THOMAS
MILLER
INVESTMENT

View from the Front

18th December to 24th December 2017

In the rear view mirror of last week we saw

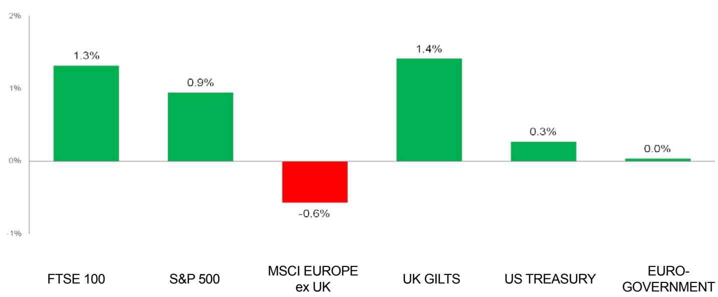
- Last week was the last full trading week of 2017, on Friday the London Stock Exchange will close at 12.30pm – expect liquidity to be lower this week with trading slowing down ahead of the Christmas break. However with lower liquidity can also come more exacerbated moves in asset prices.
- The first stage of Brexit negotiations have been concluded. By the end of last week EU leaders had confirmed that "sufficient progress" had been made on the first phase of the negotiation, paving the way for phase two next year – the more complex discussions on trade. There were some highs and lows during the week, a lost Commons vote, a vilified Brexit secretary but at last some agreement on a divorce bill with the EU. The pound reacted in its (typically) volatile manner. It rose significantly as the news broke before retreating afterwards in the melee of conflicting voices from both sides of the negotiating table. The currency-sensitive FTSE 100 (typically) worked in the opposite direction, falling before rising at the end of the week with positive returns for the week.
- US tax reform negotiations also took a significant step closer to a resolution last week as two Republican Senators agreed to back the reformed bill. Improved prospects for lower corporate tax rates in the US in 2018 drove the equity market higher last week. The S&P500 rallied, hitting another all-time high last week, capping off what has already been a fantastic year for returns in that equity market. Despite Donald Trump getting through his first 'real' legislative change since becoming President, he will be worried by the loss of Republican candidate Roy Moore in the Senate special election in Alabama. His Democratic rival Doug Jones' win was the first by a Democrat candidate since 1992 and, importantly, shrinks the Republican majority in the Senate to 51-49.
- Despite last week being extremely busy for central banks, markets carried on their merry way. With little in the way of surprises, from a monetary policy standpoint, bond markets were subdued while equity markets remained buoyant. The US Federal Reserve (Fed) raised interest rates in the US by another 0.25%, their third rate rise of 2017. The meeting was significant because it also marked the end of Chairperson's Janet Yellen reign at the Fed who hands over to Jerome Powell in early 2018. Of less importance were meetings held the following day by the Bank of England and the European Central Bank, on both occasions monetary policy was not changed – nor were they expected to be.

Front and centre of our thoughts this week include

- The release of economic data certainly dries up as we get closer to year end with little to really get markets excited. With our international hats on we'll be keeping an eye on China where their three-day Central Economic Work Conference begins today. Of most interest here will be the GDP growth target issued by Party leaders, will they again be moved lower down from 6.5% per annum? For much of the year China has remained out of the news, we don't expect this change this week but 2018 might be a different story.
- The US are still trying to extend government funding where Congress have until Friday 22nd December to negotiate a resolution. This story has drifted into the background in recent weeks, presumably on the assumption that if a multi-billion dollar tax reform bill can be negotiated then averting a partial government shutdown should be a walk in Central Park.
- From an economic data perspective, there are a couple of releases to keep an eye out for – notably personal and income spending data in the US, within which we also see the Fed's preferred inflation measure, core PCE. That aside, there are final revisions to Q3 GDP data released for the US and Europe that are worth keeping an eye on however little change is expected.
- In the middle of the week we should also witness some Brexit headlines as the European Commission is due to publish its directives for the transition phase while the EU 27 member states also meet to discuss Brexit. We finish as we started the year, monitoring the politics around Brexit but never letting the noise cloud our decision-making process. And there's been a fair amount of noise in 2017!
- That leaves us to say thank you to all our readers for their time this year, we hope you have found our weekly blog useful. This will be our last blog until 2018. From everyone at Thomas Miller Investment we would like to wish our clients, readers and fellow investors a Merry Christmas and a prosperous New Year.

In the side view mirrors of corporate activity we notice

- Facebook made the news last week as the social media company announced that it would change how it would pay tax on overseas earnings. As the company comes under more political pressure, this change will mean less revenue would be booked in Ireland, a haven for many of the Tech companies.
- In a sign of the increasingly electric times, Toyota have announced a phasing out of combustion-only models by 2025. As governments in the developed world continue to focus on emissions output, we expect more European and Asian car manufacturers to follow suit.



Source: Bloomberg. Figures are for the period 11th December - 17th December 2017. Where the index is in a foreign currency, we have provided the local currency return.

Jordan Sriharan
Senior Portfolio Manager

Click here to be added to our mailing list and receive this update weekly.

1217 - 0010