THOMAS MILLER INVESTMENT

View from the Front

3rd April to 9th April 2017

In the rear view mirror of last week we saw

- Better news on the inflation front for Japan last week as the core consumer price index rose 0.2% in February, on an annualised basis. This was the second month in a row of price rises, which is important for a country that has been mired in deflation for so long. There was further good news as industrial output in the country rose significantly above expectations in February, after falling the month before. Despite the improving data, the equity market in Japan (TOPIX) has come under selling pressure and a late slide on Friday ensured that the index wiped out any gains for 2017.
- Last week saw the final revision to final quarter GDP for 2016 in the US, which revealed that the economy grew at a faster pace than previously stated. At 2.1%, the rate is higher than the previous estimate of 1.9% however it is far below the 3.5% growth recorded in Q3 of 2016. Whilst the revised number revealed that consumer spending grew strongly this was partially offset by a fall in exports. The overall pace of growth for the US in 2016 was 1.6%, which is the weakest year it has been in five years.
- Another week of political noise in the UK last week saw the Article 50 letter finally delivered to Brussels. Quite what impact this will have on both consumer and business sentiment, in the short-term, remains to be seen however data last week suggests a mixed outlook. Consumer confidence, as measured by the GfK index, is on a weakening trend and March's figure of -6 marked the 11th month in a row of negative readings. Whilst the Lloyds business barometer fell to 35, this figure was coming off an 11-month high suggesting a more optimistic outlook for business than consumers.
- China's manufacturing sector had seen a steady drop in activity over the past five years as the economy attempts to move towards a more service driven economy. The official purchasing manager index (PMI) for manufacturing companies revealed in March an improving outlook with clear growth momentum, with the index climbing to it's highest level since March 2012.
- Data in the Eurozone continues to strengthen, in contrast to the trends in other parts of the developed markets. Another strong set of preliminary PMI data is showing that business activity is hitting six year highs, across both manufacturing and service sectors with better results from the area's two largest economies (France and Germany) driving the improvement. Perhaps not unsurprisingly, inflation slipped back in March as energy price pressures play a less prominent role as the one-off seasonal effects of a stable oil price impact the year-on-year calculation.

Front and centre of our thoughts this week include

- A very heavy week of data releases awaits investors this week, with the usual slew of manufacturing and service sector PMIs being released in the early part of the week. Should there be a material shock in these numbers, expect risk sentiment to move in line. In the middle part of this week we also see the minutes from the latest monetary policy meeting from both the Federal Reserve and the European Central Bank, where investors will pick up clues on their potential next steps.
- By the end of the week we see the monthly update for unemployment in the US, commonly known as non-farm payrolls. Traditionally this data release warrants huge attention amongst financial market participants however it is clear that unemployment in the US is nearer the cyclical lows. As a result focus has now switched towards inflation and how this trends in the short-term is more important for monetary policy in the US.
- In an interview with the Financial Times, US President Donald Trump has warned North Korea that the US could take unilateral action to eliminate any nuclear threat. These comments come ahead of the much-anticipated meeting with Chinese President Xi Jinping who will head to Trump's holiday home in Florida.
- The second quarter of the year begins for investors today – what does this mean for asset classes? It has been a strong start for equity markets so far and, depending on what region you were exposed to, it might have been a very strong start. Bonds have had a more mixed time but those who continue to expect the big sell-off have still been on the wrong side of the trade. Will this quarter be different? The political risk certainly ramps up, with French Presidential elections taking centre stage over the next few weeks, watch out for headlines as the contenders jockey for position.

In the side view mirrors of corporate activity we notice

- Reckitt-Benckiser has launched a strategic review of its non-core food business to explore their options. This part of the market in the UK has come under the spotlight recently, after Kraft-Heinz's failed bid for Unilever revealed there are a number of strategic buyers in the market.
- The start of a quarter also signals the start of the earnings season for the previous quarter, which traditionally begins in the US before drifting off to Europe later in the month. We expect corporate revenues to be in line with analyst expectations while profits should be higher than the previous quarter.

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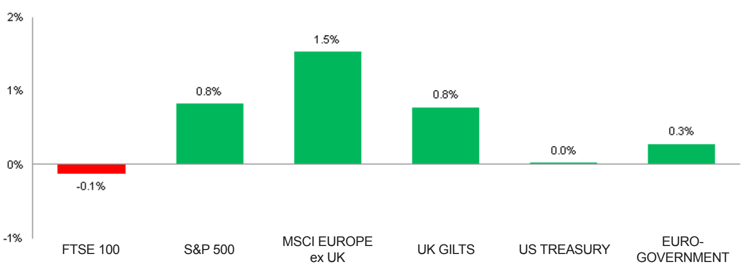

Source: Bloomberg. Figures are for the period 27th March to 2nd April 2017.
Where the index is in a foreign currency, we have provided the local currency return.

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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.