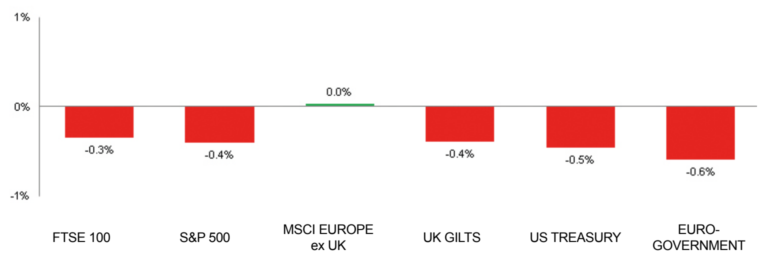
- It was a better week for Japan as economic growth, measured by GDP, grew by more than initially estimated. The quarterly calculation of gross domestic product is always revised as not all the data components that form the calculation are available at the same time. The previous estimate for the fourth quarter of 2016 had been 1% however revised figures from the government show that growth was actually higher at 1.2%. The revised figure was driven by growth in capital expenditure during the quarter.
- It would appear that data in the US last week cleared almost every hurdle required for the Federal Reserve (FOMC). They hold their two-day monetary policy meeting, starting Tuesday of this week, where they are widely expected to increase interest rates for only the third time in a decade. Last Friday saw the release of unemployment data, which showed the US created another 235,000 jobs in February – the first full month of Donald Trump's presidency. The unemployment rate fell to 4.7% while year-on-year wage growth remained at 2.8%, all together, signs of a very robust labour market.
- The Spring Budget came and passed with little detail to get excited by, at least with respective to economic growth in the UK. Whilst growth for 2017 was revised up to 2% from 1.4% previously, growth forecasts for later years have been scaled back significantly. The Chancellor did meet his own fiscal targets for the previous tax year but resisted temptation to spend the tax windfall. Despite shorter-term optimism, the Office for Budget Responsibility forecast no changes to public borrowing in the medium-term which means the government is unlikely to achieve the aim of a balanced budget by the next parliament.
- The decision by the European Central Bank (ECB) last week to leave policy rates unchanged came as no surprise to investors however comments from President, Mario Draghi pushed the Euro higher and reinforced the selling of German government bonds. More specifically he declared victory against deflation and stated that policymakers, "do not anticipate that it will be necessary to lower rates further". Stronger global growth over the past few weeks has shifted attention to when the ECB might taper their own quantitative easing programme, where they continue to buy both European government and corporate bonds each month.
- Data released in China last week bore signs of an economy that is starting to move away from an export-driven model to one more reliant on domestic spending growth. Trade flow data for last month showed a deficit for the first time since February 2014, with imports hugely outstripping exports. We note though that trade data in the first two months of the year can be erratic due to the Lunar New Year holiday. Credit growth, an area the government are trying to better manage this year, slowed markedly in February. Aggregate social financing (a broad measure of credit growth) increased by RMB 1.15tn, down from RMB 3.73tn a month earlier.

Front and centre of our thoughts this week include

- The first test of the political world in 2017 starts this Wednesday when the Dutch go to the polls for their General Election. Party for Freedom, a party on the far right, led by the populist Geert Wilders, remain second in the polls however the race remains very close. With four or five parties gaining a significant amount of traction with the electorate, it seems likely that a coalition will need to be negotiated which may take some months to form. More positively, all mainstream parties have ruled out a coalition with the Party for Freedom which makes it unlikely they will play a role in the next Dutch government.
- A busy week ahead for central bank activity as monetary policy meetings take place in the US, UK and Japan. Garnering the most attention will undoubtedly be the FOMC across the pond, where the land has been furrowed for an interest rate rise. No action is expected at the Bank of England on Thursday lunchtime however with employment robust and inflation trending higher there is some pressure to justify the loose policy stance. Similarly no change is expected at the Bank of Japan but the committee there face a similar pressure, given their ultra-accommodative policy position.
- At the end of the week is a two-day meeting of the G20 finance ministers in Germany. The event will be widely covered by the media as it will be the first G20 finance ministers meeting to be attended by the new US administration under Donald Trump. New US Treasury Secretary, Steven Mnuchin, has continued to drive home the message that the US will not tolerate countries that engage in currency devaluation to gain an edge in trade.

In the side view mirrors of corporate activity we notice

- German utility companies, RWE and Eon, will report earnings results this week. Of interest, because the German government are currently on a drive towards a more environmentally friendly approach to generating power in the country. This has been to the detriment of conventional power plants as wholesale prices of electricity have slumped in Germany.
- In the UK, Bovis Homes has announced that it has rejected takeover offers from rival homebuilders Redrow and Galliford Try. Whilst Redrow has now withdrawn its interest discussions remain ongoing with Galliford, where a potential combination would offer a more balanced geographic mix of revenue.



Source: Bloomberg. Figures are for the period 6th March to 12th March 2017.
Where the index is in a foreign currency, we have provided the local currency return.

Jordan Sriharan
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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.