

View from the Front

20th November to 26th November 2017

In the rear view mirror of last week we saw

- This month the Bank of England (BoE) governor, Mark Carney, will not be required to write a letter to the Chancellor as the annual rate of inflation, measured by Consumer Price Index (CPI), held steady at 3% in October. If the rate of inflation is over 1% higher or lower than its 2% target, the governor must write a letter to the Chancellor explaining the reasons why and what measures the BoE intends to take to move inflation back to target. However, the governor may want to keep his pen at hand, as the recent increase in oil prices is expected to push inflation above 3% in November. Economic data on the whole last week will have dampened expectations of the BoE further raising rates in the near-term. The number of people employed in the three months to September declined (-14k) for the first time since April 2013, while retail sales suffered their first annual fall since March 2013. On the political front, Prime Minister, Theresa May, is set to hold a cabinet meeting today with reports that she will obtain approval to increase the "divorce settlement" payment to the European Union in an effort to progress Brexit talks.
- Across the pond, the US Federal Reserve looks on course to raise interest rates again in December. The annual change in Core CPI, which strips out the volatile food and energy components, increased in October for the first time since January, rising to 1.8% from 1.7%. Inflationary pressures are beginning to build with US producers reporting a larger-than-expected increase in the selling price they receive for their goods. It was a positive week for US economic

data with retail sales, small business optimism survey, and industrial production all coming in better-than-expected. Staying on the positive theme, US tax reforms moved a step closer after the House of Representatives (House) passed their version of the tax reform bill. The Senate now needs to pass its own version of the bill, which is expected to be voted on the week after the Thanksgiving holidays. If the Senate does pass a bill, this will then need to be reconciled with the House's before a revised version is sent to the House and Senate for approval.

- In Zimbabwe, it looks like the reign of one of the world's oldest serving leaders, 93-year-old President Robert Mugabe, may be coming to an end after Zanu-PF removed Mr Mugabe from their party's leadership and stated that they will impeach him if he does not resign today. His former deputy, who he sacked two weeks ago, Emmerson Mnangagwa, is set to be named as Zanu-PF's new leader and candidate for the 2018 general elections.
- In Germany, talks to form a new coalition have collapsed. Angela Merkel's CDU/CSU party failed in negotiations to form a coalition with Free-Market Liberal Party and the Greens. Differences in immigration, government spending, and climate change caused the talks to breakdown. If no compromise can be found, Ms Merkel could form a minority government or President Frank-Walter Steinmeier could call a new snap election.

Front and centre of our thoughts this week include

- The Autumn Budget will be released on Wednesday at 12.30pm. The desire of the government to stick to previous deficit-reduction plans as well as the likelihood of the Office for Budget Responsibility lowering their medium-term projections for growth, may restrict the ability of the Chancellor, Phillip Hammond, to manoeuvre the budget. However, some easing in fiscal policy (government spending and taxes) is expected. Housing is likely to be a key focus, with the Chancellor stating the government is committed to the target of building 300,000 homes each year, a 40% increase from the previous target. The Financial Times also reported that the Chancellor is preparing to cut stamp duty for

first time buyers, something that may help ease the slowing in the UK housing market – particularly in London. Other potential policy changes that would be popular with the UK electorate include: abandoning the 1% pay cap on public workers; increasing the personal income tax allowance; and scrapping a planned increase in tuition fees.

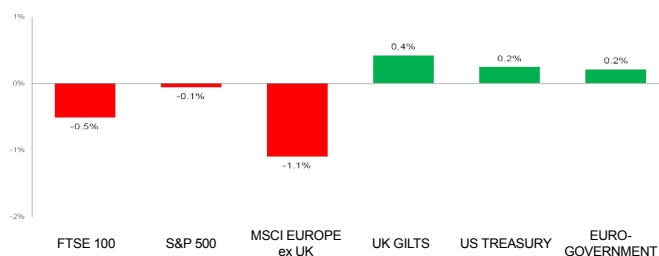
- The US celebrates the Thanksgiving holiday on Thursday which is followed by the Black Friday sales. This traditionally marks the start of the US holiday shopping season and a number of large retailers are set to report sales on the day which will be scrutinised for consumption trends. Given the adoption of the sales event in the UK,

investors will also pay close attention to UK retailers reporting figures for the day – especially given the weakening in October sales. Let's see if the savvy UK consumer was delaying purchases in anticipation of picking up a bargain!

- Autumn Budget and Thanksgiving aside, it is a relatively quiet week in regards to economic data. Beyond these events, preliminary service and manufacturing confidence surveys for November in Europe, Japan, and the US will be released. These sentiment surveys are good predictors of future economic growth, so will help set expectations for growth heading into 2018.

In the side view mirrors of corporate activity we notice

- The Competition and Markets Authority (CMA) has provisionally approved Tesco's £3.7bn takeover of wholesaler Booker. The CMA investigation found that there is sufficient competition in both the wholesale and retail grocery sectors to ensure the merger will not lead to higher prices or a reduced service for supermarket and convenience shoppers. Tesco's share price rose after the announcement and ended the week 4% higher. The deal is now subject to shareholder approval with 50% of Tesco and 75% of Booker shareholders having to approve the deal – which is expected to be achieved in early 2018.
- Tesla, the electric vehicle pioneer, continued to impress investors last week with the unveiling of an all-electric truck (Tesla-Semi) and a new electric sports car (Roadster). The Tesla-Semi has a 500 mile range on a single charge and is set to go into production in 2019. A year later the Roadster is set to enter production and boasts an impressive 0-60mph in 1.9 seconds with a 620 mile range. Tesla will hope that production goes smoother than that of the Model 3 sedan, the first mass-produced electric car, which has fallen behind on its production targets.



Source: Bloomberg. Figures are for the period 13th November - 19th November 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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