THOMAS MILLER INVESTMENT

# View from the Front

2017 Review and 2018 Outlook

## In the rear view mirror of last year we saw

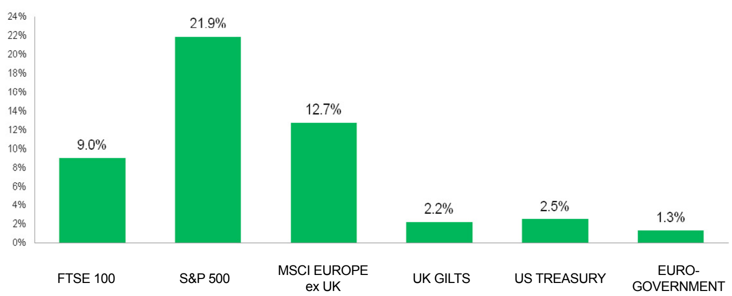
- 2017 could be characterised as a ‘Goldilocks’ scenario for financial markets with global growth accelerating while inflationary pressures remained subdued. This meant central banks’ monetary policy remained looser than would be otherwise expected – a positive dynamic for both economic growth and asset prices - with the majority of asset classes (both equity, bonds and alternatives) delivering positive returns over the course of the year.
- It was a year where macroeconomic data broadly exceeded expectations, this stable backdrop resulted in 2017 being an extremely low period for volatility. We would define 2017 as a year when global growth became stronger and more synchronised.
- The positive growth backdrop created the perfect environment for equities and all major indices generated positive returns over the year. The US equity market in particular had an exceptional year recording positive gains in every month of the calendar year - a feat that has never been achieved in the history of the index which dates back to 1930. Asia and emerging market equities also had a particularly strong year. Another standout performer was the Japanese equity market as the Tokyo Stock Price Index ended the year at a decade high.
- Despite a heavy political calendar – the Dutch, French, German elections and the Catalonia Referendum, European equities delivered impressive returns as the prospects for corporate profitability in the region continued to pick-up as the outlook for European economic growth improved. Returns from UK equities, the FTSE All-Share lagged the wider market but still returned an impressive 13% over the course of the year.
- Global government bonds returns were marginally higher over the year, as monetary policy remained accommodative and the low inflationary environment continued to support their returns. The central bank story of the year has been one of diverging policies, with the Bank of England joining the US Federal Reserve in tightening monetary policy while the Bank of Japan and European Central Bank continued to ease monetary policy.
- From a performance perspective, it has been a strong year for all Thomas Miller portfolios with three key contributors to performance – an overweight to European equities and Alternatives alongside the strong performance of our stable of actively-managed funds.

## Front and centre of our thoughts heading into 2018

- It is becoming increasingly difficult to assess what political risk is these days. 2018 brings another flurry of elections across the globe, some of more importance to international investors than others. In March, we witness the electorate in two heavyweight European countries, Italy and Russia, go to the polls. The re-election of Vladimir Putin in Russia is widely expected, should he win and extend his Presidency to 2024 it would make him Russia’s longest-serving leader since Joseph Stalin. At the same time Italy have another election triggered by the resignation of Matteo Renzi following the rejection of his constitutional reform referendum in 2016.
- With Donald Trump at the helm, political risk in the US never appears far away. At the end of this month we will hear his first State of the Union address to Congress. There will be much for the US President to reflect on. Of more importance to investors this year will be the US midterm elections in November – it is not quite clear how his voter base have taken to his presidency given the number of campaign promises that are yet to be delivered. Should the Democrats win back Congress they will be able to block more legislations and nominees in the President’s third and fourth years.
- One person to fall prey to Trump’s nominations last year was Janet Yellen, the Chair of the Federal Reserve (Fed). She is due to hand over the reins to Jay Powell next month and will be the first person to serve only one term as the Chair in nearly forty years. Indeed there are further unoccupied roles in the wider interest rate-setting Federal Open Market Committee which need to be filled. With so many changes in personnel occurring we remain vigilant around any changes in the Fed’s thinking in 2018.
- The first business day of 2018 sees the ECB QE programme half in size as the central bank begins buying €30bn in bonds, having previously been buying €60bn. This year may well mark the point where bond buying from the world’s three largest central banks does not increase. One important fallout that we will be monitoring is the price action in government bonds and how they react in this new environment.

## In the side view mirrors of corporate activity we notice

- International Consolidated Airlines Group (IAG), FTSE 100 Company and owner of British Airways, has confirmed they are acquiring Austrian airline Niki for a total of €36.5 million. This announcement has come a few weeks after Lufthansa abandoned their plans to buy the company due to the European Commission raising concerns that the deal would lead to higher prices and reduce consumer choice. IAG’s shares are up over 1.5% this morning on the news.
- Finally, 2018 should also witness the world’s largest ever IPO – the public listing of Saudi Aramco, the largest state oil company of Saudi Arabia. Alongside the domestic stock exchange listing, there will also be an international floatation with London, New York and Hong Kong vying for spot. Expect politicians to be rolling out the red carpet for Crown Prince Mohammed bin Salman when the time comes.




Source: Bloomberg. Figures are for the period 1st January to 31st December 2017. Where the index is in a foreign currency, we have provided the local currency return.

**Jordan Sriharan**
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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.**