Market and Economic Review
February 2021

After two months of strong gains, market and fund performance was mixed in January. Milford's Australian funds performed well whilst volatility in global stocks saw Milford's global funds fall.

Market volatility over the last week in January was less about fundamentals – these largely remain intact. Vaccination programs will eventually release a global pent-up demand for consumption, driving increases in economic growth and company profits by year end.

However, much of this expectation is already factored into broad share prices, i.e. valuations are high. In January, a key pillar of support for share markets was called into question – namely persistently low interest rates. Last month saw the US Democratic party win control of the Senate, increasing the likelihood of more aggressive support for the US economy. If this is forthcoming, a potential outcome is higher interest rates as the economy booms.

January saw a rise in long-term market interest rates as this scenario unfolded, sending bond prices lower. We have mitigated against this outcome by reducing exposure to long term interest rates, helping to cushion our bond funds from larger losses.

On the share side, some global hedge funds have been roiled by volatility in stocks, causing them to reduce positions and creating broader volatility in shares. For Milford, this has been a sideshow and we have focused on investing in companies that might benefit from expanding economies and rising interest rates – namely banks and resource companies. Our Australian funds' exposures to these companies helped deliver positive performance this month.

New Zealand funds dealt with opposing forces. On the positive side, an encouraging update from Fisher & Paykel Healthcare was rewarded with a 5% uplift in the month. Elsewhere, the electricity companies were volatile, reflecting the changing investor base as passive US funds buy and fundamental investors reduce exposure.

Global shares were broadly weaker, high quality companies fell even as they issued strong profit updates. Furthermore, companies connected to the re-opening of economies were weaker due to issues with vaccine rollouts and discovery of new virus variants.

Looking ahead, we remain confident in the investment backdrop. Our funds are balancing investments between long term winners and recovery plays whilst maintaining vigilance against the risk of rising interest rates.

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