

View from the Front

17th July to 23rd July 2017

In the rear view mirror of last week we saw

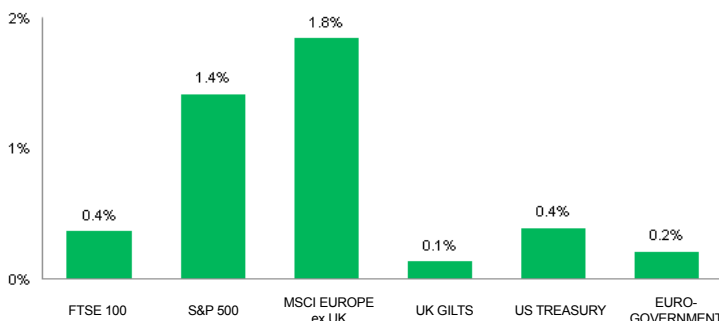
- In the UK, the unemployment rate fell to its lowest level in 42 years, down at 4.5%. With 175,000 jobs created over the three-month period to the end of May. Despite strong employment figures, wage growth remains weak, with wage growth excluding bonuses hitting 2% - this is significantly below the pre-crisis average of circa 4%. The drop in the unemployment rate, however, could put upward pressure on wages going forward.
- It was a relatively quiet week for the euro area regarding data releases. Of particular importance were the finalised June inflation figures for the two largest economies in the bloc, Germany and France. There were no surprises in the last revisions, with Germany reporting an annual rate of 1.5% and France lagging behind at 0.8% - both are measured by the Consumer Price Index (CPI).
- Last week, the United States' Federal Reserve (Fed) chair, Janet Yellen, gave her semi-annual testimony on monetary policy before both Houses of Congress. Inflation in the US has recently been weak, but Yellen reiterated the view that the Fed expects a tightening labour market (i.e. unemployment falling) will lead to increased inflation. Moving away from the Fed, US retail sales unexpectedly dropped for a second month in a row, with purchases dropping 0.2% in June after falling 0.1% the previous month. The US equity market (S&P 500) also continued its upward trajectory by closing at yet another record high.
- Staying in North America, the Bank of Canada raised rates by 0.25% to 0.75% last week, while suggesting that monetary policy will be less accommodative for the foreseeable future. This was the Bank's first rate hike since 2010, and also means they are the first G7 central bank to join the Fed in raising rates. Despite this, there are still concerns for the economy, notably the stability of their housing market where prices have risen materially in recent years - house prices have doubled since 2009 in Toronto and Vancouver. There have been few signs of a slowdown yet.
- Moving across to another country attempting to deal with a housing bubble, China released both inflation and trade data. Annual inflation, as measured by CPI, was steady at 1.5%, unchanged from May's figure. Despite the steady rate, it is worth noting that it's still far below their 3% target. Trade data for the country were positive, with both exports and imports coming out ahead of expectations. In USD terms, exports expanded 11.3%, while imports grew 17.2%.

Front and centre of our thoughts this week include

- We will receive a variety of inflation data in the UK, namely CPI, Retail Price Index (RPI) and Producer Price Index (PPI) in one go on Tuesday. Focus will be on core CPI, which strips out the more volatile food and energy prices. May's core CPI came out at 2.6%, significantly above the Bank of England's target of 2% and it's expected the June reading will remain above target.
- On Thursday the Bank of Japan will be meeting to discuss monetary policy. No policy changes are expected at this meeting. However, we will be keeping an eye on whether they alter their inflation forecast, with some expectation it will be lowered.
- Finally, the European Central Bank (ECB) meets on Friday. It is widely expected they will not make any alterations to their current policy stance, and instead the focus will be on signals for the meeting in September. It is this September meeting when new staff forecasts will be published and when the ECB is expected to make an announcement on gradually exiting their quantitative easing (QE) programme.

In the side view mirrors of corporate activity we notice

- Alpargatas, the maker of arguably the best-known brand of flip-flop, Havaianas, has been sold for a stake of \$1.1 billion. The company is owned by J&F Investimentos, which has been at the heart of a corruption scandal in Brazil. The sale was widely expected, and it is understood the proceeds from the sale will help towards repaying their debt and fines.
- It was a volatile week for AstraZeneca, the UK-based pharmaceutical giant. Following a strong start to the year (up almost 16% to end of June), there was a report that the chief executive, Pascal Soriot, was going to move to Israeli competitors Teva Pharmaceutical Industries. This resulted in a negative reaction, wiping more than 2% off of their share price. Two days after the rumours, however, the company announced that he is in fact staying at AstraZeneca, making up some of the lost market value.



Source: Bloomberg. Figures are for the period 10th July to 16th 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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