Market and Economic Review
April 2021

Lift-off

The past year has seen share markets and Milford Funds recover dramatically from the dark days of March 2020. Some of the one-year returns are very high. However, investors should bear in mind that whilst the outlook is rosy, share markets are forward looking and current prices already reflect some investor optimism.

The global economic outlook is built on a foundation of a strong global business sector (particularly manufacturing), coupled with increased household savings and a pending reduction in social distancing restrictions (enabled by accelerating vaccination programs). We are already seeing some impressive data points from the US as we monitor economic performance, and we expect these to continue for the next few months as consumption improves.

The New Zealand and Australian economies are expected to improve at a more sedate pace in comparison. Nonetheless, the fortunes of some companies in both countries are tied to global rather than local developments. For that reason, it pays to focus on the dramatic changes about to happen in the rest of the world.

Share market performance in March reflects optimism over a return to normalcy in both travel and entertainment. Cinema software maker Vista Group and travel software company Serko saw share price gains of 29% and 22% respectively.

Businesses continue to replenish inventories, leading to stronger demand for raw materials. Australian steel product producer Bluescope was up 16% in March, benefitting our Australian Funds. Global housing markets also continue to appreciate, including the US. A core global holding is homebuilder DR Horton, its shares were up 16% in March.

Strong global growth is creating inflationary pressures. This is reflected in higher government bond yields (bond prices are falling). We have managed this move well in our diversified funds through reduced exposure to longer-dated bonds. We are wary of further increases in bond yields as this would likely weigh on expensive parts of the share market.

Whilst we remain broadly positive on shares, we are unsure of just how strong or sustainable the current growth impulse is. A fading growth outlook, higher bond yields or increased corporation tax in the US are just some of the issues share investors may have to deal with in the coming months.

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