THOMAS MILLER INVESTMENT

View from the Front

6th November to 12th November 2017

In the rear view mirror of last week we saw

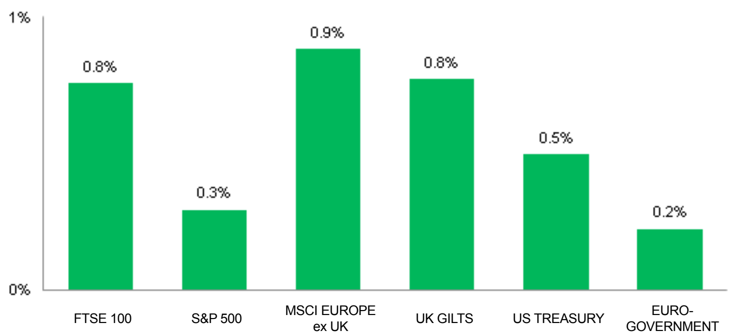
- Last week we saw the unusual sight of the UK interest rate doubling as the Bank of England's (BoE) Monetary Policy Committee (MPC) hiked its policy rate from 0.25% to 0.5% - this was the first increase in a decade. This decision was, of course, widely expected, as the BoE had been hinting strongly in the build-up to the meeting that they were ready to increase interest rates. What hasn't been as widely agreed upon, is whether it is the right time to be tightening monetary policy – despite unemployment hitting its lowest level in over 40 years and global growth picking up, real wages in the UK have been falling and businesses have been reluctant to invest given little transparency over how they will be impacted once the UK leaves the EU.
- What has been widely discussed was whether this would be a "one and done" hike, or the start of a rate hiking cycle, similar to what is happening in the US. However Mark Carney, BoE Governor, implied the Bank actually sits somewhere in the middle stating that, based on their forecasts for economic growth "about two more interest rate increases over the next three years" are expected. It's worth noting that the reliability of this statement is limited as the Bank confirmed forecasts are based on the assumption of a "smooth" exit from the EU. The communication following the rate hike prompted a fall in sterling, which fell 1% against the dollar.
- It was a busy week for global central bankers as both the Bank of Japan (BoJ) and the US Federal Reserve (Fed) met as well – neither altered their current stance on monetary policy. Despite the Fed leaving the interest rate unchanged at this meeting, they hinted that a rate hike remains likely at their meeting in December, thus keeping their rate hiking cycle on course.
- Although no change was made to interest rates, it's looking increasingly likely that there will be a change in the Fed chair. Last week US President Donald Trump nominated Jerome Powell to succeed Janet Yellen – if confirmed by the Senate, he will take over the reins from Yellen in February 2018. There was no material reaction on the news, as Powell is very much seen as the candidate of continuity when it comes to monetary policy. Where we will be watching to see if he differs from Yellen, however, is whether he will be more open to the idea of rolling back some post-financial crisis banking reforms – reducing the costly regulatory burden on US banks would likely see upgrades to their future earnings.
- Before wrapping up in the US, other notable events from last week included their unemployment rate falling to its lowest level since 2001 (4.1%), the anticipated tax reform proposal released and consumer confidence hitting a seventeen-year high.
- Data coming from the Euro area continues to hold up well as third-quarter GDP growth surprised on the upside, the economy grew at an impressive annualised rate of 2.5%. Further good news came from their unemployment rate, which continues to fall and is now down at 8.9% - this is a drop of 1% from this time last year. The bloc's fight with subdued inflation continues, despite falling unemployment, as core inflation (which excludes food and energy prices due to their volatility) fell to 0.9%.

Front and centre of our thoughts this week include

- Following a packed week last week, this one is looking like it will be less busy. Donald Trump kicks off the week as he embarks on his twelve-day trip around Asia. Having already visited Japan, where he told a group of business leaders that "trade with Japan is not fair and it isn't open", and rather audaciously stating that Japanese car makers should "try building your cars in the US instead of shipping them over". China will be his next visit – it's expected that he will be discussing China's role in dealing with North Korea. We will also be keeping an eye on US tax reforms, as members' debate and vote on amendments this week.
- Brexit talks resume on Thursday, with EU chief negotiator Michel Barnier meeting with the UK's Secretary of State David Davis. Following the previous round of talks in October, which ended in deadlock, we will be hoping there will be some signs of progress made in this round.
- In terms of notable economic data we receive this week, it is relatively muted. In Europe we will monitor September's industrial production data for Germany, France and the UK, while we also get initial jobless claims for the US and inflation for China.

In the side view mirrors of corporate activity we notice

- Apple released their quarterly earnings last week, which defied expectations as their revenue grew an impressive 12% to $52.6bn, with net income also increasing. The tech giant's share price was up 2.6% on the news, taking its market capitalisation up towards $900bn – to put into context; that is comfortably larger than the GDP of Switzerland.
- Corporate earnings season continues to rumble on, with US earnings continuing to surprise on the upside – 72% of the 407 companies who have reported beat expectations. Whilst earnings season is coming to an end in the US, it's still in full flow in Europe, with over 400 companies in the Stoxx 600 still to report. The picture in Europe hasn't been quite as rosy, with the proportion of companies beating estimates sitting lower at 48%.



Source: Bloomberg. Figures are for the period 30th October to 5th November 2017. Where the index is in a foreign currency, we have provided the local currency return.

Sam Buckingham
Investment Analyst

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

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.**