THOMAS
MILLER
INVESTMENT

View from the Front

15th May to 21st May 2017

In the rear view mirror of last week we saw

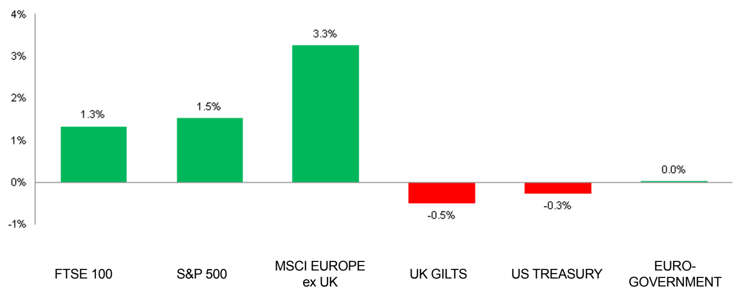
- A quiet week for global financial markets with data, on the whole, not giving rise to much pessimism nor optimism. Nowhere was this mixed set of economic data more evident than in the US, where the picture on the immediate trend in growth of the economy remains unclear. While consumer prices, as measured by CPI, weakened in April (even when stripping out the volatile effects of energy and food prices) - consumer sentiment increased again in May, suggesting that demand will remain robust in the economy.
- Late last week we saw the pre-announcement of a trade deal between China and the US, described by Washington officials as an “early harvest”. In a 10-point plan designed to reset the trade relationship which Mr Trump campaigned heavily over. Some of the headline points include a resumption of American beef imports to China, while China would also allow some financial institutions to apply for licenses. Reception to the deal has been mixed with many commentators noting that China had announced many of the concessions in the past.
- An expected victory for Emmanuel Macron in the French Presidential election saw political risk move off the European agenda, at least in the short-term. There was further good news as Angela Merkel’s CDU party won a significant regional election this weekend, the CDU party have now won all three of this year’s regional elections which bodes well for the government elections in September. Like with the US, economic data was mixed too in Europe. Industrial production was a little weaker in March whilst on the other hand, German economic growth in Q1 (as measured by GDP) was notably strong suggesting that the Euro area growth figure would remain robust when released this week.
- This week witnessed the release of the inflation report in the UK, which read in line with our broader expectations. Unsurprisingly interest rate policy in the UK was not changed, with the Bank of England (BoE) monetary policy committee voting 7-1 in favour of remaining at the status quo. Remarks from BoE governor, Mark Carney, in the press conference afterwards reflected those of a BoE who are comfortable with the current stance given the uncertain future of the UK given negotiations around Brexit.

Front and centre of our thoughts this week include

- As the various political parties in the UK hit their strides in the election campaign, the economic data also ramps up. A busy week ahead sees Q1 unemployment data (including wages) released, while we also get the April reading for inflation. The March reading was slightly weaker, driven by the late scheduling of Easter however we expect the April reading to feel the full effects of higher prices during this period.
- Last week was tough for the US retail sector where the share prices for some of the larger players were down heavily following some weak quarterly earnings results. Macy’s, Gap and Kohl’s were among those to suffer as the online shopper begins to bypass the high street department store. This week sees the world’s largest retailer by sales, Walmart, report results where investors will watch for any signs of weakness. In addition updates from Target, Home Depot and Staples will also grab attention.
- Japan release data on economic growth this week, where we will watch for the trend in first quarter GDP. Economic data has been positive in the region where market consensus is for annualised growth of 1.8%, well above the long-run trend. Should the GDP figure remain positive, it would mark the fifth consecutive quarter of growth for the first time in 11 years.

In the side view mirrors of corporate activity we notice

- The company earnings season in the US for the first quarter of 2017 has been strong, as at Friday 91% of companies in the S&P500 had reported with 75% beating the average analyst estimate. This compares to the fiver-year trailing average of 68%. At this rate, the quarter will mark the highest year-on-year earnings growth since the third quarter of 2011.
- Finally the fortune of UK high street retailer, Marks & Spencer, could improve following the appointment of retail veteran Archie Norman to the role of Chairman. Mr Norman has previous experience of turning around supermarket chain, Asda, in the early part of the 21st century – it is hoped this experience will prove relevant to the challenges facing M&S.



Source: Bloomberg. Figures are for the period 8th May to 14th May 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.