THOMAS MILLER INVESTMENT

View from the Front

22nd January to 28th January 2018

In the rear view mirror of last week we saw

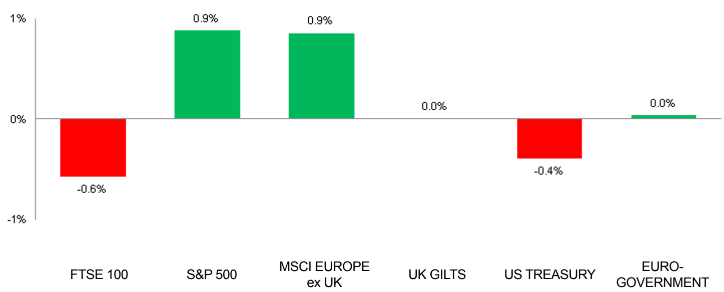
- Another week of strong equity market performance as global investors continue to experience a solid start to the year. In Hong Kong the equity market, known as the Hang Seng index, reached its highest ever level and is outperforming most major indices in 2018. The Hang Seng is up over 8% this year, after a 45% rally in 2017. The records continue to fall in the US too as the benchmark S&P500 index has now passed its longest period without a 5% sell-off since daily data began being captured in 1928. Last week also marked the first full week of corporate earnings results in the US when many of the large banks reported. From a birds eye view, it appears that the tax reforms agreed at the end of last year will distort the results for the final quarter of 2017.
- The recent rise in the Hang Seng has been driven by a belief that the Chinese mainland is growing at a robust pace. Indeed economic data last week continued to point towards this trend as official figures revealed that economic growth (as measured by GDP) came in at 6.9% for 2017, up from 6.7% in 2016. This goes against the perceived wisdom for many investors has been to assume that growth would gradually slowdown in China as the economy transitioned away from manufacturing and towards service-driven industries.
- The shape of European politics continues to maintain a degree of fluidity. Last week saw French President Emmanuel Macron visit the UK, aside from symbolic gestures around the Bayeux Tapestry, there was some interest in the softer stance towards a post-Brexit trade deal. Macron noted that it was possible for the UK to have deeper relations, citing the example of Norway's relationship with the EU which is more ingrained than that of Canada's. In Germany, Mrs Merkel's Christian Democratic Union Party is another step closer to forming a new coalition with the Social Democratic Party. A new government there could be sworn by March.
- The economic picture continues to improve in Europe and it appears that the credit rating agencies (who were notoriously uninformed in the credit crisis in 2007) are starting to take notice. Spain is enjoying a broad based economic recovery and the country's fiscal deficit is narrowing – as a result their credit rating has been upgraded by Fitch. Such is the wave of optimism over economic growth in the Euro area that even Greece has seen their credit rating raised in the past week.

Front and centre of our thoughts this week include

- The world's financial elite meet in Davos for their annual get-together at the 48th World Economic Forum – this year's theme will be "the future of global co-operation relating to trade, environment, the fight against terrorism, tax systems and competitiveness" – a snappy title… This year the opening address will be given by Narendra Modi, the Indian Prime Minister. Most of the column inches may well be taken up by Donald Trump who will be giving the keynote speech on Friday. The last US President to attend was Bill Clinton in 2000. Trump's speech will be intriguing given he came to power through the widespread rejection of the global elite – with the mid-terms in November, expect every line to be scrutinised.
- Two central bank meetings of major importance this week include the Bank of Japan (BoJ) on Tuesday and the European Central Bank (ECB) on Thursday. The BoJ are expected to maintain current policy whilst they will also provide their latest quarterly economic forecast. This is important because global growth is on a more sustainable growth path and whether the BoJ can maintain extremely low interest rates in this environment remains to be seen. The ECB, on the other hand, seem resigned to switching focus from looser to tighter monetary policy. President Draghi will hold a press conference following the meeting where there is speculation over whether the ECB will end their QE programme earlier than expected.
- An important week for the UK sees Theresa May's Brexit legislation bill go to the House of Lords today while on Wednesday we receive the latest labour market data for November. The unemployment rate in the UK has stood at the 4.3% since July 2017, its lowest level since 1975. Wage growth is the one variable that investors will be looking at for signs of further overheating in inflation. By Friday the Office for National Statistics will also release the first estimate of GDP for fourth quarter of last year, where we would expect economic growth to have kept up with the previous quarter of 0.4% (for the quarter).

In the side view mirrors of corporate activity we notice

- Unsurprisingly Carillion attracted most of the corporate news in the UK last week. The post-mortem has already begun with the failures of senior management and large shareholders firmly under the spotlight. The company had taken on too much debt, mispriced some large contracts and ran into operational issues on projects. Whilst the debate over public-private partnerships will rumble on, it is clear that the infrastructure sector in the UK will have to adapt and evolve.
- From not enough cash flow to too much cash flow. That is the message from the largest companies in the US. Last week saw both Apple and Walmart reveal that they would be giving back their recent tax breaks through higher investment in the country. In the case of Walmart, America's largest retailer is lifting its minimum wage and paying bonuses while Apple state that they are increasing spending on US suppliers. On the surface it appears almost philanthropic, underneath it looks like a timely piece of public relations.



Source: Bloomberg. Figures are for the period 15th January to 21st 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.**

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