THOMAS MILLER INVESTMENT

View from the Front

30th October to 5th November 2017

In the rear view mirror of last week we saw

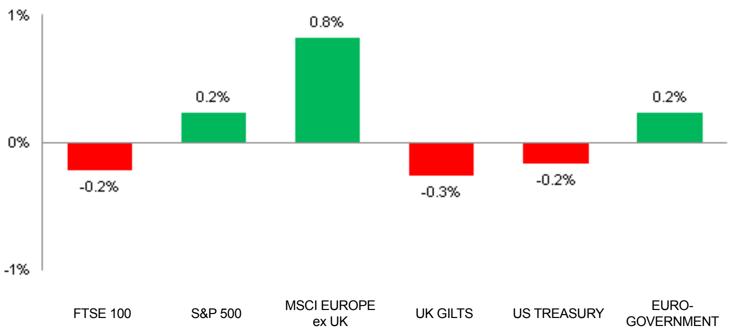
- So Mario Draghi gave a message that the European Central Bank (ECB) is in no hurry to end its stimulus programme. As a result the ECB will be continuing to "print money" for the foreseeable future and this tends to be good for share prices. The way the money is injected into the European economy is through the purchase of assets and this was extended for a further 9 months until September 2018 but with a reduction in the the monthly purchase of bonds to €30bn (current rate €60bn) starting in January. However, the decision to provide no definitive end date, which leaves a further extension in September 2018 on the table, as well as committing to reinvest the proceeds from all maturing bonds, was seen as more stimulative than expected - equity markets rallied and the Euro weakened after the announcement.
- On the European political front, the situation in Catalonia continues to escalate. After the Catalan government voted to declare independence on Friday, the Spanish national government responded by stripping the region of its autonomy and called for a new election to be held in the region on the 21st December. From an economic perspective, the longer the political crisis persists, the bigger the risk it poses to the Spanish economy.
- In the UK, the economic growth numbers, as measured by GDP, showed the economy re-gained some momentum over the third quarter of the year with the economy growing at a stronger-than-expected quarterly rate of 0.4% (estimate 0.3%). However, the underlying details were a little mixed and continue to show economic growth is uneven. While the service sector grew at a steady quarterly rate of 0.4% and the industrial production rose at a better-than-expected 1.0% over the third quarter, the construction sector output declined by 0.7%, its second consecutive quarterly decline which pushes the sector into technical recession. While the data confirmed the UK economy is growing at a slower rate than this time last year, the upside surprise in the growth numbers helps strengthens the case for the Bank of England to raise interest rates this week.
- The outlook for the US economy continues to look promising. Hurricane Harvey and Irma had less of an impact on growth than initially expected, as the economy grew at a stronger-than-expected annualised rate of 3.0% over the third quarter of the year. Furthermore, the likelihood of significant tax cuts being implemented received a boost after the House of Representatives passed the Senate's version of the budget resolution, which includes provisions of up to $1.5trn of tax cuts. The next stage involves both Chambers of Congress presenting their own versions of a tax reform bill, with the House of Representative's version expected this week (1st November) and the Senate's version to follow the week after. This then begins the lengthy process of negotiating and reconciling the two versions of the bill, with the hope that a final bill can be put to vote before Thanksgiving (23rd November).

Front and centre of our thoughts this week include

- Central banks take centre stage this week with the Bank of Japan (Mon-Tues), the US Federal Reserve (Tues-Wed) and the Bank of England (Wed-Thurs) having monetary policy meetings this week. Central banks aside, it's another busy week for corporate earnings, with 136 S&P 500 companies scheduled to report quarterly earnings results, including Apple, while we also receive the closely watched US employment report for October.
- The Bank of England looks odds-on to raise UK interest rates for the first time in over a decade this week. While we expect an increase in rates, we expect the broader message to be that future rate rises will be slow and gradual, and data dependent, as the bank will want to wait a reasonable length of time to assess the impact of a rate rise. The Monetary Policy Committee will also release the latest quarterly Inflation Report, which sets out detailed economic growth and inflation projections, both of which are likely to be revised higher.
- Both the Bank of Japan and US Federal Reserve central bank meetings are expected to be quieter affairs, with no significant change in monetary policy expected in either meeting. If anything, the Federal Reserve meeting is likely to be overshadowed by who President Donald Trump nominates to be the next Federal Reserve Chair. Jerome Powell is believed to be the current favourite and an announcement is expected this week.
- September's employment report in the US was significantly impacted by Hurricane Harvey and Irma, and caused employment growth to decline for the first time since 2010. All economic indicators suggest employment growth will rebound strongly in the October employment report, as the impact of the hurricane fades from the calculation. Investors will also keep a close eye on the unemployment rate and average hourly earnings growth for signs of inflationary pressures building within the US labour market.

In the side view mirrors of corporate activity we notice

- It was a positive week for US tech heavyweights – Alphabet, Amazon, Twitter and Microsoft, as all four reported better-than-expected third quarter earnings results. The share price of all four businesses Alphabet (2%), Amazon (12%), Twitter (21%) and Microsoft (6%) ended the week higher, and helped the S&P 500 reach a new all-time high.
- Despite reporting an increase in sales of 4% over the third quarter, the share price of GlaxoSmithKline ended the week down 10%, as investors seemed to be unimpressed with the new Chief Executive's, Emma Walmsley, plans for the business. Ms Walmsley said she was considering making an acquisition (potentially the consumer healthcare arms of Pfizer or Merck) as a way to building the group's consumer division, with some concern this may lead to a future cut in dividends.



Source: Bloomberg. Figures are for the period 23rd October to 29th October 2017. Where the index is in a foreign currency, we have provided the local currency return.

Dan Smith
Investment Analyst

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.**