Market and Economic Review
August 2019

July saw Milford's funds continue the recent string of strong monthly performances with positive returns from all funds.

Growth companies lead the share market rally in July. Global companies reported quarterly profits, there was some concern the ongoing trade war could be felt in weaker results. In aggregate, global companies exceeded investor expectations, with notable performance from the technology sector. Google closed the month up 12.6% and semi-conductor company ASML was up 10.4%, both of which are Milford holdings.

In Australia growth companies also had a strong month. Smaller Australian companies outperformed and the Dynamic Fund as a result ended the month up 4.9%. New Zealand shares in general continue to benefit from investor inflows and the index was up 3.4%, led by index heavyweight a2 Milk which was up 22.8%. Milford continues to hold a favourable long-term view of the company.

Looking ahead, August is reporting season for Australian and NZ companies and with the recent strong performance in these regions there is likely to be some stock volatility which we will look to take advantage of.

Market interest rates around the world continue to fall and central banks in Australia and the US cut interest rates by 0.25% in July. Further cuts are expected, and low levels of interest rates continue to drive investors towards potentially higher returning investments such as company bonds and shares.

Although global economic growth has slowed this year, data released in July showed economic weakness to be largely contained within the global manufacturing sector – a symptom of the ongoing US-China trade tensions. The global consumer remains in good shape, supported by full employment, reasonable wage growth and falling interest rates.

Weaker growth and low inflation enable central banks to lower interest rates, whilst growth appears to be robust enough to enable companies to grow profits. If this situation persists we see the potential for further gains in shares and bonds. However, the path ahead is uncertain – the trade war could deteriorate, or weaker business investment could start to curb jobs growth. After the strong year to date returns in shares, we have selectively reduced some exposure across the funds.