



Milford Investment Funds Monthly Review January 2020

Market and Economic Review

December saw share markets extend the strong run they have been on since the start of 2019. The uncertainty of trade wars and Brexit has subsided, and investors expect global economic growth and company profits to pick up. Most Milford funds posted gains in the month, capping a strong 12-month performance across funds of all types.

Interest rates have been the major driver of asset prices in 2019 with global central banks cutting interest rates at the fastest pace since 2009. This has directly benefited bond investments and indirectly benefited shares as investors seek higher yielding assets – in many cases dividend yields remain well above interest rates.

This has been most evident in the performance of the NZ share market (NZX 50 Gross Index up 30.4% in 2019) although Australian and global share markets have also posted strong gains. The question facing investors in 2020 is what next?

Although economic growth is expected to improve, the rate of growth is likely to remain moderate. The cyclical areas of the economy such as manufacturing can improve meaningfully but the global consumer is largely spending at close to full potential. Government spending has room to increase but this faces either political hurdles, such as in Europe, or fiscal hurdles from the high levels of global government debt. Company profits are also unlikely to rise significantly as corporations face higher costs in the form of rising wages.

Interest rates around the world are unlikely to fall much further, and should growth be better than expected they could even rise - this would be a headwind to broad gains in share markets.

Finally, investors begin 2020 in a relatively optimistic state, meaning positives will be expected whilst negatives could come as a surprise. 2020 brings its fair share of catalysts, most notably the US election in November. Recent aggression by the US in Iran also reminds us that geopolitical tensions remain high.

Whilst we remain optimistic over the outlook, broad market gains like we saw in 2019 are unlikely to be repeated. Instead, opportunities will lie in active management - selecting the right sectors and companies to invest in.