

Market and Economic Review

March 2022



The rise of uncertainty

Geopolitical headlines dominated markets in February with the Ukraine situation escalating beyond many investors' expectations. The scenes from Ukraine have made for uneasy viewing and understandably, many investors are nervous or even fearful. The volatility in share markets reflected this unease with some sharp moves lower in global share prices as Russian tanks rolled over the Ukraine border.

And yet despite the headlines, global share markets rallied into the end of the month. Global shares were down 2.7% in February whilst NZ and Australian shares finished the month up 0.7% and 2.1% respectively. Predicting the path of geopolitics is difficult, picking the reactions of financial markets to the news is even harder.

Milford's funds have retained a broadly defensive stance since the start of the year. Whilst this was not taken in anticipation of war in Europe, it has served us well as we navigate through the volatility. We acknowledge that the risks, and the uncertainties, have increased. This justifies an ongoing defensive investment approach in the

short term. Furthermore, even if the Ukraine situation is resolved in the short run, investors will have to face a wave of interest rate hikes and questions over the sustainability of growth going forward. We still think this year will deliver positive performance for investors, but the path will be bumpy.

Stock selection continues to be critical to performance. We have been adding to energy names such as LNG exporter Cheniere (up 19.1%) and EOG Resources (up 3.1%) as energy prices look set to remain elevated. Core fund positions in New Zealand utilities helped performance with Meridian Energy up 14.6%. Exposures to Australian banks also did well with Westpac up 12.4%.

It is reasonable to expect market volatility to continue, but this volatility can see shares sharply rise as well as fall. US share markets fell by 8.9% at their worst point in February but they then staged a 2-day rally of 6.6%. We view this volatility as opportunity, allowing us to actively manage portfolios to generate stronger long-term returns for our investors.

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