THOMAS MILLER INVESTMENT

View from the Front

5th March to 11th March 2018

Front and centre of our thoughts this week include

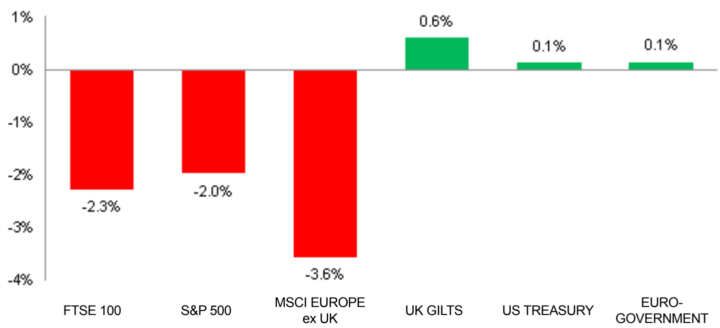
- China's National People's Congress (NPC) begins today, which continues on through to 20 March. News broke at the beginning of last week that the Communist party's Central Committee recommended scrapping the two-term limit on the presidency, allowing President Xi Jinping to continue his reign for life – NPC delegates will vote on this amendment. Expect this to be a closely watched affair, as we receive updates on China's transition to a services-led economy as well as their stance on fiscal and monetary policy. Worries remain about whether China can continue to avoid a "hard landing" in terms of economic growth.
- Central bank meetings will dominate news flow towards the end of the week, as both the European Central Bank (ECB) and the Bank of Japan (BOJ) meet on Thursday and Friday respectively. Despite the Euro area economy experiencing a resurgence of economic growth, inflation pressures remain subdued – the latest core inflation reading released last week was just 1.0% p.a., meaning there is unlikely to be any sign of an increase in interest rates until we're well into 2019. Due to the inflation readings, as well as the strength of the euro, it's likely they will delay signalling the end of their quantitative easing programme until later on in the year.
- With regards to the BOJ's meeting, we do not expect any major policy shifts here either. As with the Euro area, Japan's lacklustre inflation has shown little sign of reaching the BOJ's target of 2%
- Following the conclusion of the BOJ's meeting, our eyes will be cast on the release of the February employment report in the US, which provides us with the unemployment rate and growth in jobs (as per change in Nonfarm Payrolls). Unemployment is expected to continue its downward trend and fall to 4.0%, which would be its lowest reading since December 2000. Despite these two important releases, it will be the wage growth numbers that will be the main focus of our attention due to its particular importance with regards to the future path of US interest rates – a reminder that the previous faster-than-expected reading was the catalyst for the recent correction, and rise in volatility, we've experienced in equity markets. Having said that, it's argued that wage growth numbers in the US are likely to be distorted over the next year as a result of President Donald Trump's tax cuts that has seen many large corporations increase their minimum wage and, perhaps more importantly, pay one-off bonuses of c. $1,000 to employees.

In the rear view mirror of last week we saw

- An event we went into last week focusing on was newly appointed US Federal Reserve (Fed) chair Jerome Powell's testimonial. This would be the first insight we see of his thoughts on the economy, the future path of interest rates and, most importantly, whether this path will likely differ from the one Powell's predecessor Janet Yellen set. In summary, his constructive view on the economy (improved further by the tax reforms) saw him imply that four interest rate hikes are on the cards this year. Consensus prior to last week was for three – as a result, markets responded accordingly as Treasury yields rose, with stocks moving the other way and falling.
- Although Powell's testimonial was our focus, Mr Trump was not to be outdone – it was announced he will impose controversial tariffs on imported steel and aluminium of 25% and 10% respectively. With the announcement stating Trump is to sign the formal order this week, expect a lot of news flow to be around this – we have already seen strong warnings and outrage from Canada, China and the EU.
- Germany's political stalemate has now concluded, as the SPD voted in favour of re-forming the "grand coalition" with Angela Merkel's CDU/CSU party that has ruled since 2013. Ms Merkel is expected to be re-inaugurated as Chancellor by mid-March. As Germany have finalised their coalition talks, it seems they have passed the baton over to the Italians. First glance at the results of the election suggest a hung parliament is likely – notably, however, it looks as if Populist Party Five Star Movement will be the largest single party with c.32% of the votes.
- Staying with politics in Europe, Theresa May provided an update to EU ambassadors and business leaders in London on the latest movements with regards to Brexit negotiations. As we have seen with Mrs May's previous Brexit speeches, perhaps understandably due to its complex nature, it was lacking any conclusive strategy. Having said that, Mrs May reaffirmed that we will indeed quit the single market, but would try to retain a high level of access to it.
- To recap the mixed economic data releases received last week, China's confidence reading for the manufacturing sector disappointed as it seems tightening credit conditions are taking its toll – the reading dropped significantly and is close to contractionary territory. Over in the US, the PCE deflator (Fed's preferred inflation metric) came out in line with expectations at 1.7% p.a., while their latest confidence reading for the manufacturing sector fared much better than China's as it hit its highest since May 2004.

In the side view mirrors of corporate activity we notice

- Rupert Murdoch's 21st Century Fox agreed deal to buy the remaining 61% stake in Sky it doesn't already own now seems up in the air as US cable operator Comcast has submitted a last-minute offer of £22.1 billion, blowing Fox's £18.5 billion offer out of the water. Sky shareholders will be licking their lips at a potential bidding war, as the share price rallied over 20% on the day of Comcast's announced all-cash offer.
- Shareholders of British sub-prime lender Provident Financial enjoyed a rare bit of good news last week as the company resolved an investigation with the FCA. They announced it would need to raise £331 million in a rights issue to settle the related fines, which was well below the initially reported £500 million. Over the week their shares were up over 65% to just under £10, however it's worth bearing in mind that this gain came from a relatively low base seeing as the share price was just shy of £30 this time last year.



Source: Bloomberg. Figures are for the period 26th February to 4th March 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.**