

# Market and Economic Review

## May 2021



## Goldilocks economy – conditions just right for growth

Global share markets continue to drift higher, fuelled by a potent cocktail of strong economic growth, robust company profits and a moderation in global bond yields. Milford's Funds delivered strong performance in the month.

The global economy is accelerating out of the COVID induced recession, led by the US as rapid vaccination programmes enable a reopening of the economy. Other economies will follow suit over the coming months as uneven vaccine rollouts across countries create staggered reopening schedules.

Forward looking share markets have largely factored in these developments. Nonetheless, first quarter profit announcements from US companies have soundly exceeded initial estimates, illustrating that companies are harnessing this economic activity well.

Core holdings of global companies such as Google and DR Horton performed well in the month (up 16.5% and 10.3% respectively). Google reported revenue rising 35% on the back of strong advertising spending. DR Horton, the largest US homebuilder, is enjoying an extremely strong US housing market.

The New Zealand market remains a broad underperformer, but stock selection has delivered

outperformance for Milford's Funds. We have maintained significant holdings in Fisher & Paykel Healthcare, convinced that COVID-19 represents a multi-year opportunity for the company. The explosion of cases in India in the last month is a timely reminder that the pandemic will be enduring, this realisation has seen the stock price rise 12% last month. Our decision to largely exit a2 Milk last year also helped relative performance recently, the stock has fallen by around 63% in the past 9 months.

Government bond prices stabilised in April after their steep falls so far this year. We continue to think government bonds (particularly in the US) look unattractive at current yields. Strong growth and inflation data in April increased our conviction on this front and we remain wary of further spikes in bond yields that could disrupt share markets.

In aggregate, shares are moderately expensive and there are pockets of overvaluation. This, as well as the risk of higher bond yields, should act as a broad constraint on share prices going forward. Despite this, the supportive backdrop is a fertile environment to find and invest in good companies with attractive risk reward.