Market and Economic Review
July 2019

June saw strong returns across all Milford funds, with some of the best monthly performances in over a year.

Global economic growth data continues to moderate. The escalating US-China trade war is starting to be felt in weaker business activity, particularly in the US and China in the last month. In the UK a change in Prime Minister has reignited concerns over a disorderly Brexit resolution.

This all may sound like bad news, but riding to the rescue are global central banks who have committed to lower interest rates to mitigate any growth slowdown ahead. Expectations of lower interest rates have extended the global bond market rally with strong demand for corporate bonds which offer better returns than government bonds.

Lower interest rates also drive investors to stocks that have strong and growing dividend yields. For the second month in a row, property and utility stocks have been top performers. Stocks such as Contact Energy, Spark and Transurban fit into this category and are significant Milford holdings.

Strong performances from property stocks has seen management of these companies opportunistically raise capital by selling shares, with several deals announced in Australia and NZ over the month including GPT Group and Arvida Group.

Many of Milford's analysts and portfolio managers embarked on research trips in June, covering the US and Europe. These trips are a vital part of our research process and allow us to secure conviction on existing investments as well as hunt for new ideas in global markets.

The outlook is mixed; on one hand the global consumer is in good shape with low unemployment and moderate wage growth. However, global growth is slowing and risks remain - primarily the ongoing trade war and its potential to impact strength in the global consumer via higher prices and job losses. The policy response (i.e. lower interest rates) from central banks is a significant development and reduces risks of a potential deeper contraction. With increased economic uncertainty there is potential for further market volatility ahead. In the short term, falling interest rates will likely continue to push investors hungry for returns towards investing in shares.