



## Market and Economic Review September 2019

August was another hectic month in financial markets. Investors were presented with a deluge of information, from trade war tweets to local company earnings updates. Milford funds navigated the volatility well, generally outperforming their underlying markets and ending the month in positive territory.

Risks from the escalating trade war, coupled with a softening global growth outlook has seen bond investments continue to deliver strong returns as investors retreat to these perceived safe havens. Central banks have been quick to try and get ahead of the global economic slowdown by lowering interest rates. This includes the Reserve Bank of New Zealand which delivered a surprise 0.5% rate cut during the month to encourage spending by businesses and consumers.

With declining returns available from holding cash, investors continue to hunt down better return opportunities elsewhere. This includes bonds with longer maturities - demand for higher yielding 10-year US bonds has caused an 'inversion' in the US yield curve (where longer dated bonds offer lower interest rates than shorter dated bonds) – something that previously has been a signal of impending US recession. Company bonds also benefit from the search for yield - they have outperformed shares over the past month and year.

August saw Australian and NZ companies report their results. As usual there were some surprises, both positive and negative, but overall the outlook from Australian companies has improved in the last six months, whilst in NZ the outlook felt a bit more subdued.

Stock selection in our Australian funds was particularly strong, driven by performance of stocks such as Wellcom, Australian Finance Group and Credit Corp.

Looking ahead, we remain cautious as global growth continues to slow, particularly with trade war tensions escalating. Low interest rates help, but we may have already seen the benefits of lower interest rates via strength in global consumer spending recently. Nonetheless, a slowing but still positive global growth picture, coupled with low interest rates, remains a reasonable environment in which to invest. We continue to look for attractive companies that can deliver strong returns, either from dividend income or earnings growth, or in some cases a bit of both.