

Market and Economic Review

January 2021



A tumultuous 2020 concluded with stocks close to year highs in most countries. Bonds also performed well, particularly corporate bonds that more than recovered the losses seen in March. All in all, this has delivered strong fund performance despite the ongoing global pandemic.

December saw a continuation of the strength in shares, despite the building COVID-19 waves in Europe and the US. Optimism around vaccine rollouts, progress on further fiscal support in the US and a resolution of Brexit helped keep investors upbeat.

NZ shares finished the year with a rally, despite index heavyweight a2 Milk surprising the market with a profit downgrade. Whilst we still hold the stock, it had been reduced in our funds ahead of this news, limiting its impact on performance. The company remains on watch for signs that management have the situation back under control.

In Australia, strong commodity prices, particularly a surging iron ore price, have delivered strong gains for the materials sector. We had previously increased exposure to this sector and continue to like companies such as BHP Group and IGO Ltd.

We look ahead to 2021 with optimism that distribution of vaccines can turn the tide on the waves of infections spreading around much of the globe. Success on this front will see global growth recover sharply, in turn improving the outlook for company profits. Governments and central banks are likely to remain supportive, at least until unemployment rates have fallen. This is a constructive investment backdrop and we are fully invested as a result.

The biggest debates we have in the investment team centre on which type of companies are going to perform over the coming year. Will we see continued strength in the high-flying technology sector? Will banks benefit from bottoming long-term market interest rates and recovering economies? Will travel and leisure companies be able to rebuild their businesses and recover accordingly? The answer to questions such as these may well hold the key to performance for the coming year.