

View from the Front

26th June to 2nd July 2017

In the rear view mirror of last week we saw

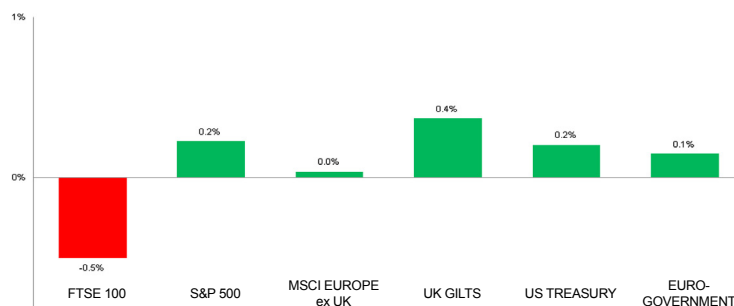
- China's acceptance by the international financial marketplace took a step further last week as it emerged that the Chinese domestic stock market will now be included in the emerging markets benchmark index from next year. Known as the A-share equity market, foreign investors own less than 2% of a \$7tn market – the second largest pool of equity capital in the world, after the US with a value of \$19tn.
- Argentina issued a government bond last week that matures in 2117, exactly 100 years from now. They raised \$2.75bn from international investors who receive (on average) a yield of 8% for lending their capital to the emerging market. Here at Thomas Miller Investment there were some surprised looks, after all Argentina have already defaulted on their government debt no less than five times in the last 17 years.
- The price of 'Black Gold', more commonly known as crude oil, fell to seven month lows this week. Knock-on effects include a fall in the equity prices for US energy companies while the price of soft commodities like sugar and cocoa have also fallen. The price of Brent crude is now down 20% since the start of the year as investors lose faith in OPEC's agreement to reduce production.
- The Eurozone continues to perform robustly however data at the end of last week showed that economic activity fell slightly from recent post-crisis highs, at least for the service sector. Conversely the manufacturing sector is enjoying its strongest period in six years, according to survey data. Factory activity rose in May and aligns with recent data from Germany and France which has been expanding throughout the year to date.
- The UK was not only confined to political battles last week as central bank battles appeared to pick up pace. Earlier in the week Bank of England (BoE) Governor, Mark Carney spoke and suggested that the current interest rate policy would be maintained given the immediate outlook. No less than a day later and Chief Economist at the BoE, Andy Haldane, sent mixed signals by suggesting that an interest rate rise might be warranted as early as this year.

Front and centre of our thoughts this week include

- The World Economic Forum's annual June meeting takes place this week in China where the Chinese Premier will speak at the opening ceremony. This year's theme is innovation, so expect to hear much from the tech industry's largest players on their thoughts.
- Another annual meeting in the form of the ECB Forum on Central Banking kicks off today and is described as the European equivalent to the Federal Reserve's Jackson Hole symposium. Of most interest, will be the policy panel discussion later in the week between central bank heavyweights, Mario Draghi (EU), Mark Carney (UK), Haruhiko Kuroda (Japan) and Stephen Poloz (Canada).
- Economic data picks up this week after a short period of quiet in markets. We will be keeping an eye out for house prices in the US, industrial profits data in China and consumer confidence data in Europe. Inflation has gathered much attention in the last few months and towards the end of the week we will see consumer price index data released across Europe and the US.
- It wasn't so long ago that US politics were the butt of many jokes but attention seems to have now turned towards the UK. The government moves into week two of Brexit negotiations while, on the domestic front, the Queen's speech takes place before the House of Commons vote on Thursday. Before then we will hear from PM Theresa May who speaks this afternoon.

In the side view mirrors of corporate activity we notice

- The big news over the weekend was the rescue of two Italian banks, which received taxpayer money with the "good assets" transferred out, the deal was approved by the European Commission. This decision comes only two weeks after Spanish bank Banco Popular was rescued by Santander, utilising the new European bank resolution mechanism.
- Nestle is the target of an activist investor who believe management can "pursue change with a greater sense of urgency". In particular they are calling on the company to sell its stake in L'Oreal, in echoes of the pressure applied to Unilever earlier in the year. Let's hope they are worth it.



Source: Bloomberg. Figures are for the period 19th June to 25th 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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