MILFORD

Milford Market and Economic Review
June 2020

May saw share markets continue their strong run, building on the recovery from the March lows.

Around the world countries have been relaxing Covid-19 lockdown restrictions, either due to few cases as in NZ & Australia, or because of political pressure e.g. in the US. This has seen economic activity lift from extremely depressed levels, and we are seeing improvements in many of the economic indicators we follow.

Our Funds participated well in May's rally. We have increased exposure to Australian shares over the month, taking advantage of attractive valuations and an improving economy that is dealing with the Covid-19 crisis relatively well. Australian shares performed strongly in the month, particularly smaller companies with the Dynamic Fund delivering a 9.7% return in May.

Companies continue to raise capital by selling new shares in Australia and NZ. These have provided investment opportunities for the Funds but in May it paid to be more discerning on the deals. The recent Australian Finance Group raising was just one example where we topped up our investment in a company already well known to us and were rewarded with strong subsequent performance.

The Global Fund continued its run of strong performance as its holdings in quality growth companies such as Freee (Japanese accounting software company) and PayPal (global payment technology company) performed well. In a world with limited growth opportunities investors continue to like companies with a strong earnings growth outlook. See the monthly Global Equity Fund commentary for more detail.

Despite the improving global economic activity we are becoming more wary of the outlook. Share market performance has run ahead of economic recoveries in the short term leaving many share markets elevated in the face of a potential second wave of the virus. In the medium term, global unemployment will remain persistently high and government support packages are focused on the short term. This will impair economic growth and company earnings. In addition, increasing US-China tensions in recent weeks add to the potential issues for investors to navigate.

Given the strong run in markets we are selectively looking to reduce exposure to those companies whose valuations have exceeded our expectations.