THOMAS MILLER INVESTMENT

View from the Front

12th June to 18th June 2017

In the rear view mirror of last week we saw

- The Eurozone continues to surprise investors as current economic growth in the region continues at a strong pace. A raft of economic data releases last week maintained a story of improving economic confidence, as identified by elevated Purchasing Managers Indices (PMIs) across most countries. Germany led the way, where business activity rose to a six year high with the PMI reaching 57.4 for May, a figure above 50 indicating growth. Indeed the release of the second estimate of Eurozone economic growth, as measured by Gross Domestic Product (GDP), for the first quarter of 2017 was upgraded to 0.6% (on a quarterly basis) and 1.9% (on a yearly basis).
- All the positive economic noises in Europe are coming against a backdrop of increasingly negative economic noises in the US. Notably we continue to witness the slowing in speed of expansion for the large US service sector, where the ISM reading (similar to the PMI gauge in Europe) fell to 56.9 in May from 57.5 in April. Still above the 50 mark which indicates economic growth, however markets remain focused on the change in the rate of growth, which is slowing. With US unemployment data a little weaker last month and core inflation struggling to gain traction, the Federal Reserve have much to consider.
- In the land of the rising sun, economic data is also struggling for momentum. So much so that the second estimate for first quarter GDP in Japan was revised down to 1.0% (on a yearly basis), from an initial estimate of 2.2%. The median forecast from economists in Japan actually expected an upward revision to 2.4%. Meanwhile key trading partner and the other titan of Asia, China, continues to manually intervene in the economy as they increase the value of the currency. After a three month period of stability, the renminbi-dollar exchange rate has spiked higher. Many believe this is in anticipation of a US rate rise next week which would typically push the value of the dollar higher.
- Our review of last week would not be complete without a quick delve into the unstable world of UK politics. The team at Thomas Miller Investment have released our key insights following the result, please **use this link** for further details. As the dust settles after the weekend it is clear that Theresa May's political capital has been materially impaired. With credibility weakened there has been little reshuffling of her cabinet. Significantly Philip Hammond stays on as Chancellor of Exchequer after much speculation he would be moved on. Trying to forecast where the UK moves from a political perspective would be futile, and in any case, as our clients are aware, we don't invest around political noise. We continue to focus on the economic fundamentals in the global economy.

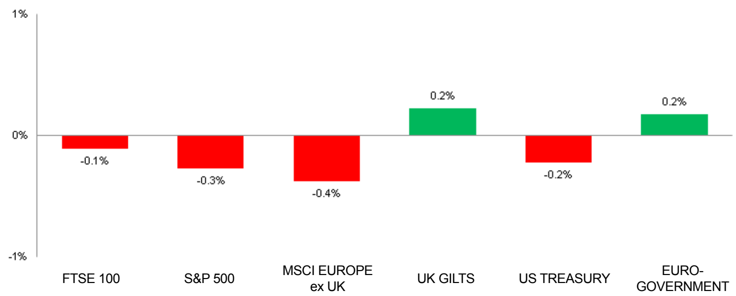
Front and centre of our thoughts this week include

- A very busy week for the world's heavyweight central bankers. First off the blocks are the US Federal Reserve who meet for a two day meeting that concludes on Wednesday. The market firmly expects a second interest rate increase for 2017.
- Less than 24 hours later, the Bank of England's Monetary Policy Committee delivers its latest view on the short-term direction of interest rates in the UK. Inflation is trending higher, indeed is above 2% now, yet there remains signs of weakness in the economy. The market firmly expects no change to current policy.
- By the time we get to Friday we will have heard from the Bank of Japan and their latest view on monetary policy. The economic data in Japan remains mixed despite hints of improvement in some sectors. Again the market firmly expects no change to the current policy where short-term interest rates remain negative.
- We will also hear from Philip Hammond at the annual Mansion House speech where the Chancellor updates the City on the state of the UK economy. Following so closely on the heels of last week's General Election, we expect the speech to outline the economic direction of the new government.

In the side view mirrors of corporate activity we notice

- Troubled Spanish bank, Banco Popular was taken over by Santander last week for the precise sum of €1. The deal is unique because of the significant involvement of the European bank resolution authority, who have now set up a template on how future takeovers of troubled European banks could take place.
- In the US, pharmaceutical giant Johnson & Johnson (J&J) expect to receive approval this week from the European Commission for their $30bn acquisition of Actelion, the Swiss biotech group. J&J have been under pressure to fund a suitable company as many of their products approach a 'patent cliff' where they lose the exclusive rights to sell a medicine.

Jordan Sriharan
Senior Portfolio Manager



Source: Bloomberg. Figures are for the period 5th June to 11th 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.