



Milford Market and Economic Review

March 2020

Global share markets started February very strongly, however growing concern about the impact of the coronavirus on world economic growth turned sentiment very quickly and by month's end had impacted markets significantly.

Milford Funds were not immune to this weakness, with most Funds falling in value over the month as markets fell sharply. Defensive positioning in our Funds ahead of the decline did, however, reduce the magnitude of these falls. Monthly returns should also be taken in the context of strong longer-term returns and extreme market volatility. All Milford Funds have taken steps over the past month to mitigate risks from the virus - for more details see each Fund's monthly update.

Although the virus has been prevalent in China since before Christmas, the spread to the rest of the world has only occurred in the past few weeks. Markets were seemingly slow to react initially with the NZ, Australian and US share markets all making all-time highs at the beginning of February. This gave rise to opportunity for us to reduce share market exposure in the Funds. We felt this was prudent in order to protect against the risk that the virus spread further and created negative effects on economic growth and share markets.

Globally, government responses to virus outbreaks have been to quarantine cases and cancel public gatherings such as sports events and conferences. This strategy of containment potentially carries a high economic price - evidenced by sharply weaker measures of business activity in China over the past month. Although we believe these economic impacts are likely to be transitory, it is this short-term economic slowdown that has share market investors worried, given the potential for weaker company profits.

However, other more market-friendly responses are forthcoming, including monetary policy easing and government support for struggling businesses - something already being enacted in China. As we pass through the shorter-term negative impacts of the virus, these policy responses can help recoup lost economic growth and stabilise markets.

Milford Funds are well placed to weather the current storm. Share markets are often punctuated by bouts of volatility and whilst not to downplay the human and economic costs of the coronavirus outbreak, episodes such as these create opportunities for investors with a longer-term investment horizon. The Milford investment team have been working hard to navigate the volatility and continue to position Funds appropriately for the outlook.