Market and Economic Review
September 2021

Glass half full

Share markets across the world had a solid August. Whilst bonds posted modest losses in the month, fund performance was broadly strong.

The NZX 50 return of 5% this month seems remarkable in the face of our latest Covid outbreak and subsequent level 4 lockdown. However, the NZ market has been a notable underperformer this year. Recently, this was likely due to investor fears over Reserve Bank rate hikes. The Covid outbreak put these on hold, sending investors back into NZ shares.

NZ companies also posted strong company earnings in August, highlighting the quality companies we have on the local market. Profit margins have remained intact despite notable cost increases. Strong performers for Milford funds were Mainfreight, EBOS and Summerset – all delivering gains of around 15-17% on the back of solid results. Although the outcome of the current virus outbreak is unknowable, it is unlikely that we will see a material impact on the NZ share market.

Shares are benefitting from the lack of alternative investments. With yields on bonds continuing to languish at depressed levels, global investors are pouring funds into share markets. This was evident in the strong performance of Australian dividend paying stocks with the Australian property sector up over 6%. Fund performance was also boosted by solid gains in the quality growth stocks such as Google, Microsoft and Amazon, all up around 4-7%. Banks also had a good month, particularly in the UK as that economy booms post their reopening.

As we look ahead, the path is less certain. Global economic growth has peaked, the Chinese economy is suffering from a self-induced slowing, inflation pressures remain high and bottlenecks in supply chains are constraining activity. Most concerning, global consumer confidence appears to be waning, perhaps due to fears over the Delta variant or frustration over rapidly rising purchasing prices of almost everything.

But stand back a little, and the medium-term outlook remains very rosy. Household savings are high, governments and central banks continue to stoke the economy, companies are well placed to increase profits. The global Delta surge is subsiding, and consumer confidence will likely return. We think the recovery still has legs.

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