MILFORD

Market and Economic Review

April 2019

March saw significant moves in global and local bond markets whilst share markets were mixed following the strong performances of the previous two months.

Global central banks are shifting to a more cautious stance as economic growth continues to slow. This was cemented in March by the US Federal Reserve indicating that there would be no rate hikes this year. The Reserve Bank of New Zealand also changed tack, signalling that the next direction of the Official Cash Rate will likely be lower.

In response, bond markets have rallied strongly, pushing interest rates on longer-term government bonds sharply lower (bond prices go up when interest rates go down).

- US 10-year bond yields finished the month at 2.41%, the lowest level for 18 months.
- German 10-year bond yields are negative again at -0.07%, the lowest level since 2016.
- Australian and NZ 10-year bond yields are at the lowest levels in modern history at 1.78% and 1.81% respectively.

This is significant and a key driver of Fund returns as many shares that we invest into are highly sensitive to interest rates, notably the high dividend paying ‘income’ stocks.

Stocks such as Charter Hall Group (+16.7%), Transurban Group (+5.9%), Meridian Energy (+16.1%) and Chorus Ltd (+15.6%) are all high dividend paying stocks in Australia and New Zealand that our funds have significant holdings in.

The NZX has a high proportion of shares that offer high dividend yields, and this helped propel the NZX 50 Gross Index up 5.6%. This compares to the ASX 200 Index up 0.7%, and the MSCI World Net Total Return Index up 1.6%.

Despite the slowdown, the global economy is still expanding and there are reasons for optimism. There are signs of an impending US-China trade deal. China itself has resorted to stimulating its economy again to combat the slowdown. In Europe, Brexit continues to weigh on sentiment but this year governments are set to add fiscal stimulus for the first time in a decade.

Global share markets are already reflecting these more positive developments. Elevated uncertainty around growth and company earnings will continue to drive market volatility, but lower interest rates provide a more favourable environment for equities.