THOMAS MILLER INVESTMENT

View from the Front

4th December to 10th December 2017

In the rear view mirror of last week we saw

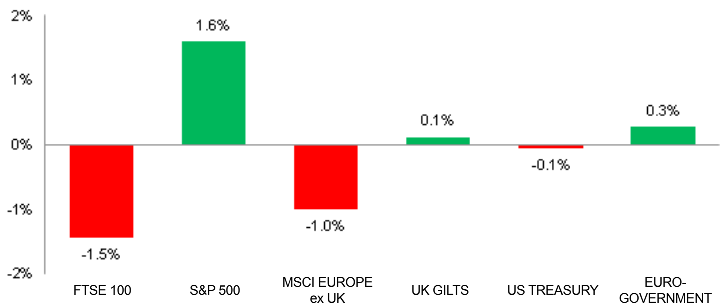
- Progress seems to have been made with Brexit talks. It is rumoured that Theresa May has bowed to the EU's demands on the financial settlement, agreeing to pay somewhere between €40-€60bn, in order to move the discussions onto future EU/UK trade relations. Further compromises will also be needed on the tricky issues of the Irish border and the role of the European Court of Justice. The FT reported that Irish Prime Minister, Leo Varadkar, would like assurances that there will not be a hard border with Northern Ireland. Sterling has recovered to $1.35 on growing expectations of a "successful" EU summit on 14/15th December.
- Consumer confidence in the UK has been diverging from the other major economies, as the latest reading (as measured by GfK) dropped yet again. Data on UK consumer spending over the important December/January period will need to be watched closely. Other UK economic news is more upbeat, in particular the rise in business confidence in the manufacturing sector.
- Economic data for the Eurozone show no signs of fading, as a leading indicator for the economic health of the manufacturing sector (Purchasing Managers' Index) rose to the highest reading since early 2000 and, incredibly, the second highest on record. Unemployment for the region continues to fall, with the rate now down to 8.8%. This compares with around 4% in the USA and UK.
- Donald Trump's hope for enacting a tax reform bill before year-end looks to be more probable than expected. The US Senate passed their tax reform bill with 51-49 votes and it will now go to a joint House-Senate committee to reconcile differences between their two bills. One of the main sticking points they face is the timing of the tax cuts – the House want the cuts to kick in next year; but the Senate have proposed to delay the cut until 2019. With the US equity market (as measured by the S&P 500) producing 13 months in a row of positive returns, if the bill is passed, it could well provide a boost to keep this record-breaking rally going.
- Last week should have been a celebratory one for Mr Trump, with the increased likelihood of tax reform, along with increased revisions of third-quarter GDP growth. However, news broke on Friday that his former National Security Adviser, Michael Flynn, was prepared to testify that the President had instructed him to make contact with Russian officials while he was a candidate for the White House. The news was initially greeted with a sell-off in equity markets, as investors chased safe-haven assets, including gold and government bonds. This 'risk-off' environment was short-lived, as news broke of the Senate passing their tax reform bill. It is clear that financial markets continue to focus on the economic story, and continue to brush aside political noise.
- Finally, the world's largest oil producers met last week and agreed to extend their deal for production cuts throughout 2018 to try to keep prices above $60 a barrel. The news had its desired effect, as the oil price rose over 1.5% on Friday. A stronger oil price will typically have a positive impact on the UK equity market in particular, as the Energy sector makes up almost 13% of the index (FTSE All Share).

Front and centre of our thoughts this week include

- Theresa May meets European Commission President Jean-Claude Juncker and EU chief negotiator Michel Barnier for lunch today, aiming to close the first phase of Brexit talks ahead of the EU summit on 14th-15th December. Mrs May is expected to present the UK's offer on the "divorce" bill, as well as a proposal around the Irish border.
- Expect some news surrounding German politics on Thursday, as the Social Democratic Party (SPD) are due to hold a convention in Berlin where a vote on endorsing coalition talks with Angela Merkel's CDU will take place. After the SPD initially stated they had no interest in forming a grand coalition with the CDU, they seem to have changed their minds – this would leave the AfD as the main opposition party in the Bundestag.
- Capping off the week will be the November employment report in the US, where we will receive the increase in monthly jobs (as measured by nonfarm payrolls), average hourly earnings and the unemployment rate. With the bulk of the weather-related distortions now seemingly behind us, it is expected the rise in nonfarm payrolls will move closer to the longer-term average of 200,000.

In the side view mirrors of corporate activity we notice

- The latest reshuffle of the FTSE 100 index (the largest 100 companies in the UK stock market) has potentially seen a shift in the dynamic of the large-cap index. The reshuffle saw Just Eat added, becoming the first consumer facing tech business to sit in the index, while one of Britain's oldest engineering groups, Babcock, has been removed.
- RBS announced last week that it is to close one in four of their UK branches in their latest cost-cutting exercise and reduction of its high street presence. RBS cited customers' move to online banking as the main reason. The closures will affect 259 branches, and will see 680 jobs cut. The Government is still hoping to reduce its holding in RBS over the next few years.



Source: Bloomberg. Figures are for the period 27th November to 3rd December 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.**