THOMAS
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INVESTMENT

View from the Front

24th July to 30th July 2017

In the rear view mirror of last week we saw

- It was a disappointing week for US President Donald Trump as he suffered a major setback with one of his main campaign pledges – to repeal Obamacare, as neither a repeal-and-replace or repeal-only bill gained sufficient support from Senate Republicans. Matters got worse for the President after US special counsel, Robert Mueller, announced that he was examining financial transactions involving President Trump and Russia. Economic data from the US was mixed, as the negative NAHB housing sentiment survey, which declined to an 8-month low, was partially offset by better-than-expected housing starts and permits data.
- The probability of an imminent interest rate hike from the Bank of England decreased this week after UK inflation numbers surprised to the downside. Annual Consumer Price Index (CPI) fell 0.3% to 2.6%, while core CPI inflation, which excludes volatile food and energy prices, also came down from 2.6% to 2.4%. Retail sales for June were better-than-expected as the 0.6% monthly expansion exceeded the consensus expectation of a 0.4% rise, and the strong monthly numbers should alleviate some of the concerns over a marked slowdown in consumer spending. However, anyone born between 6th April 1970 and 5th April 1978 will be disappointed by the news that they will have to wait an extra year to receive the state pension, after the government brought forward the date that the state pension age increases from 67 to 68 by seven years to 2037.
- In Europe, the European Central Bank (ECB) meeting provided little new information. The easing bias on their quantitative easing (QE) programme was maintained as the policy statement retained the commitment to increase the QE programme "in size and/or duration" if progress towards their inflation target is not achieved or the economic outlook deteriorates. In the post meeting conference, ECB President, Mario Draghi, also stated that discussions about their QE programme beyond its current end date (December 2017), would take place in the "autumn". On the data front, the Euro area quarterly lending survey provided some evidence of the positive impact that the ECB QE programme is having on lending conditions, as the survey showed banks expect greater demand for loans and expect to ease lending standards to both households and businesses over the coming quarter.
- Staying with central banks, as widely expected the Bank of Japan (BoJ) made no major policy changes to their monetary policy. In their quarterly outlook, the BoJ raised their growth forecast for 2017 and 2018 but cut their inflation forecast over both years. More importantly, the BoJ pushed back the timeframe for achieving its 2% inflation target to sometime in the fiscal year ending March 2020. Worryingly, this is the sixth time the BoJ has pushed back its target since the launch of its QE programme seven years ago.
- Lastly, second quarter economic growth in China expanded at a stronger-than-expected annualised rate of 6.9%. The underlying details from the growth numbers were also encouraging as they showed broad-based improvements - as retail sales, industrial production and fixed asset investment all exceeded consensus estimates.

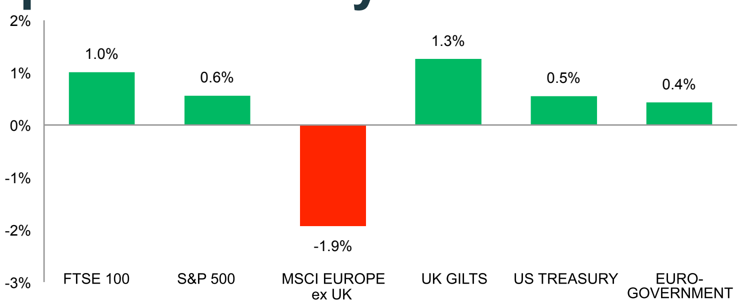
Front and centre of our thoughts this week include

- Another busy week is in prospect in financial markets on both the corporate and macroeconomic front. On the corporate side 190 US companies are due to report earnings for the second quarter including the world's three most valuable internet companies - Alphabet, Amazon and Facebook. While on the macroeconomic side, we have the July Federal Open Market Committee (FOMC) meeting, second quarter growth numbers, as measured by Gross Domestic Product (GDP) for both the UK and US, and the preliminary manufacturing confidence surveys readings for US, Europe and Japan.
- We expect no changes in interest rate or balance sheet policy from the US Federal Reserve (Fed) this week. The Fed raised interest rates in its last meeting in June and since that date inflation numbers have been weaker than anticipated. The Fed will likely want to ensure that the recent weakness in inflation has been caused by temporary factors and wait for evidence of a pick-up in inflation before raising interest rates again. Investors will be hoping the Fed provides further clues in the meeting of the date they expect to taper their QE programme, as at the moment, guidance is deliberately vague with the Fed expecting to reduce stimulus "later this year".
- In the first quarter of this year, economic growth in the UK and US has been weaker than expected, and investors will be closely monitoring the second quarter growth numbers this week to see if this is a start of a trend or if both economies have staged a recovery in growth in the second quarter. The consensus is for a pick-up in economic activity in both economies. Additionally, the release of the preliminary manufacturing confidence surveys for the US, Europe and Japan will provide early insights into the health of global economies and help set growth expectations for the second half of the year.

In the side view mirrors of corporate activity we notice

- The Reckitt Benckiser Group announced the sale of its North American food business, which includes the French Mustard and RedHot sauce brands, to US company McCormick & Co Inc in a deal worth $4.2 billion. The deal will help Reckitt Benckiser pay off some of the debt that increased after the purchase of baby formula maker Mead Johnson for $17.9bn, and enable the business to focus more closely on its consumer health and home brands.
- Shares of the streaming service, Netflix, surged last week after the company reported better-than-expected subscriber numbers. Netflix added more than 5 million new customers in the second quarter, 2 million more than analysts had forecasted, which pushed the total subscriber base to 104 million.

Dan Smith, Investment Analyst



Source: Bloomberg. Figures are for the period 17th July to 23rd July 2017.
Where the index is in a foreign currency, we have provided the local currency return.

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