THOMAS MILLER INVESTMENT

View from the Front

8th January to 14th January 2018

In the rear view mirror of last week we saw

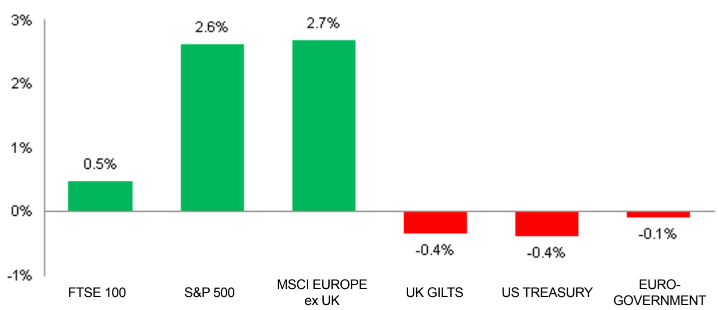
- While most of the news surrounding the US has been focusing, perhaps alarmingly, on US President Donald Trump's mental health, it was the mixed employment data that caught our attention. The number of jobs added during December was a relatively disappointing 148,000, 42,000 less than forecast. However, despite this slowing jobs growth the unemployment rate held strong at 4.1% and wages grew 0.3% for December, which was in line with market expectation. Meanwhile, there were no surprises in the Federal Open Market Committee (FOMC) minutes released last week. The market still expects three US interest rate rises in 2018.
- It may be a new year, but the story in the Eurozone remains the same as last year: subdued inflation coupled with improving economic health. Eurozone inflation at the headline level fell to 1.4% in December, which is well below the European Central Bank's (ECB) target of close to 2% - core inflation was unchanged at 0.9%. The enigma of low inflation continues, and if the ECB plan to continue their path of normalising monetary policy, inflation must pick up. Last week marked the beginning of the tapering process where the ECB officially reduced their quantitative easing (QE) programme. On a more positive note, the Eurozone Composite PMI for December, a leading measure of economic health in the manufacturing and service sectors, continues to rise, hitting its highest level since February 2011.
- Staying in Europe, but focusing on politics, we have coalition talks in Germany rumbling on between the CDU/CSU and the SPD parties. Both their respective leaders, Angela Merkel and Martin Schulz, met last week, stating that "trust has grown and we're starting negotiations optimistically", suggesting the parties are moving closer to a finalised agreement. It's expected both sides want to finish initial talks by Thursday this week, with formal negotiations kicking off towards the end of the month.
- We had an unchanged reading for the UK's December Composite PMI. A slowdown in the manufacturing sector in December is disappointing, but the sector did enjoy its best three month period for three-and-a-half years, seeming to defy expectations that Brexit negotiations would significantly negatively impact economic activity. However, Brexit negotiations do seem to have made an impact on the capital's lofty house prices. The last three months of 2017 saw London housing stock drop in price by 0.5% compared to the same three months in 2016, which is the first fall for the region in eight years – it was also the only region in the UK to suffer a fall over the period.

Front and centre of our thoughts this week include

- There are three particular data releases for the Eurozone that will be under our microscope. Kicking off will be December's business confidence reading, which has picked up significantly over the past couple of years, and is expected to rise further, hovering around an all-time high. While this is undoubtedly positive, we are cautious that this confidence indicator (as measured by Business Climate Indicator) has hit this level multiple times since the index began (1985), before peaking and dropping off.
- The second important release is the Eurozone's unemployment rate in November – the rate has been falling consistently at roughly 1% per year, but is expected to pause for this latest reading and remain unchanged at 8.8%.
- Finally, we receive the minutes from the latest ECB meeting, which will provide an updated insight into the current economic conditions influencing monetary policy decisions.
- On Friday the attention will be focussed on the US where we get the latest inflation report, as well as retail sales. Inflation has continued to disappoint in the US, where seven out of the last nine monthly releases have missed expectations. This will be closely watched by the market, especially following the FOMC minutes released last week in which members stated they expect inflation to move towards target.
- This week the UK will be taking a backseat on the data front, with the most significant release being industrial production output on Wednesday. The annualised growth figure is expected to halve from 3.6% to 1.8%.

In the side view mirrors of corporate activity we notice

- British retailers Next and Debenhams' trading statements were in stark contrast last week. Next enjoyed a strong trading period, stating that the cold weather in the build-up to the holidays led to strong sales – as a result, they upgraded their profit guidance, which saw the share price bounce over 9% on the day. Contrastingly, Debenhams had no such luck, and their poor post-Christmas sales led to a profit warnings, leaving shares down by as much as 19%. Worryingly, this was their second profit warning since June, with shares down 44% over the past year.
- This week marks the beginning of US fourth-quarter 2017 company earnings updates from Tuesday. Plenty of focus for Friday, when financial giants Wells Fargo, JP Morgan and Blackrock all report. Fourth-quarter earnings are expected to increase 9.5% from the fourth-quarter in 2016. With valuations in the US equity market continuing to look stretched, disappointments to earnings could spark a, arguably overdue, market sell-off.



Source: Bloomberg. Figures are for the period 1st January to 7th January 2018. 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.**