THOMAS
MILLER
INVESTMENT

View from the Front

26th March to 1st April 2018

Front and centre of our thoughts this week include

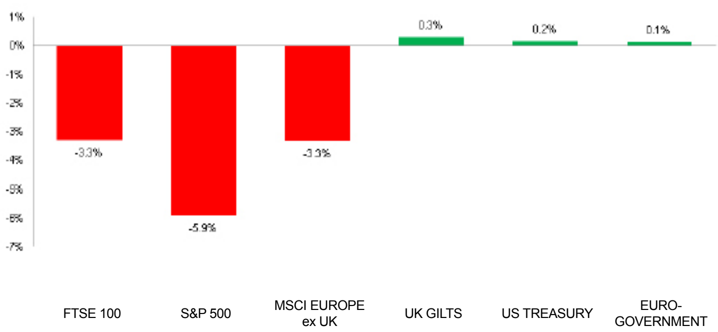
- Markets will be looking, or perhaps hoping, for some signs of stabilisation this week after another bruising week for equity investors. Key to this will be how much more serious the US administration becomes over their impending trade war with China which has already negatively impacted investor sentiment.
- After last week's Federal Reserve (Fed) monetary policy meeting we are also due to hear from a number of members from that committee – their words sometimes have the ability to move asset prices, especially in the bond market. Note that it is a holiday shortened week ahead of Easter.
- The share price performance of Chinese banks has been particularly strong since the year began with the sector rising in aggregate by 25%. This has been an interesting development as the political sands shift in China with Xi Jinping taking an ever more dictatorial role. Wall Street analysts remain uncomfortable with the banking system in China as the government directs the flow of capital, rather than the free market. This week, the largest four commercial banks in the country are set to report annual earnings and they are expected to announce the fastest pace of growth since 2014. The details should provide some insight into the Chinese economy.
- There has been much debate over the state of the UK economy and this week's final reading of fourth quarter GDP should pass without much fanfare. The initial release last month had shown the economy grew at 0.5% in the final quarter of 2017, only for the Office for National Statistics to revise it down to 0.4% a few weeks later. The UK economy over the entire course of 2017 grew by 1.7%. Of more worry for the government are the underlying details which revealed that the service sector, which accounts for 80% of the economy, was experiencing slower growth. Despite a Brexit transition deal being agreed last week, the government will find it difficult to encourage business investment while so many matters remain up in the air. Nonetheless, the Bank of England are widely expected to raise interest rates by 0.25% at the May meeting.

In the rear view mirror of last week we saw

- The exposure of UK firm Cambridge Analytica last week opened up old concerns over the use of personal data by some of the big global Tech firms. In the cross-hairs again was social media company Facebook where fresh revelations allege the company had been indirectly involved in manipulating voters in the run-up to elections (amongst other misdemeanours). The share price fell materially on the news with further contagion in the wider Tech sector. The implication of higher regulatory costs (and thereby lower profits) for the Tech sector was a key detractor from performance in US equity markets last week.
- As noted, the Fed met last week and, as expected, raised interest rates in the US by another quarter percent to 1.5%. The big unknown was how new Fed Chair Jerome Powell would conduct himself, not least because he had recently alarmed bond markets with his optimistic view of the US economy. In the end the market took his words calmly, Powell's performance was measured but with a 'hawkish' bias. The consensus predicts another two quarter point increase in interest rates this year.
- Trade tariffs took up much of the front pages but were not helped by further stories over the revolving door policy at the White House as John Bolton was appointed National Security Advisor. Up to now investors had been relatively sanguine about the comings and goings in Washington but with each new fire and hire it becomes apparent that the shape of the US administration is becomingly increasingly protectionist. As a result the wave of optimism that had fuelled the S&P500 during Donald Trump's first 12 months in office has quickly turned to scepticism – should this continue equity investors could be in for a choppy few months.

In the side view mirrors of corporate activity we notice

- Despite the maelstrom that surrounded the tech sector last week, DropBox, the cloud computing firm that allows users to store and access their data from any device, placed a successful IPO on Friday. The share price was up 36% on the day despite a late sell-off. The success will be of note to Spotify, the music download app that plans to IPO this year too.
- M&A has notably picked up in the first quarter of 2018 and is materially higher than in the first quarter of last year. However, some prudence is being shown by some of the larger companies in the FTSE100. On Thursday Reckitt Benckiser pulled out of a deal to buy Pfizer's consumer healthcare business, its share price rallying in the aftermath. This left GlaxoSmithKline in pole position but on the following day they too pulled out the deal to the relief of shareholders.



Source: Bloomberg. Figures are for the period 19th March to 25th 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.**