THOMAS
MILLER
INVESTMENT

View from the Front

9th October to 15th October 2017

In the rear view mirror of last week we saw

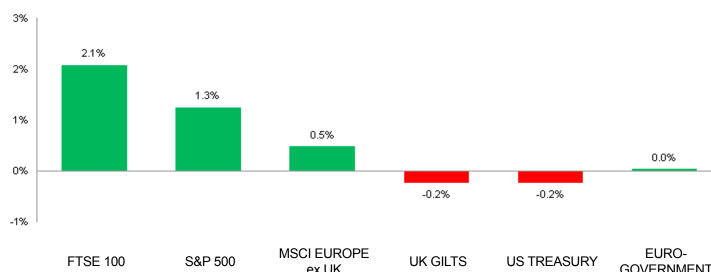
- The one piece of data that financial markets typically look forward to each month is the US unemployment figure, released on Friday. When the US sneezes, the rest of the world catches a cold – as the saying goes. So, the first fall in employment (job losses were 33,000 in September) since the beginning of the decade, on first inspection, might have signalled the start of the flu season. However as most of the fall was attributable to the hurricane damage that was inflicted upon Texas and Florida last month, markets took the data in its stride. In fact with the US economy performing well, there was some positive news to be drawn from the data release. In particular wage growth accelerated last month to the highest rate since June 2009 with upward revisions to prior months. The labour force participation rate, which measures the number of workers in the economy that are seeking a job, rose to 63.1% - the highest since 2014. It's important from this point to understand how the unemployment data progresses given this interruption to the US economy.
- The party conference season ended with some furore last Wednesday as Theresa May's key note speech made the headlines for reasons somewhat out of her control. Ever since the PM made the decision to hold a snap general election earlier in the year, she has been on the back foot. Running a poor campaign (her words), losing her parliamentary majority and now battling internal ructions with her own party. Whilst there were some moments of humility from the PM, her speech still contained smatterings of inconsistencies as she tries to fight off an increasingly popular uprising of the Labour party. On the one hand she spoke about the virtues of a free market economy while, on the other, she agreed to price caps on the big five Energy companies. With rumours circulating towards the end of the week about another leadership contest for the Conservative party, we suspect that the PM will have a busy run-in to Christmas.
- Europe was back in the political spotlight last week as the Catalan independence vote dominated the headlines. Spanish assets have caught the brunt of the weak sentiment despite the overall European equity market index finishing up last week. Spain's IBEX 35 equity index suffered a volatile week while Spanish government bonds also sold off sharply. Whether the political discourse in Catalonia has wider ramifications for European integration remains to be seen but what is clear is the short-term impact on the Spanish banking system. With heightened fears over a deposit run, Banco de Sabadell (the second largest bank in Catalonia) have moved their HQ to Alicante while CaixaBank (country's third largest) are redomiciling to Valencia. Despite the Spanish economy being on a more sure footing, investors are quite rightly spooked by the possibility of a break-up in the region.

Front and centre of our thoughts this week include

- This week sees the unofficial start of the US Q3 'earnings season' – a period of three or four weeks after quarter end where large corporates release their financial reporting statements. The increasing strength of the US (and global) consumer has been well documented and this has begun to make its way into improved corporate profitability. Estimates suggest earnings will be around 3-5% higher this quarter, which have been revised down from original estimates as the insurance sector flags potential profit warnings given their exposure to the current hurricane season as well as last month's earthquake in Mexico City.
- Political risk goes up another gear in Europe this week as Austria goes to the polls over the weekend. Given last month's breakthrough by the right-wing, nationalist Alternative fur Deutschland party it could re-awaken fears of populist insurgency – particularly given how close the countries have traditionally been.
- Central bank murmurings have been light over the past week but that should change when the US Federal Reserve (Fed) release the minutes to their recent monetary policy. As a reminder, at last month's meeting the Fed committed to bringing an end to the long-employed quantitative easing programme. With a few Fed speakers set to make speeches this week, we look for signs of how quickly rate rises in the US might occur over the next six months.
- The biggest driver of interest rate policy in the US remains the trajectory for inflation. On Friday we see the release of the crucial US CPI report which had been underperforming (relative to expectations) for the five months in a row, until the August data finally snapped that run. If the US have both inflation and wage growth ticking up materially, expect interest rate rises to not be far behind.

In the side view mirrors of corporate activity we notice

- UK medical device maker, Smith and Nephew, have announced that the chief executive, Olivier Bohuon will retire next year. He was brought in 2011 to turnaround the company. Thomas Miller Investment met with the company last month and believe that the turnaround has successfully taken place and remain comfortable with this decision by the board.
- Tesco, the UK's biggest grocer, has spent the last few years struggling against increased competition from the discount chains. However last week the company announced that they would now pay a dividend, for the first time in three years – marking a return to profitable growth following significant losses and allegations of accounting fraud.



Source: Bloomberg. Figures are for the period 2nd October to 8th October 2017.
Where the index is in a foreign currency, we have provided the local currency return.

Jordan Sriharan
Senior Portfolio Manager

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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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