THOMAS MILLER INVESTMENT

View from the Front

12th February to 18th February 2018

Front and centre of our thoughts this week include

- It would have been hard to have predicted a week as volatile as the last one. Unsurprisingly we are not going to predict that this week will be any more or any less volatile. What is clear to investors now, is that the era of cheap money fuelled by low interest rates and low bond yields may be finally coming to an end. Of primary concern are the rising inflationary pressures, with fears exacerbated by the moderate increase in wage growth in the US last month to 2.9%.
- As a result the single largest driver of investor sentiment this week will be the release of US inflation on Wednesday. Given it's also Valentine's Day, it will be interesting to see if investors fall back in love with equity markets. The last core inflation release in the US revealed an increase of 1.5% with analysts expecting this to fall back in January – should Wednesday's number come in materially higher, we would expect more volatility.
- While the politicians in Germany agree on the final terms of the latest coalition, in the background, the economy continues to fire on all cylinders. Confirmation of this strong growth trajectory will be revealed this week with the release of fourth quarter GDP for 2017. The German government have already confirmed that they expect growth of 2.4% in 2018, which would be the strongest figure since 2011. This has led to some concerns around 'over-heating' for the economy. However consumer inflation in the Eurozone fell to 1.6% in January, below the target rate of close to 2% from the European Central Bank.
- A number of data releases in the UK warrant our attention this week. The release of the consumer price index (CPI) will be the main focus. We delve a little bit deeper into last week's inflation report from the Bank of England below but as previously noted, inflation remains the key driver for markets. By the end of the week we'll see data on retail sales for January, following a poor number for December where volumes dropped to their lowest since the Brexit referendum. It is difficult to forecast if this is the start of a trend but we sense not, given the significant rise in consumer confidence witnessed in January.
- Over in the Far East, on Thursday, the start of Chinese New Year will be observed which runs until February 21st. This typically leads to less trading activity in the Asian financial hubs over the period with Chinese markets closed. Half-term holidays in the UK and Europe can also lead to less liquidity in global markets, should sentiment turn as weak as it did last week – we could witness another highly volatile time for investors.

In the rear view mirror of last week we saw

- So the debate has now begun. After last week's first material fall in equity prices since early 2016, investors everywhere are asking if this is the start of a protracted downturn or is this a buying opportunity? Market timing is one of the great uncertainties in the investment world and we believe that it is almost impossible to do this on a consistent basis. The future remains uncertain but we believe that growth in the underlying global economy alongside a rosy outlook for US corporates (following the recent tax reforms) should lead to a recovery in equity markets. Greater stability in the bond market would give us more short-term confidence.
- Last week saw further examples from a strong global economy. In Germany, the country's largest trade union agreed on wage rises and reductions in working week hours which will cover some high-profile German companies including Daimler and Bosch. The win for the industrial workers (known as IG Metall) shows how productive elements of the German economy are able to negotiate higher wages with employers.
- Even in the US last week, amidst all the noise of falling markets, the most widely watched indicator of the US service sector (the ISM non-manufacturing) showed a notable expansion in January from the prior month. Respondents to the survey noted encouragement from the recent tax reforms with the possibility of a new infrastructure investment plan providing even more stimulus. January was the 96th month of forecasted growth for the US service sector.
- Finally last week's monetary policy meeting by the BoE was an eventful affair, which also included the quarterly inflation report. This confirmed that the BoE were more upbeat on growth in the UK economy, revising up previous forecasts for 2018 from 1.5% to 1.7%. Indeed much of the report was positive on the UK economy where they expected inflation to fall from its current highs and that unemployment could fall further from the current low levels. As a result the BoE confirmed they are likely to raise interest rates earlier and faster than previously expected.

In the side view mirrors of corporate activity we notice

- The rebound in the oil price in recent months has had a positive impact on the large integrated oil companies who reported strong fourth quarter earnings last week. The European contingent of BP, Total, Shell and Statoil were all positive while, conversely, the US contingent of Exxon and Chevron struggled with capacity constraints caused by last summer's hurricanes.
- The share price at the third-largest US bank, Wells Fargo, took a steep fall last week when the Federal Reserve handed out regulatory sanctions which prevent the bank from expanding their $2tn balance sheet until governance has improved. This is after it was discovered that employees were under so much pressure to meet sales targets they turned to fraud through setting up illegitimate accounts.

Source: Bloomberg. Figures are for the period 5th February to 11th February 2018. Where the index is in a foreign currency, we have provided the local currency return.

Jordan Sriharan
Senior Portfolio Manager

Click here to be added to our mailing list and receive this update weekly.

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.**

Opinions, interpretations and conclusions expressed in this document represent our judgement as of this date and are subject to change. Furthermore, the content is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or a solicitation to buy or sell any securities or to adopt any investment strategy. This note has been issued by Thomas Miller Wealth Management Limited which is authorised and regulated by the Financial Conduct Authority (Financial Services Register Number 594155). It is a company registered in England, number 08284862.