THOMAS
MILLER
INVESTMENT

View from the Front

12th March to 18th March 2018

Front and centre of our thoughts this week include

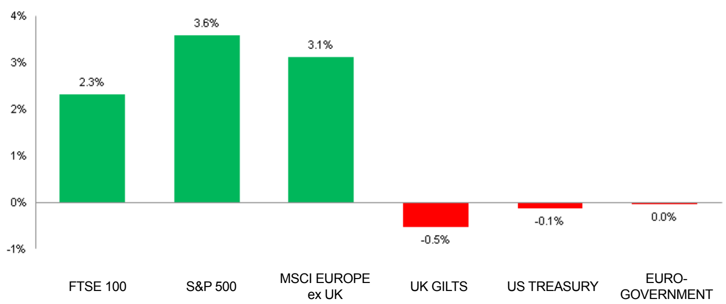
- At the moment it feels as though markets are being driven by every major economic data release, particularly those coming out of the US. We now know that new Federal Reserve Chairman, Jerome Powell, is particularly upbeat about the state of the US economy which suggests interest rate rises may happen quicker than expected. However if there is one variable that might hold back his optimism then it is inflation. Unsurprisingly investors this week will be glued to their screens for details on the US consumer price report when it is released on Tuesday. In January headline inflation rose to 2.1% and analysts expect this to have risen further in February to 2.2%, a marked deviation (in either direction) could result in more volatile prices for markets.
- The week following the release of US employment data (more on this below) is often a slow one for economic data. We will though receive advanced retail sales data in addition to consumer sentiment survey data. This data will help build a more complete picture around the health of the US consumer and are important indicators as we wait for the Federal Reserve's monetary policy decision next week. Whilst an interest rate rise is fully expected by markets, heightened optimism for the US economy may push government bond yields even higher – should they move too high too quickly, investor sentiment can quickly dissipate.
- The UK government will have the opportunity to generate some positive headlines on more domestic matters this week when Chancellor Philip Hammond delivers the newly created Spring Statement. However the new, slimmer Spring Statement (which replaces the Autumn Statement) is designed to be a watered-down affair to avoid large spending and tax changes before the tax year end on April 30th. Consequently there may be little for the Chancellor to champion and indeed he is only expected to speak for as little as 15 minutes in the House of Commons on Tuesday. This may play into the hands of the increasingly vocal John McDonnell, the Shadow Chancellor, who is currently pushing a strong 'nationalisation' agenda that is worrying UK PLC.
- Finally we also have some underlying European political tensions to be aware of this week. Today we expect to see Germany's Angela Merkel and the Social Democrat party sign a coalition while Italy's Democratic Party begin their search for a new leader following the resignation of former PM Matteo Renzi. By the time we get to the very end of the week, the world will watch on as the Russian electorate head to the polling booths for their Presidential elections. Expect fairly long odds on anyone other than Vladimir Putin winning with the current President set to win another six-year term.

In the rear view mirror of last week we saw

- The release of US employment data last month sparked a significant sell-off in equity markets as investors grew nervous that the higher wage inflation recorded in January would force US interest rates up more quickly. Last Friday the data for February was released where the headline numbers were unambiguously positive. The number of people who found employment last month in the US was 313,000 – well above expectations and the highest number since June 2016. Yet digging beneath the numbers revealed that wage growth was slightly weaker than expected and, more interestingly, the number of prime-age workers now seeking work is starting to rise materially. This suggests that there is still some slack in the labour market which might yet keep a lid on wage inflation, consequently the US equity market rallied back above the levels seen in that February sell-off.
- It was a mixed bag for data in the UK last week. Business survey data for the service sector (known as the PMIs) were robust and higher than the previous month whilst, conversely, industrial and manufacturing production data were a little weaker.
- In Europe we saw the outcome of the ECB's monetary policy decision where the central bank indicated that they were moving towards the exit door, albeit slowly. Investors though are more concerned by the change in the direction and last week's suggestion that rate rises could occur as early as next year sent the Euro immediately higher. However in the press conference that followed Chairman Mario Draghi was able to smooth market fears when he struck a more noncommittal tone which caused the Euro to weaken back again.

In the side view mirrors of corporate activity we notice

- Another busy week for M&A activity saw Cigna, the US insurer, launch a bid for Express Scripts, a healthcare company for $67bn. The US healthcare market is undergoing structural change after years of inefficiencies have been exposed. This comes after Amazon, JPMorgan and Warren Buffet's Berkshire Hathaway recently announced plans to create a healthcare company that would cater for their US employees.
- It's clear that insurance companies have money to spend as last week AXA, Europe's second largest insurer, launched a bid for XL Group – a non-life insurance business based in Bermuda. This would be a significant shift in strategy for AXA as they attempt to enter the property and casualty insurance space. Shareholders did not welcome the news as the share price fell 9% on the news.



Source: Bloomberg. Figures are for the period 5th March to 11th 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.**