THOMAS
MILLER
INVESTMENT

View from the Front

23rd October to 29th October 2017

In the rear view mirror of last week we saw

- Theresa May kicked off the week by holding talks with Jean-Claude Juncker, European Commission president, in Brussels to try and build some progress ahead of the two-day European Council meeting, which commenced on Thursday. It has the feeling of a broken record, as no progress was made due to ongoing disagreements about how much May's divorce offer should be – French president Emmanuel Macron has suggested it should be in excess of €40bn, well ahead of the €20bn offered.
- Talking of disagreements, comments from a couple of the Monetary Policy Committee (MPC) members indicated that not all of them are ready to vote for higher interest rates in November, highlighting that they believe underlying inflationary pressures were under control. These comments came despite the release of core inflation, as measured by core CPI which excludes volatile food and energy prices, hitting 2.7%. It is still expected for the Bank of England's (BoE) MPC to increase interest rates in November by 0.25%.
- Over in the US, President Donald Trump will have been relieved to see that the Senate agreed to accept the fiscal 2018 budget resolution on Thursday. This is of particular importance to Trump's proposal for tax cuts – his plan is still, rather ambitiously, to pass these tax reforms before the end of the year. News surrounding who Trump will appoint as the next Federal Reserve (Fed) chair has also been heating up. Investors will be keeping an eye on how this progresses, with the announcement expected in the next couple of weeks. Of the candidates interviewed, John Taylor, Stanford University economist, would be expected to result in the largest changes to the current path of monetary policy. Taylor has created his own guideline for how central banks should set interest rates, called 'Taylor's rule'. Under his model, it would have seen interest rates increased much earlier and quicker than they have done in the US with Janet Yellen being at the helm.
- The lack of clarity extended to the NAFTA negotiations as well. The fourth round of negotiations concluded with no clear resolution –the final round have now been pushed back to the first quarter of 2018.
- China's 19th Communist party congress opened on Wednesday in Beijing. While it is not expected that any material changes to president Xi Xinping's current economic agenda will be announced, he stressed the long-term goal of developing China into a "modern, socialist power" by 2050. He also discussed China's decelerating economy, stating that the economy is progressing from rapid headline growth, to higher-quality growth. These remarks came a day before China's third-quarter GDP was released, which came out in line with expectations by slowing modestly to 6.8%, down from the second-quarter's 6.9%.
- Elsewhere in Asia we saw the result of the snap election called by Shinzo Abe, Japan's current prime minister, which was in stark contrast to Theresa May's earlier this year. His Liberal Democratic party-led coalition secured a "super majority" by winning 31 more seats than is required for a simple majority. The result will likely mean further fiscal stimulus and loose monetary policies, which will be well received by investors – Japanese equities, as measured by the Nikkei 225 Index, rose 1.11% following the news.

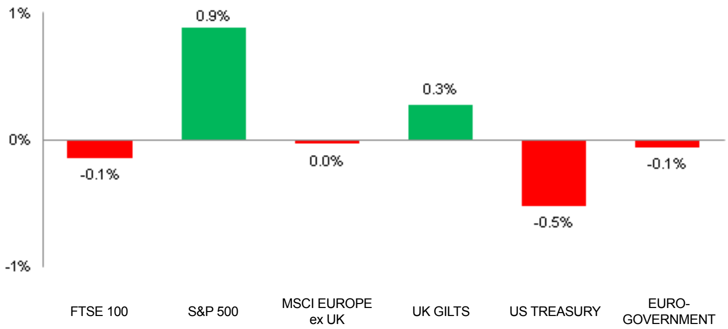
Front and centre of our thoughts this week include

- Arguably the highlight of this week will be the closely-watched European Central Bank (ECB) meeting on Thursday where it is expected Mario Draghi, ECB president, will outline the central bank's plans to reduce their asset purchase programme and begin their movement to a normalisation in monetary policy. While they are expected to announce this reduction, what is still unknown is by how much they will reduce this by, and for how long they will extend the asset purchase programme. No change is expected to be made to interest rates, however.
- While the ECB's meeting will be the focus on Thursday, the attention on Friday will be aimed at third-quarter GDP for the US. It is expected that the economy grew 2.6% in this period, a slight reduction of the second-quarter reading of 3.1%. This reduced rate is in part due to the impact the recent hurricanes would have presented, although recent data has indicated the economy coped relatively well through the period.
- We will also receive the UK's first estimate of third-quarter GDP growth on Wednesday. It is expected the reading will be unchanged from the second-quarter, at an annualised rate 1.5%. This is the last significant data point before the MPC's meeting, and if there is a material downside surprise, this could alter the BoE's plan to increase interest rates.

In the side view mirrors of corporate activity we notice

- Merlin Entertainments downgraded its full-year profit expectations on Tuesday, outlining a tough summer due to being adversely affected by terror attacks in the UK, which they expect to persist going forward. Shares in the company, who owns attractions such as Alton Towers and Legoland, fell by 13% on the day.
- The US earnings season has its busiest week this week, with nearly 190 companies listed on the S&P 500 expected to report results, including tech giants Alphabet, Microsoft and Amazon. As of Friday, 70% of the companies who had reported beat their expected earnings – we will be hoping this trend continues.

Sam Buckingham
Investment Analyst



Source: Bloomberg. Figures are for the period 16th October to 22nd October 2017.
Where the index is in a foreign currency, we have provided the local currency return.

Click here to be added to our mailing list and receive this update weekly.