THOMAS MILLER INVESTMENT

View from the Front

15th January to 21st January 2018

In the rear view mirror of last week we saw

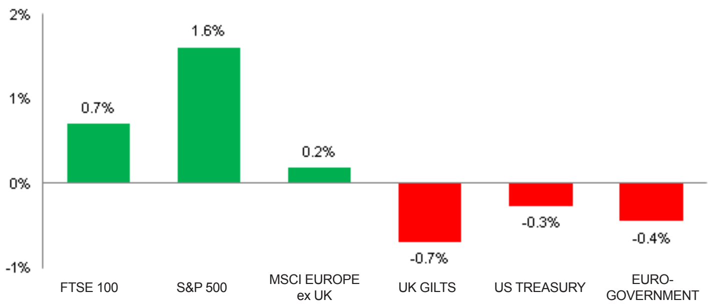
- Many of the themes that were present in the first week of the year continued into the second. Global equity markets continued to move higher – The FTSE 100 came close to the 7,800 mark while the S&P 500 is having the strongest start to a year in 16 years. Against a backdrop of strong economic growth and rising expectations that the European Central Bank (ECB) will further reduce their quantitative easing programme, global government bond yields have edged higher. The US 2 year Treasury bond breached 2%, its highest level since 2008. The price of Brent crude oil also briefly reached $70 per barrel – its highest level since 2014 as the commitment by OPEC/Russia to extend oil production cuts in November continues to support prices.
- The highlight of last week was the minutes from ECB's monetary policy meeting in December. The minutes revealed the ECB may review their monetary stimulus programme early this year if the economy continues to expand and inflation moves closer to their 2% target. Data last week strengthened the case for a reduction in stimulus as Eurozone unemployment fell to 8.7% in November – its lowest level since January 2009. The prospect of reduced stimulus and stronger-than-expected data helped the Euro climb to a three year high against the US Dollar – $1.22. A dynamic which would make it harder for the ECB to hit their inflation target by making imported goods cheaper.
- In the UK, it looks like the devaluation of the pound since the EU Referendum is continuing to have a positive impact on the manufacturing sector. Data for November showed that manufacturing output grew for a seventh consecutive month and is now expanding at its fastest rate since February 2008. The most significant Brexit rumour was a Bloomberg article reporting that the Finance Ministers of Spain and the Netherlands are pushing for a Brexit deal that keeps the UK as close to the EU as possible. The combination of better-than-expected manufacturing data and the possibility of a softer Brexit saw the pound climb to its highest level against the US dollar since the EU referendum - $1.37.
- Over in the US, it was the stronger-than-expected pick-up in core consumer prices (core excludes volatile energy and food prices) for December which caught investors' attention. The monthly rise in core consumer prices, 0.3%, was the biggest increase in 11 months and pushed the year-on-year change in inflation to 1.8%, from 1.7%. However, the main news from the report is that inflation on a sixth and three month annualised basis is now running at 2.2% and 2.5% - a potential sign that inflationary pressures are beginning to build in the US economy. December retail sales in the US were also robust and suggest the US consumer is in good shape heading into 2018.

Front and centre of our thoughts this week include

- It is a relatively quiet week in regards to macroeconomic data with the highlight of the week being China's fourth quarter GDP numbers and retail sales and inflation numbers for the UK. In terms of corporate news, there are 28 US companies set to report fourth-quarter earnings updates while on the political front it will be interesting to see if the US government can avoid a temporary shutdown this Friday.
- China releases fourth quarter GDP numbers which is expected to show that the rate of growth in the world's second largest economy slowed to 6.7% in the three months to December, marginally down from the 6.8% growth recorded in the previous quarter. More importantly, if data comes in as expected, it would confirm that the Chinese economy exceeded the 6.5% growth target set by authorities for 2017.
- In the UK, any additional interest rate rises from the Bank of England (BoE) are likely to be closely tied to developments in inflation. In November, the consumer price index measure of inflation reached 3.1% - more than 1% higher than the BoE 2% inflation target. Inflation is predicted to have slowed to 3% in December; however a reading higher than this may bring forward investors' expectations over the timing of the next BoE rate hike. Additionally, on Friday retail sales numbers for December are released, an important indicator of the health of the economy where household consumption accounts for around 60% of GDP.
- It is a holiday shortened week in the US as both the bond and equity market are closed on Monday for Martin Luther King Day. However, 28 companies listed on the S&P 500 index are set to report results for the fourth-quarter of 2017, including the remaining large US banks. On the political front, the US Congress has until January 19th to pass a federal spending bill to prevent the government from temporarily shutting down. In the Senate there is a 60-vote threshold to pass a spending bill, which means the Republicans will be relying on Democrats support to pass the bill, so compromises will be required to get a final vote through.

In the side view mirrors of corporate activity we notice

- There was further evidence that US workers are set to reap the benefits of recent changes in US corporation tax after Walmart became the latest US company to announce plans to increase US workers hourly wage and bonuses as a result of the changes to US corporation tax. The move follows Wells Fargo and AT&T, who have already announced plans to increase wages or bonuses as a result of US tax reforms. If followed more widely it could add to inflationary pressures building within the US economy.
- The UK's second-largest construction group, Carillion, has fallen into liquidation. The company is struggling with debts of £1.5bn, including a £587m pension shortfall, and talks between the firm, the government and creditors failed to reach an agreement on financial support to save the firm.



Source: Bloomberg. Figures are for the period 8th January to 14th January 2018. Where the index is in a foreign currency, we have provided the local currency return.

Dan Smith
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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.**

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