

View from the Front

5th June to 11th June 2017

In the rear view mirror of last week we saw

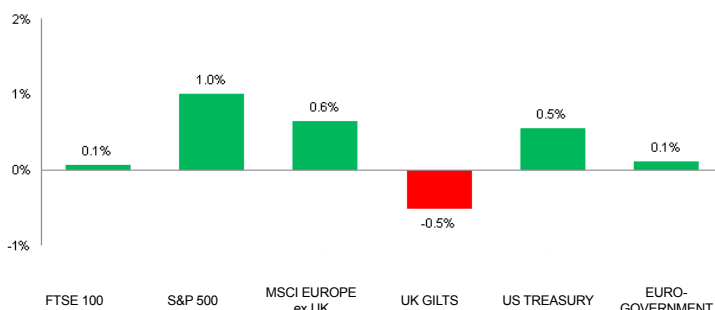
- In the UK, election news continues to dominate and last week the majority of opinion polls continue to show a victory for the Conservative party, but with varying victory margins. The UK manufacturing sentiment survey, PMI, declined slightly in May but the confidence level amongst UK manufacturers is well above its two year average and suggests a solid rate of expansion in activity in the months ahead. The UK housing market is showing some signs it is losing momentum, after mortgage approvals fell to a seven month low in April and house prices, as measured by Nationwide, declined for a third consecutive month.
- After a period of relative calm, politics again took centre-stage in Europe, after the chances of an earlier-than-expected General Election in Italy increased. A precondition for an election is to have a common electoral law across both Houses of Parliament, and last week the main political parties edged closer to agreeing a German-Style, proportional representation voting system. On the data front, business confidence surveys remain at a six-year high, pointing to strong economic growth in the Eurozone. Inflationary pressures in the economy however remain subdued, as evidenced by the larger-than-expected decline in Eurozone inflation, which declined from 1.9% in April to 1.4% in May.
- The decision by President Donald Trump to withdraw the US from the Paris Climate accord was heavily criticised by world and business leaders who stated it was a backwards step in the fight against climate change. Economic data in the US was also disappointing, as the US economy created fewer jobs than expected in May, (138k vs 182k) and there were downward revisions of 66k to the number of jobs created in the previous two months. The one bright spot in the job reports was the continued decline in the unemployment rate, which fell to 4.3%, a 16 year low. On the inflation front, the Federal Reserve's preferred indicator, the personal consumption expenditures (PCE) price index, showed that the annual inflation rate had declined to 1.7% in April, down from March 1.9%, and below its recent high of 2.1% in February.
- In China, the manufacturing sentiment surveys sent conflicting signals on the health of the manufacturing sector. The official manufacturing PMI confidence reading remained unchanged at 51.2 in May, beating analysts' expectations of a decline. However, the Caixin Manufacturing PMI fell for a third straight month, from 50.3 to 49.6. Importantly, the decline pushed the confidence reading to below the 50 level, which in theory separates expansion from contraction, suggesting a decline in activity in the months ahead.

Front and centre of our thoughts this week include

- It's a "Super Thursday" this week in financial markets. The UK General Election, the conclusion of the European Central Bank (ECB) two-day monetary policy meeting and former FBI Director James Comey testifying to the Senate Intelligence Agency all coming on the 8th June. During the week we also receive service sector sentiment surveys, PMI, for all major economies.
- Opinion polls have consistently shown a Conservative party victory in the General Election, however their lead over Labour has narrowed in recent weeks, and given the poor accuracy of polls to predict the outcome of a number of key political events, the degree of confidence we have in their forecasting is limited. As the outcome of the election is likely to set expectations of whether Brexit will be "hard" or "soft", we expect higher-than-average volatility in the pound and UK stock market this week.
- The outlook for the Eurozone economy has improved markedly, and we expect this to be acknowledged by the ECB in this week's monetary policy committee meeting, however as inflationary pressures in the economy remain weak, we expect the ECB to preserve their current stance towards monetary policy, that extraordinary stimulus measures is still required.
- James Comey, the man who was leading the FBI investigation into Russia's involvement in last year's US presidential elections before being dismissed by the President, is due to testify to Senate Intelligence Committee in "open session" on Thursday. He is likely to be questioned on the pressures he faced by the President to drop his investigation before being dismissed and the findings could create serious reputational damage for the Donald Trump.

In the side view mirrors of corporate activity we notice

- The UK Competition and Markets Authority (CMA) have launched its investigation into Tesco's planned £3.7bn takeover of wholesaler Booker. The CMA will assess whether the deal "could reduce choice and competition for shoppers and other customers". Some suggestions are that Tesco may have to sell a number of stores for the deal to be approved. The CMA is expected to approve or launch a more in-depth investigation into the deal by 25th July.
- It has been a positive first quarter earnings report for the 496 companies in the S&P 500 index that have reported results so far. 75.4% have reported earnings above analysts' expectations, above the long-term average of 64%. It has been a similarly upbeat message on the revenue front, with 62.8% of companies reporting revenue above analysts' expectations, higher than the long-term average of 59%.



Source: Bloomberg. Figures are for the period 29th May to 4th June 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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