THOMAS MILLER INVESTMENT

View from the Front

29th August to 3rd September 2017

In the rear view mirror of last week we saw

- The most eagerly anticipated event of last week, the Jackson Hole Symposium, turned out to be a bit of a non-event. Investors had hoped that both Mario Draghi and Janet Yellen would use the meeting of central bankers to provide further insights on the outlook for monetary policy, as they had occasionally done in the past. However, both restricted their comments in respect to monetary policy and largely stuck to the theme of the symposium "fostering a dynamic global economy" with productivity and regulation being key topics at the event. Investors will now have to wait until the European Central Bank meeting on the 7th September and the Federal Reserve meeting on the 20th September for further guidance on the outlook for monetary policy in both Europe and the US.
- While the attention of most Americans last week was on the first total eclipse visible in the US since 1979 or the devastating impact of Hurricane Harvey – investors' attention remained firmly fixated on the actions of President Trump, as political tensions in Washington persist. Last week the US government levied new sanctions on a number of Chinese and Russian firms and individuals, while the President directly criticised Pakistan, for offering a "safe haven" to terrorists and South Korea for its "jobs killing" trade deal with the US. Arguably, the biggest political risk created by the President last week was his attempt to leverage the debate around the debt ceiling – by insisting that a lifting of the debt ceiling be conditional on Congress committing funds to build the Mexican border wall. The US debt ceiling or debt limit is the legal amount of national debt that can be issued by the US Treasury – and based on current estimates, if this debt limit is not raised - the US government are expected to run out of cash in early October, forcing a shutdown in government institutions. The debate was already difficult enough given the divides in Congress and Trump's demands only further complicate the issue. Expect the brinkmanship over the debt ceiling to linger especially as the issue is unlikely to be resolved until Congress return from recess on the 5th September.
- The UK government released more Brexit position papers last week, this time with regards to one of the more contentious issues of judicial arrangements post Brexit. The UK government proposed establishing a 'dispute resolution system' - a system which could potentially see a court or panel set-up with representatives from both the UK and European Union (EU) to settle future cross-border disputes. The system would follow a similar system utilised by the EU and Canada in their trade deal. On the macro front, second quarter economic growth in the UK matched the initial estimate and showed the UK economy grew 0.3% over the second quarter – the data revealed consumer spending grew at a meagre rate of 0.1% while capital expenditure surprised on the upside, and grew at a stronger-than-expected 0.7% rate over the second quarter.

Front and centre of our thoughts this week include

- The tense situation in North Korea had appeared to have settled down but news this morning that North Korea fired a missile over Japan is likely to re-escalate tensions between the US and its allies and North Korea. Equity markets have broadly sold off and government bonds have rallied in response to the event. We expect the situation to keep investors on edge, especially given the possibility of a military response to the situation.
- The third round of Brexit negotiations between the UK and the EU take place this week and the UK government will be hoping that the publication of position papers provides a clearer vision of how the UK sees its future relationship with the EU. Absent from the position papers has been a proposal from the UK government on the controversial financial settlement, or "divorce bill". Therefore, the UK government is likely to be frustrated this week in their efforts to move discussions away from the initial three issues set-out by the EU - citizens' rights, the financial settlement, and the Irish border and onto the post-Brexit trade relationship in the current round of negotiations.
- Away from politics it's also a busy week on the macro front. In the US, we receive the August labour report, commonly known as non-farm payrolls as well as inflation readings for July. Similarly in Europe we receive unemployment and inflation data for the euro area - Both sets of data will be key for setting expectations on the outlook for monetary policy in the US and Europe. Additionally, we also receive manufacturing sentiment surveys for UK, US and China which will help gauge business activity in the third quarter of the year.

In the side view mirrors of corporate activity we notice

- Shares in WPP, the world's largest advertising group fell by over 10% last week as the company announced weaker-than-expected revenue growth. A core problem for the business has been a drop in advertising spending by consumer and packaged goods companies, who in response to weak growth, have reduced their advertising spending in an effort to boost profit margins.
- Shares in Provident Financial, a company that specialises in lending to customers with a poor credit history, declined by over 75% (before the share price recovered to end the week 50% down) after the company issued its second profit warning in three months. An FCA investigation into its Vanquis Bank credit card unit and problems at its door-to-door lending business resulted in chief executive Peter Crook leaving the business.

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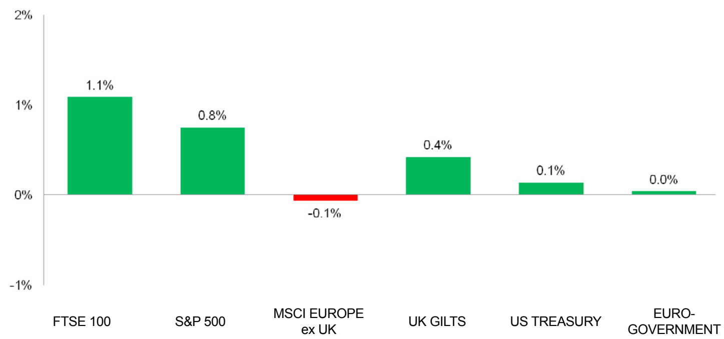

Source: Bloomberg. Figures are for the period 21st August to 27th August 2017. Where the index is in a foreign currency, we have provided the local currency return.

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