Market and Economic Review
April 2022

Proceed with caution

Share markets broadly recovered some of their losses in March, whilst bond markets continued to fall sharply. There was a notable divergence in the performance of share markets, Australia posted strong gains whilst NZ underperformed.

The rally in share markets this month gave a welcome boost to returns. However, we remain cautious about the investment outlook. Looking ahead, economic growth and company profits will be under pressure as central banks rush to raise interest rates to tame inflation.

It is the increasing expectations of rate hikes that has precipitated the sharp falls in bond markets this year. This is a global phenomenon, but to take the US as an example: the Federal Reserve is expected to raise rates to around 2.5% by the end of this year, that's 1% more than expected at the start of the month and over 1.5% more than expected at the start of this year. Local and global bonds have been falling on the back of these changing expectations, dragging the performance of the Bond and Conservative funds lower. It is likely that much of this shorter-dated bond repricing has now already occurred, particularly in NZ. With local bonds now offering better yields, future returns are looking more promising in these funds.

Global share markets rallied sharply from their lows early in the month. This rally was likely the result of investor sentiment having become too negative. The Australian market led the way higher, benefitting our significant holdings there. Banks were strong (NAB rallied 11.8%) and resources companies were buoyed by commodity prices. Lithium and nickel miner IGO rallied 28% and large cap resources company BHP was up 11%.

On the global side, strong performers for our Funds were US healthcare companies (Anthem was up 8.7%) as well as agricultural machinery makers such as Deere, up 15.4%. NZ shares were dragged down by a disappointing result from Fisher & Paykel Healthcare, sending the stock down 11.5%. We had previously trimmed the stock but retain confidence in our remaining core holdings.

Our concern over the outlook doesn't mean medium-term returns will be necessarily negative. We expect further volatility ahead, but we continue to find well priced companies with good outlooks to invest into.

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