

Market and Economic Review

August 2021



Glass half empty?

Our Funds tracked broadly higher in July as both shares and bonds rallied in the month.

Investors can often be a glass half empty bunch. July saw investors concerned with a slowdown in global growth as many economic indicators rolled over and a Delta driven 3rd Covid wave loomed. These concerns look overblown. A key reason for a peak in growth is the fact that economies simply can't grow any faster. Red hot demand has cleared out business inventories, supply chains are stretched, and companies are struggling to hire employees fast enough.

The boom will likely continue, and although the accompanying surge in inflation will subside, it is likely to remain elevated for some time. Despite this, market expectations of future interest rates remain extraordinarily low. We think bond yields (effectively market expectations of future interest rates) are way too low and should rise. In the meantime, paltry returns on offer from government bonds make shares that much more attractive. A higher allocation to shares is enabling our Funds to access those good investment opportunities we continue to find.

Last month we saw global companies report 2nd quarter earnings, helping us understand how companies are dealing with the current environment. A standout performer in the month was HCA Healthcare which benefitted from a rebound in elective surgeries. Profits leapt 192% vs a year ago and the stock was up over 20% in July.

Shares in NZ and Australia were effectively trading water ahead of profit statements due to be released in August. Transport company Mainfreight held its AGM in July and delivered a very strong trading update with profits up 97% vs a year ago. Mainfreight is a quality operator but its results also highlight the strength of the local and global economy.

Although the backdrop remains favourable, we are vigilant to the risks. Consumers are facing rising prices, and this could dampen demand. Similarly, companies are dealing with rising costs and if they can't pass these costs on then profit margins could shrink. Outcomes will differ by industry and by company and with the favourable backdrop in place, we continue to find attractive shares to invest in.

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