

View from the Front

3rd July to 9th July 2017

In the rear view mirror of last week we saw

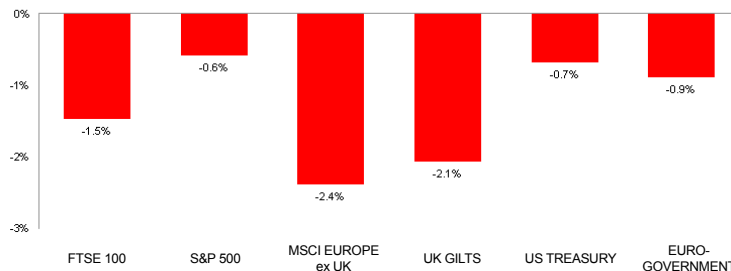
- Starting with the UK, the most significant economic story last week were comments made by Bank of England (BoE) governor Mark Carney. At a European Central Bank (ECB) summit he suggested that the quantitative easing programme for the UK could be reversed sooner than expected. This was in stark contrast to his comments at his Mansion House speech, the week before, where he said monetary policy was unlikely to change while the UK negotiated the Brexit deal.
- Things continue to look good for the European economy. The German IFO's overall business climate index again rose to a record high in June, against predictions for a fall. With unemployment in the country already at record lows, inflation is now starting to surprise on the upside as the consumer price index rose 1.6% in June, on a year basis. Consumer confidence across Europe remains at its highest level since 2001, highlighting the improving prospects in the region.
- Perversely inflation data in the US is trending back down. The Federal Reserve's preferred measure – personal consumption expenditure – suffered a large drop last week, falling to 1.4% in May, having been as high as 1.8% in February. Last week also saw the Federal Reserve release the result of their bank “stress test”, where all but one passed with a clean bill of health. With restrictions now eased on dividend payments by those banks, equity prices rose.
- Business confidence in China appears stronger after activity in the manufacturing sector ticked up in June, against market expectations for a fall. The official public sector measure of the manufacturing PMI index rose to 51.7 for June, up from 51.2 in May. The private sector measure has been showing a divergence for some months now, however has ticked back up and, significantly, has moved above the 50 mark (to 50.4) which suggests an expansionary environment.
- A mixed set of data releases in Japan last week. The industrial production figure for May was positive while business sentiment was also steady, however, consumption data was slightly weaker than expected. Over the weekend PM Abe suffered a landslide defeat in the Tokyo elections with city governor Yuriko Koike's new party securing a comfortable majority (with the support of the Komei Party). This result could spur Koike to mount a similar challenge against Abe in the national election, not scheduled to occur until next year.

Front and centre of our thoughts this week include

- Whilst the US are out for Independence Day tomorrow, they will return to work knowing the always important monthly employment report is issued on Friday. The data from May was a little weaker after a robust start to the year, so most investors will be tuned in to see if this is merely a blip or the start of a trend. Expect market activity to be a little more quiet in the first half of the week while the Americans are on holiday.
- A week of high level diplomatic meetings start today with Chinese President Xi Jinping making an official two-day visit to Russia to see Vladimir Putin. Xi Jinping will then meet with the German Chancellor Angela Merkel on Wednesday. Donald Trump (who has again been busy on social media over the weekend) meets with Poland's president later in the week, where he will also give a speech. All this ahead of the annual G20 meeting, that is being hosted by Angela Merkel in the German city of Hamburg.
- Business survey data (as measured by the purchasing manager indices) are released in the first week of the month with European data released first which we expect to remain strong. We move onto the UK later in the week where a growing discrepancy is appearing between the manufacturing and service sector. This reflects gradually slowing consumer demand that is negatively impacting the services PMI and an improving outlook for exporters (through a weaker currency) that is positively impacting the manufacturing PMI.

In the side view mirrors of corporate activity we notice

- Google were fined a record €2.4bn on antitrust grounds by the European Commission who concluded that the company had been abusing their 'monopoly-like' status to give their own shopping service an illegal advantage.
- The largest bankruptcy of a Japanese manufacturer took place last week as Takata, a manufacturer of airbags, confirmed it would delist on July 27th. The firm, rightly, had to fund \$13bn in car recalls as their airbags had been exploding with such force that they had led to fatalities.



Source: Bloomberg. Figures are for the period 26th June to 2nd July 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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