THOMAS MILLER INVESTMENT

View from the Front

9th April to 15th April 2018

Front and centre of our thoughts this week include

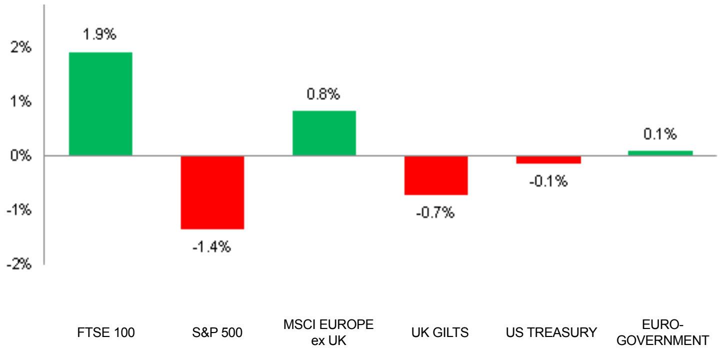
- The ongoing trade dispute between the US and China (more below) is likely to be the main focus of attention this week, however it's also a busy week in regards to macroeconomic and corporate data. Starting in the US, we receive the core CPI inflation numbers for March, which is expected to show that the annual rate of inflation has increased to 2.1%, which would be the highest level since March 2017. We also receive the minutes of the March Federal Open Market Committee (FOMC) meeting. As a reminder, the FOMC voted to raise interest rates at their most recent meeting so particular focus will be on the committee members' views on growth and inflation, as these will help set expectations for the number of further interest rate rises this year.
- In the UK, the main focus will be the release of the Bank of England (BoE) quarterly Credit Conditions and Bank Liabilities survey, which provides a useful gauge into the lending environment for both UK households and corporates. It will be interesting if see if lenders have tightened credit conditions in response to the BoE warning about the risks of rising levels of consumer credit. Given how dependent the UK economy is on consumer spending, any tightening in credit conditions could lead to a downgrade in the growth projections for the UK economy.
- This week also sees the start of the corporate earnings season in the US, with a number of banks including JP Morgan, Wells Fargo and Citigroup all due to report their earnings for the first quarter of 2018. This is the first reporting period since the US government cut corporation tax, so the earnings reports should provide a clearer guide to the benefits that the tax cuts have had on corporate profitability. Forecasts for US earnings are relatively optimistic, with earnings expected to increase by 18.4% over the quarter when compared to the first quarter of 2017, according to Thomson Reuters data. A strong earnings period could provide a welcome lift to current investor sentiment which has been severely weakened by the US-China trade dispute.
- Additionally, Facebook CEO, Mark Zuckerberg is also set to testify in front of Congress following the scandal over the tech company's ability to protect user privacy, with his testament likely seen as a barometer for future regulation on the wider tech sector. If Mr Zuckerberg fails to convince Congress that Facebook can be trusted with users' data, then it may be the catalyst that leads to more stringent regulation over tech companies' data privacy policies going forward.

In the rear view mirror of last week we saw

- Trade frictions between the US and China dictated investor sentiment and equity markets last week. The news at the start of the week that the United States Trade Representative (USTR) plans to impose tariffs of 25% on Chinese products worth up to $50bn, and the subsequent retaliation by Chinese officials, who intend to match the tariffs in value ($50bn) and extent (25% tariffs), caused a sell-off in global equities. Tensions appeared to calm in the middle of the week, as a number of White House officials and Chinese government officials suggested negotiations could resolve the dispute. This was short-lived with tensions reignited again on Friday when President Trump instructed the USTR to consider whether tariffs on an additional $100bn of Chinese imports would be appropriate to counter what he saw as China's "unfair retaliation" to earlier trade moves. At this stage, no tariffs have been implemented, which leaves time for negotiations to ease tensions. However, the situation remains highly uncertain.
- The most closely-watched economic indicator of the month, the US employment report was overshadowed by the escalating trade tensions. In any case the report was mildly disappointing. The US economy added fewer jobs than expected over the month of March, 103k, and there were downward revisions to previous job growth estimates. While disappointing, the monthly data does tend to be quite volatile and the broader trend in jobs growth remains strong. Elsewhere the report showed the unemployment rate remained at 4.1%, the lowest level since December 2000, and average hourly earnings growth increased to 2.7%.
- The trend of disappointing European data continued this week. Both German retail sales and industrial production were materially weaker-than-expected and business sentiment surveys from the region, as measured by Purchasing Managers' Index's came in below expectations. The data releases provide further evidence that there is a loss of growth momentum in the European economy.

In the side view mirrors of corporate activity we notice

- The board of the world's largest advertising agency, WPP, has hired a law firm to investigate allegations of personal misconduct by its Chief Executive Officer, Sir Martin Sorrell. The allegations are in regard to the misuse of company assets, although WPP said the sums involved were not material to the business. In 2015-16, Mr Sorrell's pay was £70m, the highest ever for a British executive at the time, and a pay package that more than a third of investors voted against.
- The music streaming giant Spotify chose an unconventional method to go public last week. They opted against the traditional IPO route, which involves selling new shares in the company and hiring investment banks to be underwriters and stimulate investor interest. Instead, the company chose a direct listing, which saved them millions in investment banks fees and allowed early investors to sell existing shares. The process went smoothly, with the music firm finishing the week with a valuation of close to $26.5 billion.



Source: Bloomberg. Figures are for the period 2nd April to 8th April 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.**