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Market and Economic Review
May 2019

Global share markets extended their rally for a fourth month in April, leaving global shares close to the all-time highs reached in September 2018.

Economic data over the past month has shown that growth in China and the US has been improving. Compared to even recent expectations, global growth is proving to be resilient in the face of US government shutdowns, global trade wars and significant market volatility.

Companies have been reporting quarterly profits in the US and Europe this month, and these have also exceeded expectations.

Meanwhile, inflation data has been subdued the world over and central banks are concerned about inflation persistently undershooting targets. As a result, global interest rates have remained low despite the strong economic growth.

All of this is positive news for asset prices such as shares and corporate bonds. This month, the shares of growth companies have been the standout performers. Key market monthly returns were as follows:

- Global shares (MSCI World Net Total Return Index) up 3.8%, driven largely by performance of US technology companies.
- NZ shares (NZX 50 Gross Index) up 1.7% driven almost entirely by the performance of a2 Milk (up 17.2%).
- Australian shares (ASX 200 Index) up 2.4% with strong performance from the banks.

Considering the mix of stronger economic growth, better earnings and lower interest rates, the outlook remains reasonable despite the impressive year to date returns from markets.

Risks remain in the form of a yet to be completed trade deal between the US and China. A stronger US dollar could also be problematic for emerging markets, and weigh on US technology company earnings (given they earn a significant amount of revenue in other currencies). In Australia we are watching the looming election closely, as well as keeping an eye on the sagging housing market.

However, markets with high valuations are sensitive to interest rates remaining low as a driver of sentiment. On this front, the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ) meet in May and both could potentially cut interest rates to further bolster the local economies and support markets.

While the outlook for returns is moderate, our focus remains on security selection and backing the companies that we believe will do well over the medium term.