

View from the Front

16th October to 22nd October 2017

In the rear view mirror of last week we saw

- Despite the positive momentum in talks since Mrs May's speech in Florence, the fifth round of Brexit negotiations concluded last week without any meaningful progress being made. The key stumbling block remains the UK's financial settlement payment, with European Union (EU) chief negotiator, Michel Barnier stating that "insufficient progress" had been made before they progress talks onto the future trading relationship. There were some positive signs, with reports that the EU is preparing a goodwill gesture to the U.K. by starting work on how a transitional deal with the U.K. will function once it leaves, however this again would be conditional on the U.K. improving their financial offer to the EU. The next deadline to reach an agreement is likely to be the European Council meeting, held on December 14-15th. The next couple of months are therefore likely to prove challenging for Mrs May as she balances the demands of hardline Brexiters within her party, who are already unhappy with the concessions made to the EU so far and that of business leaders, who want more certainty on the future trading relationship with some suggestion that the beginning of 2018 will be the key period when they start making contingency plans for a hard Brexit if talks have not progressed.
- The Catalan governments push for independence dominated European news flow. On Tuesday the Catalan President, Carles Puigdemont, signed a Declaration of Independence only to suspend its implementation so that he can enter talks with the national government. In response, the Prime Minister, Mariano Rajoy asked the Catalan government to formally clarify whether it had declared independence by Monday, potentially preceding a suspension

of regional autonomy under Article 155 of the constitution. This morning, Carles Puigdemont again requested dialogue with the Spanish government although tactically avoiding a direct answer to Mr Rajoy's independence question. The situation remains highly uncertain. Elsewhere on the European political scene, Austria is set to elect the world's youngest political leader, after the preliminary result of the election showed 31-year old Sebastian Kurz, of the conservative People's Party winning the highest number of votes. He is now tasked with trying to form a coalition government with one of the other political parties, the far-right, Freedom Party looking the most likely coalition partner.

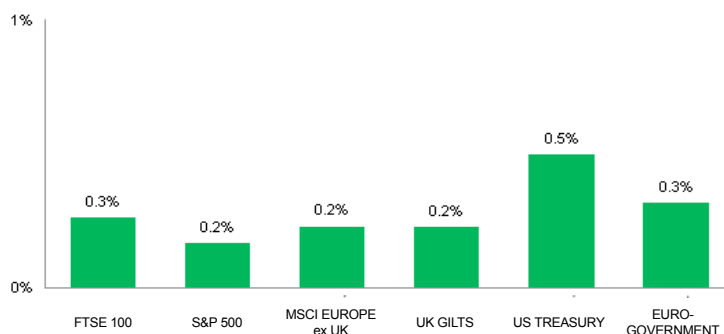
- The release of the minutes from September Federal Reserve Open Market Committee showed many committee members believed another rate hike was appropriate this year providing incoming data did not alter their medium term outlook for growth. The minutes also revealed that some committee members had concerns that the recent soft inflation numbers were not caused by temporary factors, and that they would like to see further evidence of inflation returning to the committee's target before raising rates again. The release of core Consumer Price Index, a measure of inflation which strips out the volatile food and energy prices, which disappointed relative to expectations, will do little to alleviate concerns over weak inflationary pressures. Another rate hike before year-end looks likely as economic data has been strong of late. However, if the Federal Reserve is going to match their forecasts for rate rises in 2018, currently three, signs of a pick-up in inflation will be needed over the coming months.

Front and centre of our thoughts this week include

- Theresa May and David Davis head to Brussels today for meetings with EU leaders to try and end the stalemate in negotiations, with announcements post the European Council meeting closely watched to determine the progression made. Stepping away from politics, it's a busy week in regards to UK economic data, with retail sales, employment and inflation numbers set to be released. These releases will help gauge the pricing pressures and economic momentum in the UK economy and if inflation, employment and retail sales trend higher - expectations of a Bank of England rate hike in November are likely to grow.
- The 19th National Congress of the Communist Party of China takes place this week. The twice-a-decade meeting starts on the 18th October and is where the Communist Party gathers to elect their leader and set economic policies for the next five years. We expect the meeting to confirm that President Xi Jinping will remain in power for another five years and the party are likely to reiterate their economic reform agenda of reducing overcapacity, containing debt and improving environmental protection standards. During the week China also releases third quarter growth numbers, as measured by GDP, which will provide important insights into the underlying health of the economy.
- Staying with politics, Japan holds a General Election on Sunday 22 October. Expectations are that the current incumbent Prime Minister, Shinzō Abe, of the Liberal Democratic Party, will win the most votes in the election and stay in power through its coalition with current partner Komeito. Investors will likely view this outcome positively as it will be a sign of political stability, and likely see the government maintain its "Abenomics" policy of loose monetary and fiscal stimulus to support economic growth.

In the side view mirrors of corporate activity we notice

- Britain's leading defence manufacturer, BAE Systems, has announced plans to cut almost 2,000 jobs in the UK as demand for its Typhoon aircraft has been weaker-than-expected. Stiff competition from French rival Rafale and lower sales to Saudi Arabia and Qatar has led the business to slow production of the aircraft.
- The share price of the FTSE 100 paper and packaging company Mondi took a tumble last week after the company warned that rising input costs are impacting profits. The company said it expected higher selling costs for its products but warned that rising costs of wood, energy and chemical inputs were likely to see full year profits come in below expectations.



Source: Bloomberg. Figures are for the period 9th October to 15th 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. 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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