THOMAS MILLER INVESTMENT

View from the Front

11th December to 17th December 2017

In the rear view mirror of last week we saw

- On Friday, the UK seemingly secured the EU's approval to move Brexit negotiations onto future UK/EU trade relations, and importantly whether a free trade deal is possible. A form of words was found to suit both sides on the three preliminary issues of the financial settlement (or "divorce" bill), citizen rights and the Northern Ireland border. Some commentators suggested that as a result the UK seems to be moving towards a "Soft Brexit" with full regulatory alignment. However, David Davis made clear at the weekend this was not the final agreement on the UK leaving the EU and negotiations are still governed by the principle that nothing is agreed until everything is agreed. Sterling – often the barometer for progress in Brexit talks – initially rose on Friday morning but soon fell back to below $1.34 again.
- In the US, the increase in employment had previously been the most important data release of the month. However, after years of consistent, solid gains in the number of people employed, most investors accept that job growth is strong. The bigger story from the employment report is the change in wage growth which should provide signs of inflationary pressures building in the economy. The November labour report followed the same trend witnessed in recent years: employment growth remains solid, with the US adding 228,000 jobs during the month, but wage growth remains subdued, with the year-on-year change in growth at 2.5% - This, despite the unemployment rate, 4.1%, a 17 year low.
- Staying with the US, the government avoided a partial shutdown last week as both the House of Representatives (House) and the Senate each passed a continuing resolution which provides funding for the government for the next two weeks. The issue of a temporary government shutdown is likely to resurface on the 22nd December, when the temporary extension of funding is set to expire.
- In Germany, the prospects of a new government being formed have increased. The Social Democratic Party re-elected Martin Schulz as their chairman and voted in favour of allowing him to engage in coalition talks with Ms Merkel's Christian Democratic Union/Christian Social Union party. Schulz, a former President of the European Parliament, supports more EU integration along the lines described by President Macron recently. Moving away from the politics, economic data in Germany last week were mixed: factory orders beat expectations whilst industrial production disappointed for the second consecutive month. However, given the strength of recent business sentiment surveys in Germany, we expect economic growth to remain robust.

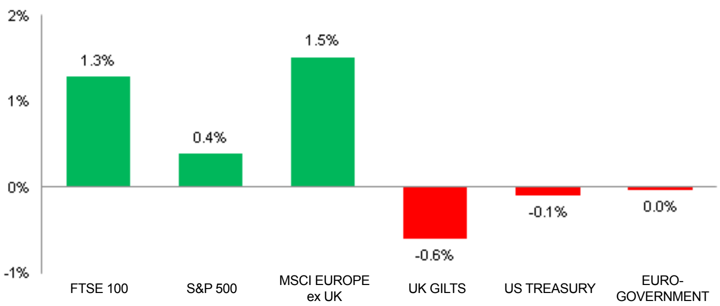
Front and centre of our thoughts this week include

- Central banks take centre stage this week with the Bank of England (BoE), the European Central Bank (ECB), and the US Federal Reserve (Fed) all holding monetary policy meetings. No change in monetary policy is expected in either of the BoE or ECB meetings. However, the Fed is expected to continue with its rate hiking cycle and increase US interest rates for the third time this year to 1.5%. Investors will also be playing close attention to the Fed's "dot plot" to gauge the number of times the Fed expects to raise interest rates in 2018.
- Most of the focus this week is likely to be in the US as we expect more news about tax reform. Both the House and Senate have named committee members that are tasked with reconciling the differences between their tax bills and Trump has tweeted that a deal is getting closer. Progress in talks might provide a further boost to US equities and smaller and medium sized companies in particular but a lot of good news is already probably priced in.
- It is also a big week for inflation numbers with the US, UK, Germany and France all set to release figures for November. As low and stable inflation is the main target of central bank monetary policy, investors will be paying a close-eye to their releases. UK inflation numbers in particular will be in focus, as a reading of 3.1% or higher will force Mark Carney to write a letter to the Chancellor explaining why the BoE has missed its 2% inflation target by more than a percentage point.
- We also expect to hear more Brexit-related news after the conclusion of the European Council meeting on Friday. The Council is expected to confirm that sufficient progress on the first phase of Brexit negotiations has been achieved. Businesses will also be looking for more news on a transitional deal and future trading relationship from the meeting.

In the side view mirrors of corporate activity we notice

- Things seem to be going from bad to worse for subprime lender Provident Financial after the FCA revealed they are investigating a second of the company's three main operating divisions. The company's Vanquis Bank credit card unit is currently under investigation due to concerns over the fairness of its credit card repayment plans and last week the FCA revealed it is now investigating the company's car finance business, Moneybarn. The FCA has concerns over the company's underwriting practices and loan affordability assessments. The stock ended the week down 9% and the company has had a torrid year overall, down 72% since January.
- British shopping centre owner Hammerson Plc has made a £3.4bn offer to buy smaller rival Intu Properties. If the deal is approved, the combined group would own £21bn of real estate. The deal comes at a challenging time for the retail property sector as the shift to online spending has put pressure on traditional brick and mortar retailers.

Dan Smith
Investment Analyst



Source: Bloomberg. Figures are for the period 4th December to 10th 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.**