THOMAS
MILLER
INVESTMENT

View from the Front

19th March to 25th March 2018

Front and centre of our thoughts this week include

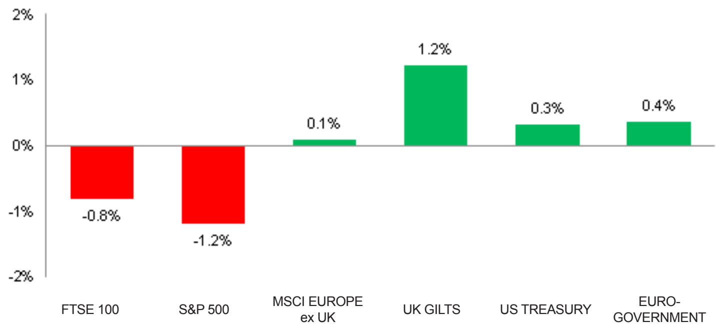
- The week ahead is dominated by central banks and political developments, as both the US Federal Reserve (Fed) and the Bank of England (BoE) hold monetary policy meetings whilst UK and EU negotiators try to reach an agreement on a transitional Brexit deal.
- The Fed meeting will be Jerome Powell's first as chair. In his testament to Congress a few weeks ago he sounded relatively upbeat on the outlook for inflation and economic growth and the Fed are widely expected to raise interest rates by 0.25%. However, the most interesting and market moving aspect of the meeting will be the committee's projections for interest rate rises this year, with growing expectations this will be increased from three to four. If expectations are proved correct, this may be the catalyst that reasserts the trend of government bond yields moving higher.
- The BoE meeting is expected to be a quieter affair with no changes in interest rates expected at the meeting. The meeting is the last before BoE monetary policy members reconvene again in May, where there are growing expectations that the BoE will raise interest rates again. So we expect this meeting could be a platform for the BoE to signal to markets that another interest rate rise is likely in the months ahead. Key to this outcome will be the trend in inflation, employment and retail sales numbers released earlier in the week.
- The UK and EU negotiators are expected to reach an agreement on a transitional deal ahead of the European Council meeting on Thursday. The most likely agreement is an extension of the current "status quo" trading arrangement for around two years once the UK officially leaves the EU in March 2019. The one major stumbling block to negotiations remains the Irish border and it is unclear if this will be a major obstacle for talks to progress. In any case, whatever outcome is agreed will amount to no more than a political commitment from both sides that has no legal basis, as it follows the principles of negotiations that "nothing is agreed until everything is agreed" – a result that still leaves a very uncertain business environment and may not prevent businesses from starting to act on their contingency plans.
- Lastly, and sticking with the political theme, the two-day G-20 meeting of finance ministers and central bankers begins today. The meeting has added significance given the threat of higher US trade tariffs and growing tensions between Russia and the West.

In the rear view mirror of last week we saw

- Political developments played a large part in driving investor sentiment last week with the revolving door at the White House showing no signs of slowing down. Secretary of State, Rex Tillerson became the latest person to be dismissed by President Trump, in part as he had "a different mind-set" and was swiftly replaced by CIA Director, Mike Pompeo, whom Trump described as having a "similar thought process" to his own. Larry Kudlow was also appointed as Trump's new economic advisor and in an interview with CNBC stated that China had earned a tough response from the US in regards to tariffs as they had been "breaking the rules left and right". The bottom line from the appointments is that Trump is trying to assemble a team with a mind-set similar to his own, which could see economic policy move closer to his "America First" agenda - a move which could have negative consequences for global trade.
- Staying with the US, stronger economic data on the whole last week supported the case for the Fed to continue raising interest rates. Core Consumer Prices increased at a monthly rate of 0.2%. The gain extends the recent run of firmer than expected inflation numbers and if the trend persists is likely to push the annual rate above 2% over the coming months (current 1.8%). Industrial production was also a lot stronger than anticipated and the University of Michigan consumer sentiment survey rose to the highest level since 2004. The one major outlier to the positive data was US retail sales for February which disappointed, and recorded a third consecutive decline in consumer spending.
- In the UK, Chancellor Phillip Hammond did his best to present the Spring Statement as a low-key event, and it largely lived up to its billing with no major changes in tax or spending plans announced that were not previously set out in the November Budget. The statement did have a fairly positive tone with forecasts for growth upgraded and expectations for public borrowing lowered. A dynamic which the chancellor suggested could lead to a boost in public spending in the Budget later this year if predictions are proved correct.

In the side view mirrors of corporate activity we notice

- Prudential, the UK's biggest insurer has announced plans to split into two separately listed companies, Prudential plc and M&G Prudential. Prudential plc will be an international insurance group focused on Asia, the US and Africa whilst M&G Prudential will be a UK and Europe focused asset management company. The demerger is expected to happen in 2020 and after the split both companies are expected to be listed in the FTSE 100.
- Unilever, one of the world's largest consumer product companies has announced a major restructuring programme which will see its current dual-headed legal structure, with headquarters in both the UK and the Netherlands, move to a single legal entity that will be headquartered solely in the Netherlands. The move to one legal entity is an effort to strengthen corporate governance by ensuring for the first time that one share equals one vote. After the restructuring Unilever shares will continue to be listed in London, Amsterdam and the US but the company may no longer be eligible for inclusion in the FTSE 100 because its domicile would be outside the UK.



Source: Bloomberg. Figures are for the period 12th March to 18th 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.**