THOMAS MILLER INVESTMENT

View from the Front

21st August – 27th August 2017

In the rear view mirror of last week we saw

- Brexit negotiations took a hit this week when details emerged that the upcoming round of talks in October would likely be delayed until December following the German elections. With the March 2019 deadline growing ever closer, it feels like the UK government are starting to recognise the severity of the situation. In a unified stance the government released position papers last week that shed some light on how a customs union and the relationship with Ireland could work, in theory. One overriding factor behind much of the paper was the focus on a smooth transitional arrangement, with some politicians suggesting that a five year interim period might be reasonable. With Theresa May running low on political capital she has avoided providing explicit views on the topic – it will have helped that she's been away on her summer holidays. Despite political machinations we saw further evidence this week that the UK consumer continues to hold up well. The release of strong labour market numbers were a welcome distraction, with the unemployment rate falling to 4.4%, the lowest recorded rate since 1975. The majority of the jobs created in the last three months were full-time in nature while annual pay growth rose to 2.1%. As we edge towards the Conservative Party Conference in October, the Prime Minister will be hoping for more good news if she's to quell the threat of a leadership battle.
- If we thought politics had taken a turn for the worse on these shores, one only has to look over the pond to gather a sense of perspective. Another week, another high level member of the White House staff walks the plank. One wonders quite how long this can go on for before the President's electorate start to question quite who they voted in . Putting aside the 'minor' spat with North Korea and his failure to condemn the racial hatred groups in Charlottesville, the resignation of Stephen Bannon on Friday as chief strategist came as a shock. Indeed when rumours circulated mid-week that Gary Cohn (Head of the National Economic Council) might resign, the US equity market tumbled. With little credibility left amongst Trump's trusted lieutenants we would expect further volatility to grip equities and other riskier assets this week. However just as we witnessed in the UK last week, the economic data in the US suggests that the consumer there remains robust. Retail sales in the US measures how much money the American consumer is spending in the shops (and online) – and this rose significantly last month.
- Europe appears to be out of the political spotlight, for now. German Chancellor, Angela Merkel, kicks off her campaign in the coming weeks for the Federal Election in late September. Whilst the polls are not currently suggesting that the far right party, AfD, are making significant strides we would expect volatility in European assets to pick up as we approach voting day. The European Central Bank (ECB) made headlines last week as the minutes from their recent monetary policy meeting were released. Notably the governors showed concern over the appreciating Euro and the potentially negative impact for corporate profitability. This approach appears decidedly, "having one's cake and eating it". After all, one key sign of a stronger economy is a stronger currency as investors place more faith in the region, bringing capital flows into the economy. Our message to Mario Draghi, President of the ECB, would be – careful what you wish for.

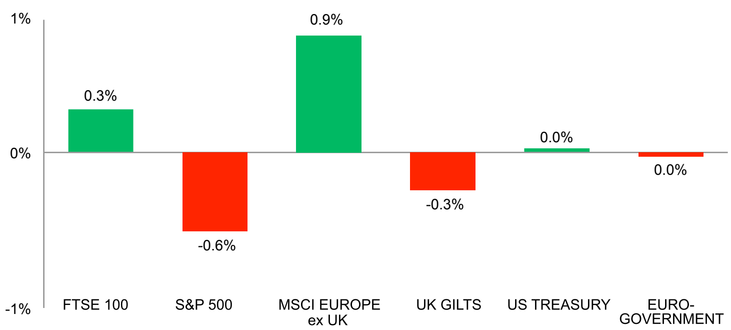
Front and centre of our thoughts this week include

- Every August witnesses the convergence of the world's top central bankers at Jackson Hole in Wyoming for a monetary policy summit hosted by the Federal Reserve Bank of Kansas. This year much focus is around Mario Draghi's speech where he is expected to talk in detail about quantitative easing in the Eurozone.
- Hot on the heels of last week's Brexit papers, the UK government are set to publish a second round of plans on its post-Brexit relationship. The focus of this week's papers will outline how lawmakers will enforce British laws following the exit as well as proposals for the most frictionless trade possible in goods and services between the UK and Europe.
- This week sees preliminary purchasing manager indices for August across Europe and the UK. The figures are a strong proxy for real-time economic activity and both economic regions have seen these indices perform robust figures over the past six months. The UK will also see the release of second quarter GDP for 2017, providing detail on how the country is faring post referendum.

In the side view mirrors of corporate activity we notice

- Over the weekend, wealth manager Rathbones announced a possible merger with Smith & Williamson, in the latest wave of consolidation in the sector. Discussions have been underway for some time and any transaction would be subject to shareholder approval. Rathbone shares were up in early trading on Monday following the news.
- Details have emerged that Linklaters, the law firm, resigned from advising Barclays over a loan to Qatar that appeared to happen at the same time as the Gulf State was investing in the bank to avoid a government bailout at the height of the financial crisis. The bank and several high level executives have been charged by the Serious Fraud Office.

Jordan Sriharan
Senior Portfolio Manager



Source: Bloomberg. Figures are for the period 14th August – 20th August 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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