

# Market and Economic Review

## July 2021



### Has the pace of global economic growth peaked?

Fund returns in June were positive, supported by modestly higher share markets both locally and globally.

An increasingly vaccinated globe is removing social distancing restrictions, unleashing a pent-up wave of spending and driving a surge in economic growth. This was led by the US with Europe now following quickly behind. This growth has been supported by extraordinary government spending and unprecedented central bank monetary policy accommodation. The global economy is now growing so fast that businesses can't keep up - there just isn't enough supply of goods and labour to meet the demand.

This supply-demand imbalance is driving up prices, i.e. inflation, and this is getting the attention of central banks. Investors now expect the RBNZ to hike rates in the next 12 months and the previously dismissive US central bank now characterise inflation risks as being skewed to the upside. This marks the beginning of a long process of policy normalisation, albeit from extraordinarily accommodative current levels. We continue to see risks from rising market interest rates and our Fund positions reflect this view.

Share markets in June were higher but concerns over the Delta variant saw Covid beneficiary stocks lead the way. Respirator suppliers Fisher and Paykel Healthcare and ResMed were up 5.5% and 20.8% respectively, both stocks also benefitting from a competitor misstep. In the US, online shopping platform Shopify and Amazon were up 17.5% and 6.7% respectively.

Our diversified approach helped returns as holdings in strong performers such as those listed above more than offset other holdings that were more lacklustre in the month. A key laggard in June were the banks, both in Australia and the UK. We have been accumulating these stocks as we think they are well placed to profit as economies return to some normalcy. They also tend to benefit from higher interest rates.

As we look ahead, peaking global growth and a 'less easy' monetary policy backdrop doesn't detract from what remains a very favourable investing environment. The Delta variant is concerning, but most of the world is rapidly vaccinating its population. Inflation, and its persistence, is our key focus over the next few months and quarters.