



Market and Economic Review

June 2019

Milford's funds generally delivered flat to positive returns in May and you'd be forgiven for thinking it was a quiet month. In reality we've had a stream of news flow to digest and navigate across the range of assets we invest into.

The month began with hope of a resolution to the US-China trade war. However, the situation quickly deteriorated, and we end the month with the two sides as far apart as they have been at any point during the negotiations and tariffs on both sides set to escalate over the coming weeks.

This, and the fading momentum in global economic growth, has seen global equities reprice lower - the MSCI World Net Total Return Index was down 5.7% in May.

Over the ditch in Australia we saw the pollsters confounded yet again with a surprise victory by the incumbent Liberal-led coalition. This has likely a positive (or less negative) impact on the housing market and the banking sector so it was unsurprising to see the Australian share market outperform in May – the ASX 200 Index was up 1.7% – benefitting our significant Australian share holdings.

There was also an election in India and victory for the incumbent Modi is positive for the economy – our global team like Indian bank shares and have been adding to these in May.

Closer to home we saw the Reserve Bank of New Zealand cut interest rates by 0.25%, surprising the market and igniting interest in high dividend yielding shares. Contact Energy is Milford's biggest shareholding and the shares were up 9.8% in the month. NZ shares in general remain in demand with the NZX 50 Gross Index up 1.0% in May.

Demand for high dividend yielding shares was intensified by the global bond market which extended its year to date rally as fears of fading growth are exacerbated by the escalating trade war. Strong share performance was a key factor boosting the performance of the Diversified Income Fund this month.

The investment team remains on the cautious side, growth is clearly slowing and risks remain. However, valuations are around average levels and falling interest rates should cushion the economy and the share market. We continue to focus on finding companies that can perform well regardless of the economic environment.

