THOMAS MILLER INVESTMENT

# View from the Front

31st July to 6th August 2017

## In the rear view mirror of last week we saw

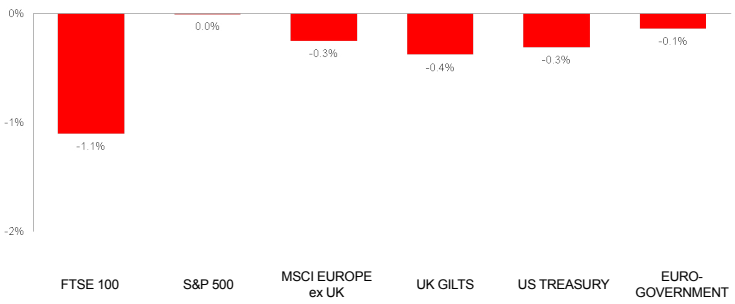
- As the UK wanders down the path towards exit from the European Union, economic data continues to suggest that that big business is yet to throw in the towel. Last week saw the preliminary release of second quarter GDP which revealed paltry economic growth of 0.3%. Much of this was driven by a contraction in the construction sector while the manufacturing side of the economy fared little better as the car industry continues to weaken. The bright spot remains the service sector which accounts for 80% of the UK economy and continues to expand.
- Our European cousins appear to have less reason to be concerned over Brexit negotiations as economic growth on the Continent continues to outperform investor expectations. Amongst the spate of second quarter GDP reports released last week both Spain and Austria revealed growth numbers that underscore just how well the periphery is doing. Spanish growth was 0.9% in the previous quarter, its best quarterly performance since 2014. When you consider that economic confidence in the region hit a decade high as well last week, it is clear why the Euro is starting to perform so well against older cousin Sterling.
- Over the pond, our American cousins are starting to discuss, in more depth, the opportunity for them to tighten monetary policy. Having grown at a faster rate than both the UK and Europe post crisis, last week the Federal Reserve's monetary policy meeting signalled they were to start reversing course on their stimulus programme, commonly referred to as QE. Whilst interest rates remained unchanged there is little doubt that QE has played an important role in determining asset prices, consequently investors remain focused on the course of this event.
- Our Far Eastern cousins are not faring as well, indeed Japan appears to be one of the few developed markets left with any appetite for looser monetary policy. The country remains mired in low inflation, indeed when stripping out food and energy costs the data for June inflation released last week revealed the country had experienced zero inflation for the third month in a row. Low inflation and low growth in the country is starting to seep into the political fabric too, as poll data released last week showed PM Shinzo Abe's approval rating plunge to its lowest level ever.

## Front and centre of our thoughts this week include

- Weak inflation and now weaker economic growth suggest the Bank of England (BoE) will not raise interest rates at their monetary policy meeting this week. Despite Governor Mark Carney changing tone in recent months, it is unlikely the BoE would move at this point in the year. We also see the Bank's quarterly inflation report on 'Super Thursday' which should guide investor views on longer-term trends in the economy.
- Employment levels in the US have been particularly robust in 2017, this week will provide clues if this trend has carried on into the second half of the year. Analysts expect July data to show 200,000 new jobs created, in line with the average for the first half of 2017. The unemployment rate is expected to drop to 4.3% from 4.4% last month.
- Corporate earnings reports for the second quarter have been in full flow, with the overall trend being a positive one. Many of the banks have revealed robust profitability already while last week saw a large number of consumer goods companies issue a more mixed set of results. This week sees tech giant Apple present with analysts expecting iPhone sales to be higher, supporting profits. Look out for UK industrial giants Rolls-Royce and BAE Systems who also report and might provide some light over their current Brexit experience.

## In the side view mirrors of corporate activity we notice

- Two heavyweights of the FTSE100 suffered significant share price falls last week. First up was Astrazeneca, the pharmaceuticals giant, that announced a significant setback in their key lung cancer drug trials. The company is already struggling with many drugs coming off-patent over the next few years.
- Second to fall was tobacco giant, British American Tobacco, which fell on Friday after the Food and Drug Administration in the US announced that they were looking to cut nicotine levels in cigarettes. With nearly half of the company's revenues coming from the US, any formal regulatory change would damage profitability.




Source: Bloomberg. Figures are for the period 24th July to 30th 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.**