THOMAS MILLER INVESTMENT

View from the Front

27th March to 2nd April 2017

In the rear view mirror of last week we saw

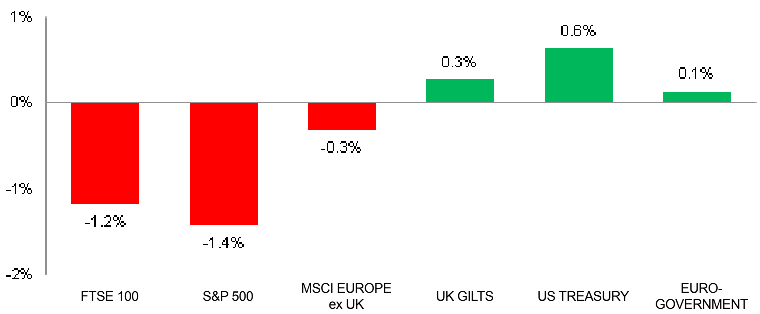
- In the UK, we had confirmation that March 29th (Wednesday) will be the date that Prime Minister Theresa May will formally notify the European Union (EU) of the UK's decision to leave the EU. Last week, data showed inflationary pressures continuing to build in the UK economy with the Consumer Price Index (CPI) rising at an annual rate of 2.3%, its highest level since September 2013, boosted by higher energy and import costs. UK retail sales for February were stronger than expected, rising 1.5% for the month. The underlying trend in sales has softened of late but remains firm.
- In the US it has been a difficult week for President Donald Trump. Not only did we receive confirmation that the FBI is investigating the Russian government's interference in the 2016 Presidential elections, he also had to abandon one of his main campaign pledges; to repeal and replace the Affordable Care Act (Obamacare), after it had failed to receive enough support in the House of Representatives. A defiant Trump stated he will now turn his attention to "big tax cuts and tax reform" as his next policy objective. The data released last week in the US were mildly disappointing, with weaker than expected initial jobless claims, existing home sales and flash business survey readings as represented by the PMI only partially offset by better than expected durable goods orders.
- Conversely, it was another week of encouraging data for the Euro area, with both business and consumer confidence surveys continuing to trend higher. On the business front, both the flash manufacturing and service sector PMI surveys recorded gains, which brought both surveys to 71-month highs. On the consumer front, the European Commission's flash consumer confidence index for March also rose.
- In Japan, we saw signs that the recent improvement in the global economy is starting to have a positive impact on the domestic economy as February's export numbers increased 11.3% over the year. The data showed improvements in exports to Asia (including China), although a dip in numbers to both Europe and the US. Elsewhere, it was a mixed week for business confidence surveys. The March Reuters Tankan survey showed positive sentiment for large manufacturing firms increased for a seventh consecutive month and reached the highest level since April 2014, although disappointingly, the flash Manufacturing PMI for March recorded a small decline.

Front and centre of our thoughts this week include

- A relatively quiet week with respect to economic data releases, with European and US inflation numbers released on Friday being the highlight of the week. Data aside, much of the focus will be on Wednesday when the UK officially begins negotiations on leaving the EU, when Article 50 is formally invoked.
- The tone that each side take to the Brexit negotiations will be closely monitored by the markets and in particular will have a bearing on the value of the pound. Last week, two influential figures, Michel Barnier (European Chief Negotiator for Brexit) and Jean-Claude Juncker (President of the European Commission) provided updates on the Brexit process, with both men insistent on the requirement of the UK government to honour prior financial commitments made to the EU. Barnier continued to contend that an agreement on the UK's financial liabilities with the EU is a precondition before trade talks can begin. At the early stages of negotiations, investors will be particularly focused on the willingness of the UK government to satisfy the payment demands from the EU.
- Friday's inflation numbers will provide important clues on the future path of monetary policy from the European Central Bank (ECB) and the US Federal Reserve (Fed). With recent European economic data looking robust, if Euro area inflation continues to trend higher, markets may bring forward the date at which they expect the ECB to begin to taper their monetary stimulus programme. Similarly, the US inflation print will help market guide expectations over the timing of the next Fed hike.

In the side view mirrors of corporate activity we notice

- Last week retailer Next unveiled its first fall in annual profit in eight years and remained cautious about the outlook for the year ahead. The business warned profits are under threat from slowing in-store sales, household purchasing power being reduced by rising levels of inflation and shifting consumer spending habits, which have prioritised spending on leisure and experiences over clothing. Despite the cautionary warnings, shares of the company were up on the week due to better news in regards to dividends, with the company confirming they expect to pay four quarterly special dividends this year.
- It was a challenging week for Alphabet (Google) after a number of UK businesses reduced their non-search advertising with the company. This was after a report from the Times showed brand advertising which appeared next to Youtube videos promoting extremists views. HSBC, RBS and Marks and Spencer all lowered their advertising spending as a result of the report.



Source: Bloomberg. Figures are for the period 20th March to 26th 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.