THOMAS
MILLER
INVESTMENT

# View from the Front

2nd October to 8th October 2017

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

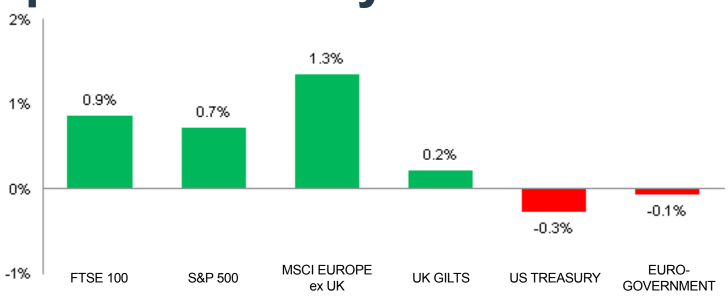
- On Wednesday, President Trump presented plans for the overhaul of the corporate tax system he has long been promising. The proposed 20% rate may well fall short of the 15% mentioned in his campaign; however businesses will be licking their lips at the prospect of these drastic cuts nonetheless. Importantly, if passed, the cuts could provide further support for the US equity market going forward, particularly small and mid-capitalisation companies as they, on average, pay a higher effective tax rate. The market's reaction reflected this as the S&P Small Cap 600 Index rose 2.02% the day of the announcement compared to just 0.41% for the (large-cap) S&P 500 Index. Question marks have remained about whether Trump will be able to pass such a bill; especially considering the lack of success he's had repealing Obamacare. However, if he were successful, it would certainly have a positive impact on his poor approval ratings, which they will surely be focusing on improving with midterms next year.
- With Trump causing headlines, the US interest rate story gathers momentum. Janet Yellen, Federal Reserve (Fed) chair, spoke on Tuesday about the recent lacklustre inflation. Consistent with recent communications, she downplayed the surprise fall in core inflation this year, attributing it to temporary factors – as such; she reaffirmed the need for increasing interest rates, but they have to be careful of "moving too gradually". Capping off a busy and relatively positive week for the US, it was announced that the finalised reading of Q2 GDP was revised marginally upward, with the economy growing at an annualised rate of 3.1%.
- Data releases for the UK last week were relatively negative. The economy grew (as measured by GDP) at a weaker annualised rate in the second quarter than initially estimated – the reading came out at 1.5%, below the original 1.7% estimate. The bad news did not stop there, however, as the services sector (which makes up 80% of the economy) contracted 0.2% in July, indicating third-quarter GDP growth will be slower still. Bearing in mind Mark Carney reaffirmed last week the likelihood that interest rates will be raised in November if there was not a deterioration in economic data, we will be closely watching when the UK's Monetary Policy Committee (MPC) members next speak.
- As Angela Merkel's CDU/CSU party are negotiating a three-pronged coalition, which are not expected to be concluded anytime soon, economic data for the Euro area goes from strength to strength. Last week's economic sentiment index jumped higher, and is now at a 10-year high.
- Finally, Shinzo Abe officially called a snap election in Japan, which is expected to take place on October 22. The current Prime Minister is a clear front-runner as his approval ratings have been rescued from months of scandal. The positive reading for business conditions among large manufacturing firms released late last night, which saw the Tankan index hit its highest level since 2007, will certainly do no harm for Abe's campaign.

## Front and centre of our thoughts this week include

- Following on from the Labour party conference last week, it is the Conservative party's turn as they kicked off their party conference yesterday. Theresa May announced yesterday plans to freeze tuition fees, although seeing as they have risen from £3,000 to £9,250 in recent years it would have been hard to justify increasing them even further. What is perhaps more significant, is that they would also increase the threshold salary at which graduates start repaying loans by £4,000 to £25,000 a year. As young voters' support has been building for Labour, Theresa May will be hoping these new plans can shift this momentum.
- With the Fed currently suggesting that they intend on raising interest rates once more this year, Yellen's speech this Wednesday will be monitored for any change in stance. A couple of days later, we will also get the latest US jobs growth data, in the form of non-farm payrolls, for September. The number is expected to fall well below August's number as a result of the impact of the recent hurricanes.
- This week we will see whether data for the Euro area can continue on its upward trajectory, starting with the release of unemployment data today. Expectations were for the figure to fall a touch to 9.0%, however this morning it surprised on the downside coming out at an unchanged 9.1%. A second test will be the final reading of the area's manufacturing PMI, an indicator of the economic health of the manufacturing sector.
- Following Mark Carney's recent suggestion of raising interest rates, he will be hoping that economic data released this week is strong. Of particular importance, will be the release of the final services PMI on Wednesday, following the release of the weaker-than-expected manufacturing PMI this morning.

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

- Consumer staples giant, Unilever, announced on Monday it has bought South Korean skincare group Carver Korea in a deal worth €2.27bn. This is Unilever's largest acquisition and continues their strategy of M&A, with this being their 12th acquisition since the start of 2015. With recent lacklustre growth in developed markets for the company, the share price was up on the day as investors welcomed their focus on emerging markets.
- Ryanair's controversial cancelling of thousands of flights has, unsurprisingly, angered the UK regulator, the Civil Aviation Authority (CAA). It has been a difficult time for low-cost airlines as news broke this morning that Monarch Airlines has gone into administration, leaving 110,000 customers up in the air about how they can get home from their holidays.




Source: Bloomberg. Figures are for the period 25th September to 1st October 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.
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