

View from the Front

8th May to 14th May 2017

In the rear view mirror of last week we saw

- In Europe, the results of the second round of the French Presidential election confirmed the widely expected outcome of an Emmanuel Macron Presidency. After securing 65% of the votes Macron will become the youngest ever French President. Attention will now be focused on the French Parliamentary elections on June 11 and 18, where Macron's newly formed "En Marche!" party will need to gather much support if he is to implement a number of his planned reforms. European data out last week was encouraging with the first estimate of Euro area growth showing the economy rose 1.7% for the year ending March 2017, a fourth consecutive quarter of solid growth and a sign of the improvement in underlying momentum in the Euro area economy.
- In the US, as widely expected, the Federal Reserve left interest rates unchanged following their monetary policy meeting. In the accompanying statement, the committee acknowledged the slowdown in growth in the first quarter of this year, but blamed this on temporary factors and expected strong economic fundamentals to support a recovery in growth. The pick-up in jobs creation in April's employment report added credibility to this view, with businesses adding a better than expected 211k posts during the month, whilst the unemployment rate dropped to 4.4%, the lowest level since May 2007.
- In an encouraging sign for Theresa May ahead of the UK general election, the Conservative Party made good gains in the local elections winning 500 council seats, with the gains coming at the expense of both UKIP and Labour. On the data front, it was another week where "soft" and "hard" economic data sent conflicting signals on the outlook for UK economy. On the positive side both the service and manufacturing business confidence surveys recorded gains, while disappointingly, mortgage approvals in March fell for a second consecutive month in a row, with a lack of available properties for sale being blamed on the slowdown in housing activity.
- In Japan, it was a relatively quiet week with the equity market closed from Wednesday onwards as part of the Golden Week holidays. The little data that was released was mildly weak, with the service sector business confidence survey declining to 52.2 in April from 52.9 in March. Over in China, data was also sparse, with two service sector business confidence surveys both declining. All four of China's business surveys released in April have recorded declines in business confidence, an indication of decelerating growth momentum in the world's second largest economy.

Front and centre of our thoughts this week include

- The Bank of England (BoE) Monetary Policy Committee meeting will take centre stage this week, where the BoE will publish detailed growth and inflation forecasts as part of their quarterly Inflation Report as well as set interest rates. We expect no changes in interest rate policy in the meeting, however it will be interesting to see how committee members cast their votes given the conflicting signals from 'soft' and 'hard' economic data on the UK economy.
- Across the pond, US retail sales and inflation numbers will provide important clues over the timing of the next interest rate rise in the US. Despite economic fundamentals in the US appearing solid, consumer spending has been weak in recent months and investors will be looking for a rebound in consumer spending as a sign of the US economy's resilience. Additionally, with the highs in the oil price coming this time last year we wait to see what direction inflation takes.
- Corporate earnings season has begun to wind down in the US, with only 39 S&P 500 companies due to report this week, so it's over to their European counterparts for us to focus on with 100 Europe Stoxx 600 companies scheduled to report. So far the trend in US earnings has been positive, with an above average number of companies beating their sales and earnings estimates, and we would expect European companies to show a similarly positive trend in earnings momentum.

In the side view mirrors of corporate activity we notice

- It was a good week for education firm Pearson, with investors welcoming the news of fresh restructuring plans for the business. The share price rose over 10% as management announced aims to save the business £300m by the end of 2019, potentially through the sale of their US school publishing business.
- It was a disappointing week for tech giant Apple, after the company reported an unexpected decline in iPhones sales over the first three months of 2017 with Apple boss Tim Cook blaming the decline in sales on customers taking a "pause" as they wait for release of the next iPhone. On the positive front, profits rose as the business managed to sell more expensive versions of the smartphone.



Source: Bloomberg. Figures are for the period 1st May to 7th May 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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