Milford Market and Economic Review
July 2020

A rebound in global economic activity continues to buoy stocks and corporate bonds. Meanwhile, global central banks are pinning interest rates at very low levels – further supporting asset prices and helping deliver positive returns for Milford Funds for the third month in a row.

The global consumer has led the recovery thus far. This propensity to spend reflects strong household income support from governments coupled with pent-up demand from consumers being released from lockdown restrictions. This spending recovery appears to be 'V' shaped and has exceeded investors' expectations.

On the back of this improving economic growth, share market gains have been broad based. Stock selection within our Funds helped deliver additional strong returns in June. In Australia, Collins Foods (an owner of fast food franchises) was up 17.8% as consumer demand for a cheap luxury has soared. In New Zealand, Fisher & Paykel Healthcare was up 18.7% after strong results confirmed the company as one of the few clear beneficiaries of the COVID-19 outbreak. For more information on stock performance within our Funds please read the individual Fund reports.

High quality corporate bonds also rallied in June, supported by buying from the US Federal Reserve. This helped Milford's bond Funds also achieve strong results in the month.

Looking ahead, the outlook is uncertain. Expectations for a full 'V' shaped recovery are being dented by the resurgence in COVID-19, something of particular concern in parts of the US and Latin America. Appetite for further social restrictions is waning and whilst this allows for activity to continue, we could see reduced consumer spending as populations take it upon themselves to avoid contracting the illness. We are also wary that the generous US government income support programme is set to expire in the next month, potentially putting further pressure on consumer spending patterns.

Strong share market performance leaves valuations looking expensive, particularly in the light of rising negative risks. This justifies the broadly defensive stance Milford Funds have in place. Long term, selected shares and corporate bonds should deliver stronger returns than government bonds and cash. In the short term, we see rising risks increasing the chance of market volatility.

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