



Market and Economic Review February 2020

Only a month into 2020 and investors have been reminded that sometimes risks can indeed appear out of thin air. The coronavirus international health emergency dominated financial news in January and its impact on financial markets has been seen in sharp price moves in shares, commodities, bonds and currencies.

Fund returns in the month were broadly positive, aided by a strong performance in Australian shares as well as increases in bond prices as investors sought the safety of government bonds.

We are looking for signs of improving global economic growth this year after the US-China trade war dented activity in 2019. Initial signs show that growth has stabilised, but the recovery so far looks to be modest. Indeed, that recovery is now called into question by the coronavirus outbreak as global travel and business activity is curtailed.

Anaemic economic growth has been quickly reflected in the level of global interest rates which remain close to all-time lows, helped by global central banks who continue to focus on below target inflation levels. Low interest rates are supporting bond and share markets the world over. Put simply, global investors have lots of cash to invest and there is a shortage of high-quality assets to invest into.

US shares have been strong performers, largely driven by US technology companies. Last month, companies such as Amazon, Apple and Microsoft (all Milford holdings) reported better than expected profits, allaying concerns about a slowdown. Milford's Global Equity Fund also benefitted from a falling NZ dollar over the month.

Australian and NZ shares performed relatively well in January, aided by weaker currencies. Next month sees local companies report profits and given the high valuations of local shares any company not meeting expectations may be punished by investors.

Predicting the outcome of situations like the coronavirus is difficult. Experience tells us that these events tend to be acute but short lived in terms of their economic and financial market impact. Given the outbreak is still developing more volatility is to be expected. In the medium term, we continue to see a constructive investing backdrop with very low interest rates and positive global growth.