THOMAS MILLER INVESTMENT

View from the Front

19th February to 25th February 2018

Front and centre of our thoughts this week include

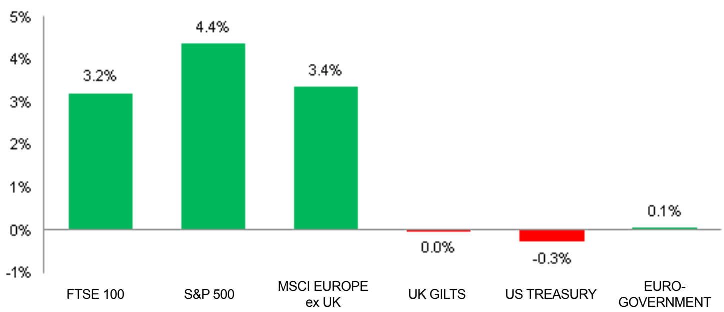
- It should be a quiet start to the week, as the US is off for President's Day today, where they will be honouring presidents of the United States. The US will be coming back into focus on Wednesday, however, as the Federal Reserve (Fed) minutes from their latest meeting will be released. These are typically scrutinised very closely to try and get further insight into the future path of interest rates. Having said that, considering the strength of the inflation and wage growth data we've received since the last meeting, the minutes might arguably not carry the same weight as usual. Of most concern will be their thoughts around whether to hike interest rates at a faster pace than previously forecast.
- A key data release this week will be the UK's employment data on Wednesday morning, including the unemployment rate which is expected to hold at 4.3%. What will be the focus of our attention is the wage growth reading, as this is of particular importance to the Bank of England (BoE) at the moment when assessing the future path of UK interest rates and their battle with inflation. Real wage growth (adjusted for inflation) has drifted into negative territory for UK consumers following the jump up in inflation we've seen over the past 12-18 months. Current estimates are that wages (including bonuses) grew 2.5% p.a., which would mean continued negative real wage growth and further erosion of consumer spending power.
- Inflation continues to be the most highly anticipated economic data release at the moment. We expect it to be the biggest driver when it comes to central bank decision-making as they start to unwind the monetary stimulus programmes and begin to normalise monetary policy. As such, the Eurozone's final January inflation reading on Friday should receive plenty of attention. Current forecasts are for the bloc's core inflation reading to stay at 1.0% p.a., significantly below the European Central Bank's (ECB) target of around 2.0%. A reminder that the European Commission recently upgraded their inflation forecasts, expecting inflation to tick up to 1.5% this year, and 1.6% the year after.
- Finally, we receive the latest Japan inflation numbers for January where the central bank has been dealing with the continued stubbornly low inflation readings for Japan. It was announced last week that Haruhiko Kuroda was re-nominated as governor of the Bank of Japan (BoJ), where he is expected to now continue the battle against low inflation for another five years. Recent data (as measured by the Purchasing Manager Indices) showed firms' cost pressures are running at their highest for over nine years, so we should start to see inflation trending higher this year.

In the rear view mirror of last week we saw

- Early last week US President Donald Trump announced his latest infrastructure plan. When he was elected, he promised a punchy trillion-dollar boost to infrastructure as part of his plan to generate further jobs for Americans. However, it seems Trump has disappointed again with the follow through on the majority of his key pledges. Despite raising the target for infrastructure spending to "at least $1.5 trillion", the federal contribution to this total is 'only' $200 billion over a 10-year period. The balance is, ambitiously, expected to come from state and local government, as well as private spending.
- US inflation was the most closely watched data release last week following the stronger than expected wage growth seen a couple of weeks ago that was cited as the catalyst for the recent sell-off in equity markets. It was widely expected that if US inflation also came out ahead of expectations, this would reignite volatility in financial markets and lead to further sell-offs. Interestingly, however, inflation did come out slightly ahead of expectations which initially sparked a sell-off in equity markets, but only before then rallying and ending the day up.
- UK inflation also came out higher than expected, which saw sterling strengthen initially on the news as the probability of an increase in interest rates in May rose – this comes after the BoE warned that they could raise interest rates faster than the market currently anticipated. However, it's important to note that the BoE's forecasts are based on a smooth Brexit transition, which is clearly far from a done-deal.

In the side view mirrors of corporate activity we notice

- News broke at the beginning of last week confirming Barclays Bank have been charged by the UK's Serious Fraud Office (SFO) over emergency funding raised in 2008 from Qatari investors to ensure the firm didn't go under. The latest charge is in relation to the Bank's $3 billion loan to the state of Qatar. It's believed the company will be waiting to see the strength of the case before deciding on a plea – they will be hoping to minimise reputational damage by concluding the trial as early as possible.
- Barclays wasn't the only UK-based financial giant to suffer a blow last week, as the recently-merged Standard Life Aberdeen lost a significant contract with Lloyds Banking Group. The contract was worth £109 billion, making Lloyds their biggest client and representing almost a fifth of Standard Life Aberdeen's assets under management. It's thought the hit on earnings would be less than 10%, however, due to the modest fee they charged on the funds. The shares ended the day down 7.5%.



Source: Bloomberg. Figures are for the period 12th February to 18th February 2018. Where the index is in a foreign currency, we have provided the local currency return.

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