THOMAS MILLER INVESTMENT

View from the Front

29th January to 4th February 2018

Front and centre of our thoughts this week include

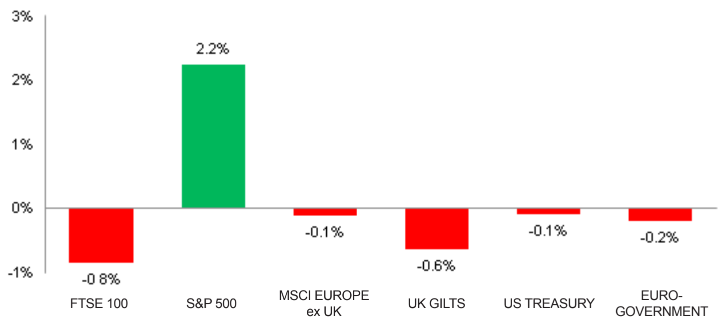
- This week marks the US Federal Reserve (Fed) chair Janet Yellen's last Federal Open Market Committee (FOMC) meeting, with her term ending this week – no changes are expected to be made at the monetary policy meeting. Jerome Powell will take the reins after the Senate confirmed him for the position last week. Although Powell was very much seen as the candidate most closely aligned with Yellen, that doesn't mean to say we should be complacent in terms of what impact he could have. Two areas we will be keeping a close eye on: his impact on the current path for interest rates and whether he will aim to reduce the level of US banking regulation.
- US President Donald Trump will be delivering his first State of the Union address to Congress, which will see him set the tone for the rest of the year. Bearing in mind the President is moving closer to the mid-term elections (held in November of this year) it's possible we will see a less divisive figure as he aims to increase his approval ratings. If the Republicans lose control of either the House of Representatives or the Senate in these elections, the President will lose significant power in terms of passing new bills. It's worth noting that this wouldn't be the only worry for Trump, it would also provide the Democrats with power to investigate his administration more aggressively.
- It isn't just politics in the US that we'll be paying close attention to; we will also be focusing on the busy schedule of economic data released for the world's largest economy this week. One of the highlights will be the inflation figures released later today, as measured by Personal Consumption Expenditure (PCE). Core PCE is expected to hover around the same level of 1.5% p.a., significantly below the Fed's target of 2% p.a., which they adopted in 2012. If the Fed sticks with this target and we don't start seeing inflation tick up towards it, it's unlikely the Fed will be able to increase interest rates at the current rate. Emphasis on the 'if'. There have been ideas discussed for this target to be reviewed, with a potential alternative being a range of 1.5% p.a. to 2.5% p.a. This would allow some leeway in monetary policy. Employment data for the US is also out on Friday, including the latest unemployment rate, which is expected to remain at 4.1%.
- Focusing more closely to home, we receive preliminary estimates of Euro area fourth-quarter GDP growth. As mentioned in previous notes, the area's economy has been going from strength to strength and we expect more of the same. Indeed, based on the strong Euro area PMI readings (indicators of economic health) in the previous quarter, expectations are high for a robust growth figure.
- Attention on UK economic data will wait until the end of this working week, when markets will receive both the UK's Manufacturing PMI and Construction PMI on Thursday and Friday respectively. It's also worth noting that the UK's latest consumer confidence indicator (as measured by the GFK Consumer Confidence Indicator index) is announced on Wednesday – the UK's reading has been falling over the past 18 months, diverging from the trends in the US and Euro area.

In the rear view mirror of last week we saw

- The UK economy (as measured by GDP) accelerated in the fourth-quarter of 2017, growing 0.5% for the quarter and 1.5% compared with the same period in 2016, both of which were ahead of expectations. Despite worries surrounding the UK consumer and business confidence, it is clear the UK is benefitting from synchronised global growth. Current data suggests that concerns about the impact of Brexit on the economy have been slightly overstated.
- Contrastingly, the US fourth-quarter GDP growth was also released, but was below expectations. The reading remains strong at an annualised rate of 2.6% p.a.
- Finally, we had both the Bank of Japan (BoJ) and the European Central Bank (ECB) hold monetary policy meetings and, as expected, neither made changes. As both economies have been picking up, it's sparked debate as to whether they will follow in the Fed's footsteps and begin to normalise interest rates. The ECB seemed the more likely to do so, particularly following the relatively hawkish (i.e. in favour of raising interest rates) minutes from their December meeting. However, ECB President, Mario Draghi, was quick to dampen these expectations at last week's meeting, stating there are "very few chances at all" of an increase in interest rates this year.

In the side view mirrors of corporate activity we notice

- As of January 25th 2018, 118 companies of the 500 within the S&P 500 (US equity market) had reported, with 79% of them beating their earnings estimates for the fourth-quarter of 2017, according to Thomson Reuters. Thursday this week is hotly anticipated as Apple, Amazon and Alphabet are all due to report on this day – that is over $2.3 trillion in market cap, just shy of France's GDP!
- Diageo, the British alcoholic beverages company announced earnings on Thursday. It is a common holding among UK equity income funds due to its high cash generation and stable business model. The company that owns brands such as Tanqueray and Johnnie Walker generated stronger than expected sales growth – organic net sales rose 4.2% in the second half of last year. The share price reaction was relatively muted, however, as the company warned that the recent strength of sterling would hit sales for its full fiscal year by approximately £460 million.



Source: Bloomberg. Figures are for the period 22nd January to 28th January 2018. Where the index is in a foreign currency, we have provided the local currency return.

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