



Milford Market and Economic Review August 2020

Milford's Funds posted another positive month across the board as shares and corporate bonds continue to recover from their March lows.

Over the past few months a few key themes have emerged:

1. Although global unemployment has risen to alarming levels, household incomes have remained largely intact owing to substantial government response measures
2. Global central banks are supporting government spending by keeping interest rates extremely low, buying financial assets (quantitative easing) and thereby facilitating increased government borrowing
3. Consumers initially saved, but very quickly the income support from governments prompted spending. Unsurprisingly, much of this spending was online – US online sales have surged 30% compared to a year ago
4. Changes in consumer spending patterns have benefitted a small handful of high-profile stocks, for example Amazon, Apple and Google. Growth starved investors have bought these company shares, pushing prices to all-time highs.

Quarterly profits announced by the four tech giants (Microsoft, Apple, Alphabet and Amazon) in July exceeded even optimistic investors' expectations, demonstrating their dominance in this environment. Milford's Global Equity and equity focussed diversified Funds have held significant holdings in these companies, aiding performance in the month.

The NZ share market was negatively impacted in July by the announcement of the closure of the Tiwai aluminium smelter, sending utility company shares lower. We had reduced our Funds' holdings in the sector, limiting the impact on our performance.

The Australian share market underperformed last month, likely due to the resurgence of COVID-19 cases in Victoria, tensions with China and a strong Australian dollar making shares look expensive to offshore investors.

Looking ahead, there are several catalysts on the horizon. Company earnings will be released in Australia and NZ in August, revealing how well local companies have fared recently, and view their outlook over the next period of economic disruption. Upcoming elections will come into focus in NZ and a couple of months later in the US. Given the significant role government policy has played in supporting the global economy, these elections will complicate the medium-term transition from government life support to an economy that can get back on its own two feet.

Markets have outperformed our expectations over the past few months, but uncertainty remains high. We continue to focus on identifying the right companies to invest into whilst retaining a mildly defensive position.