THOMAS MILLER INVESTMENT

View from the Front

30th May to 4th June 2017

In the rear view mirror of last week we saw

- In the UK, the second estimate of UK economic growth (as measured by GDP) showed the economy grew at a slower rate than previously forecast in the first three months of the year, with slowing household spending and a negative contribution from net trade seeing first quarter growth revised down to 0.2% from the previous estimate of 0.3%.
- With regard to the UK General Election, the big news last week was the policy U-turn by the Conservative party on funding elderly care. Last night, leading candidates Theresa May and Jeremy Corbyn were part of a live TV Q&A, with neither candidate suffering a major setback. Opinion polls released last week, however, did show a tightening in the election race, with the Conservative lead over Labour cut to below 10%, compared with over 20% at the start of the Election campaign.
- In the US, it looks increasing likely that the US Federal Reserve (Fed) will raise interest rates again in June after minutes from their previous meeting revealed that "most participants" thought it would "be appropriate" to increase rates soon providing data evolve as expected. On the data front, the second estimate of first quarter growth was revised higher, with GDP growing at an annualised rate of 1.2%, up from the previous estimate of 0.7%, with better than expected consumer spending being the principal cause of the upwards revision to growth. President Trump's first official overseas trip was a relatively quiet affair by his standards, with the main takeaway being a signed arms deal with Saudi Arabia and the continued criticism by Trump of fellow NATO members for failing to pay their fair share.
- It was another week where business confidence surveys continued to paint an encouraging picture for the outlook of the European economy. The all-industry (preliminary) PMI business sentiment survey remained at a six-year high whilst the German IFO business sentiment survey reached a near 50 year high. Data last week were also solid, with the second estimate of growth confirming the Spanish and German economies grew by 0.8% and 0.6% during the first quarter of the year, respectively.
- The decision by Moody's to downgrade China's sovereign credit rating for the first time in nearly three decades was criticised by China's finance minister, who stated the credit rating agency had exaggerated China's economic difficulties and underestimated the government's reform effort. Moody's stated the downgrade in credit rating was in response to rising economy-wide debt and the slowing growth which posed challenges to China's financial strength.

Front and centre of our thoughts this week include

- It is a relatively quiet week on the corporate front, with very few companies due to report. Therefore, investor focus will be on macroeconomic data released during the week, with particular attention on US employment and inflation numbers as these will help guide expectations around the timing of the next Fed rate hike.
- Markets are currently pricing close to an 80% probability of the US Fed raising interest rates again at their June meeting. In April, the US economy added more jobs than expected and if we witness a similarly positive reading for May's employment report then it should all but guarantee another increase in US interest rates in June. Additionally, we also see the release the Personal Consumption Expenditures (PCE) measure of inflation and if the rate of inflation continues to move closer to the Fed's 2% inflation target then it will further add to expectations of a June hike.
- Alongside US inflation numbers, we also get the first estimate of May's inflation numbers for the Eurozone, and these numbers will again be important in determining the level of monetary accommodation by the European Central Bank. We also get the release of manufacturing sentiment indicators for all major economies as well as the release of some service sector sentiment surveys. These surveys are closely correlated with future economic growth and will help to set growth expectations for the second half of this year; we expect these indicators to continue to show that confidence amongst business remains high and supportive of growth.

In the side view mirrors of corporate activity we notice

- UK retailer Marks and Spencer reported a 64% decline in annual profits to £176.4m, for the year ending 31 March 2017, as weaker than expected clothing sales and £400m of restructuring costs weighed on profits. The restructuring costs relate to new CEO Steve Rowe's turnaround plans for the business, which include the closure of a number of stores, selling clothing and homewares in fewer stores and opening new, smaller food-only stores.
- Those looking to get away for the bank holiday weekend on a British Airways (BA) flight were left disappointed, after flights affecting 75,000 passengers were either cancelled or delayed due to an IT error. Chief executive, Alex Cruz has come under pressure for his decision to outsource a number of IT jobs from the UK to India, although he denies the error was connected to this decision. Early estimates of the cost of the IT error to BA are around £150 million.

Dan Smith
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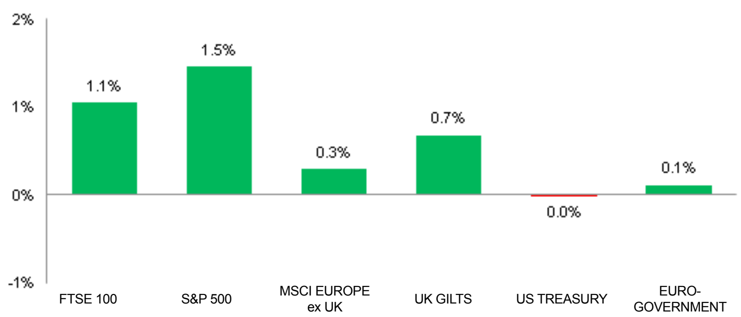

Source: Bloomberg. Figures are for the period 22nd May to 28th May 2017.
Where the index is in a foreign currency, we have provided the local currency return.

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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.