THOMAS
MILLER
INVESTMENT

View from the Front

25th September to 1st October 2017

In the rear view mirror of last week we saw

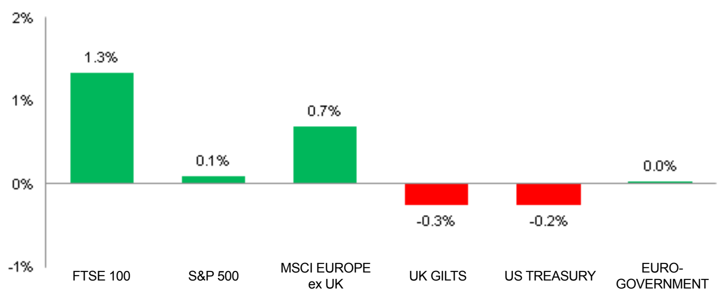
- Prime Minister, Theresa May used her speech in Florence to outline her vision for the Brexit process and the UK's future trading relationship with the European Union (EU). In her speech, Mrs May confirmed the UK will seek a transitional deal that will last for "around two years" once it formally exits the European Union (EU), during which period access to the single market will continue on current terms. Mrs May also stated the UK will continue to contribute to the EU budget until 2020, but avoided putting an exact figure on these commitments. In respect to future trade arrangements, Mrs May dismissed the idea of both European Economic Area (EEA) membership or Canadian style free trade agreement, and instead called on both sides to create an ambitious and bespoke free trade agreement. The speech received a fairly luke-warm reception from EU leaders and talks between Davis and Barnier re-start this week.
- In the US, as widely expected, the US Federal Reserve (Fed) left interest rates unchanged at their September meeting and continued to forecast one more interest rate hike before the year end. Additionally, the Fed also announced plans to start reducing the $4.5tn portfolio of bonds on their balance sheet that had built up as part of their quantitative easing programme. From October, the Fed will start to reduce the number of bonds by $10 billion a month, with the amount increasing by $10 billion every three months until it reaches a $50 billion limit. The move was expected, and so it only had a marginal impact on markets, with both the US Dollar and government bond yields moving higher on the day of the announcement. However, the move does mark an historic moment in the Fed's continued effort to normalise monetary policy.
- In Germany, despite a large drop in popularity, Angela Merkel's Christian Democrat (CDU)/Christian Social Union (CSU) party won the most votes, giving her conservative party a mandate to form the next government. The party's prior coalition partner, Social Democratic Party (SDP) also suffered a loss in popularity and has already stated it will go into opposition. This makes a Jamaica coalition, so-called because of the colours of Jamaica's' flag, which includes the black CDU/CSU, the yellow Free Democrats (FDP) and the Greens the most likely coalition. The biggest shock of the election came from the surge in popularity of the Eurosceptic anti-immigration party, Alternative fur Deutschland (AfD), which won 13.5% of the vote. The result throws into doubt recent talk of further EU integration, including the creation of an EU Finance Ministry.

Front and centre of our thoughts this week include

- The fourth round of Brexit negotiations begin today, and the UK government will be hoping that Mrs May speech in Florence will have been enough to help talks progress. The confirmation by the UK government that it will pay into the EU budget until 2020 and honour prior commitments will be seen as a positive, however, the EU is likely to want to see more concrete proposals on the financial settlement and the role of the ECJ to allow talks to progress.
- It is a relatively light week in regards to macroeconomic data, with the most notable data releases being the inflation numbers for both the US and Europe. Fed policymakers continue to expect to raise interest rates one more time before the end of the year, but a key factor to whether they do will depend on what happens to the rate of inflation. The year over year growth rate of the Fed's preferred measure of inflation, the Personal Consumption Expenditure (PCE) has been trending downwards, but if the August PCE number follows a similar trend as other inflation measures, and starts to pick-up, then another rate hike before year-end looks increasingly likely.
- Similarly, the ECB is expected to "taper" its asset purchase programme in October. However the rate of inflation will be crucial to determining the extent to which it reduces its stimulus package, with some concern that the recent strengthening in the Euro is dampening pricing pressures in Europe.

In the side view mirrors of corporate activity we notice

- Londoners were disappointed by the Transport for London (TfL) decision to reject Uber's application to renew its licence to operate in the city. TfL said it made the decisions on "public safety and security implications", with concerns over how Uber conducts background checks on drivers and reports crime. Uber's current licence to operate in London is due to expire on September 30 and it has 21 days to appeal the decision, during which it can continue to operate as normal.
- In a further sign of the Amazon effect, toy retailer, Toys R Us filed for bankruptcy protection in the US and Canada. The company has been struggling with on-line competition and mounting debts. As part of the bankruptcy filing, the company plans to restructure $5bn in debt, which it believes will provide management with greater financial flexibility to turn the business around. The bankruptcy filing does not impact the European, Australian and Asian business, which will continue to operate as normal.



Source: Bloomberg. Figures are for the period 18th September to 24th September 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.