THOMAS MILLER INVESTMENT

View from the Front

22nd May to 28th May 2017

In the rear view mirror of last week we saw

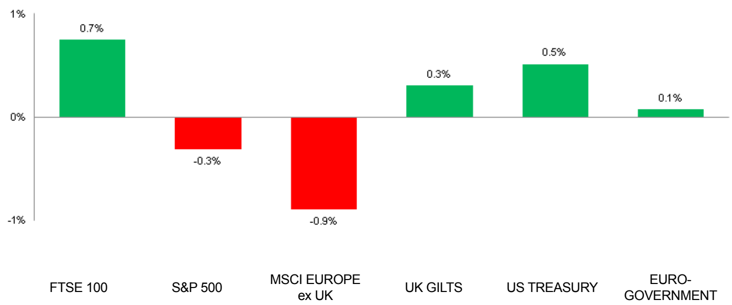
- In the US we witnessed a week driven more by politics than by economic data. There was some ground for optimism on the data front with the report of a strong jump in industrial production for April. The strength was broad based across industries with factory production rising the most since 2014. Equally there were grounds for pessimism following the release of housing data last week, where there were declines in both new home construction and mortgage applications. On the political side, rumblings continue to stir over the recent firing of former FBI director James Comey which had a noticeably negative impact on risk sentiment.
- Data in Japan continued to improve last week where economic growth for the first quarter of 2017 (as measured by GDP) came in at an annualised 2.2%, which marked the fifth consecutive quarter of expansion for the country. There was, however, a surprisingly weaker report for machine orders during the week, suggesting that business investment may be softening a little.
- At the start of last week we saw activity and spending data in China report below consensus estimates, continuing the recent trend of weaker Chinese economic data. Industrial production only expanded at 6.5% (on a year-on-year basis) in April, having been 7.6% in March. There was also weakness in investment growth data as fixed asset investment grew by 8.3%, down from 9.4% last month.
- Inflation in the UK continues to rise, hitting its highest level in four years following the April reading. Prices were 2.7% higher than April last year. Whilst some uplift was expected for April, because Easter was later this year when retailers typically raise prices, there was also an additional impact from higher air fares. All of this won't help the consumer as labour market data released last week revealed wages only grew 2.1% in the three months to March, which means wages have fallen in real terms. This is occurring despite the fact that unemployment is at its lowest level since 1975.
- The European economy continues to go from strength to strength, this is best represented in the form of consumer confidence. Last week this data release hit a decade high to levels not seen since the financial crisis, implying the continent has been able to successfully shrug off populist risks as we approach the half way point of the year.

Front and centre of our thoughts this week include

- With the party manifestos now released and a poorly attended leaders debate in the rear view of last week, markets will start to focus on polls and the short-term momentum built up across party lines. We expect the value of Sterling to remain volatile in the final run-up to the election, indeed the last few trading sessions have shown how much the currency can swing about on political news.
- This week sees the usual monthly (preliminary) release of business sentiment indicators, known as the purchasing manager indices (PMIs), across the globe. In the US and Europe we will look for a continued trend of strengthening activity levels. In addition we will see second and final revisions to first quarter GDP data for many of the developed markets.
- The major political story which we expect to dominate the news this week is Donald Trump's first foreign trip since taking office. Over the weekend the US President attended conferences in the Middle East however his meetings in the latter half of this week will be of interest to Europe. He will meet EU leaders and then attend the NATO summit on Thursday before attending the G7 summit in Italy on Friday.

In the side view mirrors of corporate activity we notice

- In a sign of changing times at the big car manufacturers, Ford has announced plans to create more factory floor roles while shedding more white collar roles as part of an ambitious plan to cut $3bn of costs this year. If that wasn't dynamic enough the company are also replacing current CEO, Mark Fields, with Jim Hackett who is in charge of the smart mobility unit. The unit focuses on driverless technology and electric cars.
- UK high street bank, Lloyds, has finally returned to private ownership after the government sold down their remaining stake almost a decade after rescuing the bank in the aftermath of the financial crisis. The government initially took a 43% stake in the bank and a conservative estimate by the Office for Budget Responsibility suggests the government made an eventual profit of around £100m.



Source: Bloomberg. Figures are for the period 15th May to 21st May 2017.
Where the index is in a foreign currency, we have provided the local currency return.

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