

View from the Front

19th June to 25th June 2017

In the rear view mirror of last week we saw

- In line with expectations, the US Federal Reserve (Fed) raised interest rates by 0.25% to within the policy target range of 1% - 1.25%, whilst indicating they will likely hike rates once more before the end of the year, despite three consecutive monthly declines in inflation data. Fed Chair Janet Yellen addressed the disinflation fears by putting the recent decline down to one-off factors such as falling prices for mobile phone service and prescription drugs. The central bank also outlined the fact they will begin shrinking their balance sheet later on this year, initially by \$10 billion each month, increasing the amount incrementally to a cap of \$50 billion a month. To put these figures into context, the Fed's balance sheet has swollen to \$4.5 trillion, or 25% of GDP, since quantitative easing (QE) began.
- The Bank of England's (BoE) Monetary Policy Committee (MPC) also met last week. Despite no change, markets were caught by surprise as three members (out of eight) voted in favour of raising interest rates as inflation accelerated faster than expected to an annualised figure of 2.9% - the impact of a weakened sterling kicking in. Meanwhile, the Queen's Speech was delayed to Wednesday 21 June as Theresa May's coalition talks with the Democratic Unionist Party (DUP) continue.
- Staying with central banks, the Bank of Japan's (BoJ) meeting

on Friday resulted in no real surprises, as they maintained their current quantitative and qualitative easing (QQE) monetary policy. Economic data for the country was mixed, with core machinery orders in April remaining weak, while public construction spending surged in the same month. There was positive news for China as the International Monetary Fund (IMF) nudged up their estimate of Chinese GDP growth for 2017 to 6.7%.

- Moving over to the Euro area, core inflation, which strips out the more volatile food and energy prices, came out at just 0.9% for May, while headline inflation for the same period was 1.4%. Economic data released for the region indicate growth has picked up in 2017, which is consistent with the strong business surveys we have seen recently in the Purchasing Managers' Indexes (PMIs). Industrial production grew at a monthly rate of 0.5% for April, while car registrations, another indicator of economic growth, rose 3% in May compared with the previous month.
- Rounding off with politics in Europe, Emmanuel Macron's En Marche party swept the board in the second round of the parliamentary election on Sunday after winning 350 out of 577 seats - an impressive feat for a party that was only formed in April of last year. It is worth noting, however, that turnout was a record low 43%.

Front and centre of our thoughts this week include

- Despite the inconclusive General Election result, Brexit negotiations will officially commence today over in Brussels. The first round of negotiations this year is likely to focus on the UK's exit bill and the rights of EU citizens living in the UK and vice versa post-Brexit. Ultimately, the UK still seems likely to leave the "single market" and customs union.
- We will also hear the new government's legislative programme in a rescheduled

Queen's Speech on Wednesday. The fact Theresa May has set a date for the speech has been described as risky given the fact she is yet to finalise talks with the DUP to form a coalition.

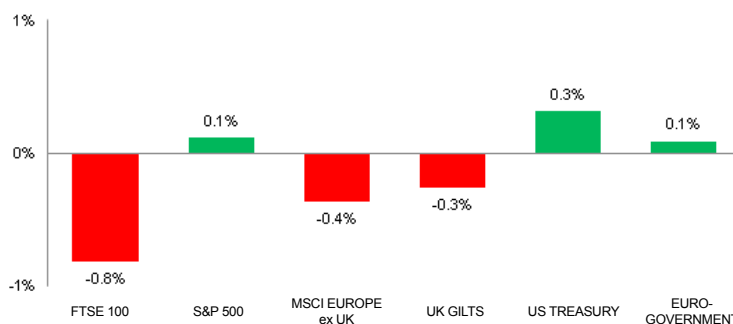
- Later on in the week EU leaders will meet on Thursday after Brexit talks begin where Michel Barnier, chief EU negotiator, will likely provide them with an update. We are starting to see divisions between leaders over trade, with France and Italy

preferring a protective Europe, but pro-trade countries such as the Netherlands have objections.

- On Friday we will receive preliminary estimates of business confidence surveys (PMIs) from the Euro area and the US. As discussed earlier, recent results have been particularly strong in the Euro area, so we will be casting our eyes over whether this trend can continue.

In the side view mirrors of corporate activity we notice

- The big news from last week came from Amazon announcing they will buy Whole Foods in a \$13.7 billion deal, which sparked a negative reaction in Whole Foods' competitors share prices. This takeover deal will be Amazon's biggest ever to date, and is expected to complete in the second half of the year, pending approval.
- It has also been announced that Uber has been losing significant business in the US, their biggest market, to one of their rivals, Lyft. Their market share has fallen from 84% at the beginning of the year to 77% at the end of May. This marks a tough period for the company, with multiple recent scandals also denting the company's image and leading to a number of senior departures.



Source: Bloomberg. Figures are for the period 12th June to 18th 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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