THOMAS MILLER INVESTMENT

View from the Front

27th November to 3rd December 2017

In the rear view mirror of last week we saw

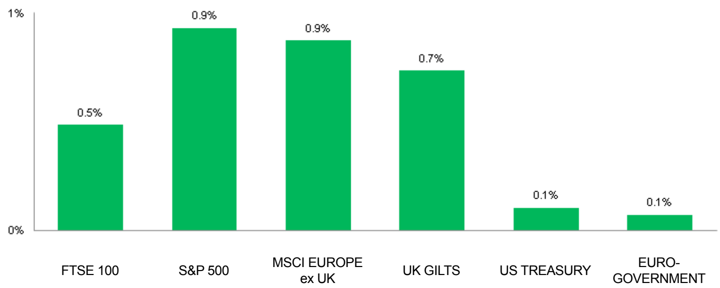
- Thanksgiving was a welcome distraction for financial markets last week as investors become increasingly suspicious of how far global equity markets can rise. By the time we got to Black Friday the US equity market index, as represented by the S&P 500, had reached another all-time high. If the S&P 500 holds on to complete its 13th successive month of positive returns, it would be the first time in 90 years. In fact markets have never seen a calendar year where every month has been positive – records are there to be broken! Positivity around investor sentiment has reached more far flung areas of the world where Asian and emerging market equity indices also hit new highs last week.
- The release of the minutes from the recent US Federal Reserve (Fed) monetary policy last Wednesday could have been the catalyst for a turnaround in risk sentiment. The minutes all but confirmed an interest rate rise next month in the US. However further rate rises in 2018 appear less likely as members of the Fed cited concerns over the ongoing weak inflation environment. In theory looser monetary policy next year should not provide the noose that chokes off the economic recovery currently taking place in the US.
- In the UK, the Budget took centre stage although there were no major surprises announced by the Chancellor. Perhaps of most interest was the willingness of Phillip Hammond to use fiscal policy in the face of potential Brexit challenges with changes to home building and stamp duty being the more significant takeaways. Economists will fret over the new lower assumptions for economic growth in the UK as the Office for Budget Responsibility announced 2017 growth would now be 1.5%, down from 2.0%, with every year until 2021 forecast to be lower.
- Despite this forecasted fall in productivity the gilt market remained unaffected. The large sell-off in UK government debt, predicted by so many for so long, simply fails to materialise. The reality for gilt investors are that expectations for further rises in interest rates are seemingly being pushed out to later in the decade, thereby making current yields relatively attractive. If the US is suffering with persistently low inflation, the UK is suffering with persistently low growth with no obvious solution for either. If the Chancellor could also find a solution for England's brittle batting, that too would be welcomed.
- The story in continental Europe last week remains an intriguing one. Whilst Germany is struggling to construct a suitable coalition to govern the country, businesses in the Eurozone's largest economy revealed last week that they are the most confident they have been since this data began being captured in 1997. This is a phenomenon which we have continued to witness throughout the year in Europe. Strong economic growth and buoyant confidence from both business and consumers continue to run high in the face of political instability. As we always tell our clients, politics don't tell us the full story – financial markets are just as focused on the economic story.

Front and centre of our thoughts this week include

- Just as we were getting used to Black Friday, along comes the lesser celebrated - Cyber Monday. As our shopping habits become increasingly ingrained online, forecasters are able to better predict the economic health of the consumer based on their spending patterns. Early data from Adobe analytics suggests holiday sales in the US thus far rose 17.9% to $7.9bn from last year. We'll be keeping our ear to the ground for UK credit card spending data over the next few days.
- Indeed much of the focus this week will remain in the US with political events scheduled that could impact financial market sentiment. None more so than the subject of US tax reform with a full Senate vote expected this week following reforms made to the Bill over a week ago. Fed Chair nominee Jerome Powell will undergo his confirmation hearing before current Chair Janet Yellen addresses the Joint Economic Committee. Given this is her last testimony before Congress, we expect a more illuminating dialogue.
- Inflation is the buzzword in central bank meetings, given that, our attention will be focused this week on inflation releases (as referenced by CPI) across globe. As a reminder, global interest rate policy appears to be solely driven by movements in this particular economic data set.
- OPEC meet in Vienna towards the end of the week, as the price of crude oil has steadily risen over the past six months. Whilst price changes are somewhat attributable to geopolitics and an improving global macro picture the group continue to attempt to restrict their output. The current production cut deal runs out in March 2018.

In the side view mirrors of corporate activity we notice

- The share price of Centrica, the UK's largest energy supplier, fell materially last week after the company announced lower earnings for the year. Much was made of the company's loss of 823,000 customers in just four months but there are issues at their US operations where excessive competition is eroding profit margins.
- Last week's budget also helped drive share prices in the UK housing sector. Homebuilders, Barratt and Berkeley fell after the Chancellor announced plans to review the use of land banks. Meanwhile estate agents, notably Foxtons, were big risers as stamp duty changes would benefit the secondary property market. Of course the long-term underlying structural issues in the UK housing market remain but in the short term profits remain at the whim of government intervention.



Source: Bloomberg. Figures are for the period 20th November to 26th 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.**