

Market and Economic Review

June 2022



Half-time huddle

Share markets continue to be volatile as they adjust to the evolving backdrop. Although global shares staged a strong rally into the end of the month, it remains too soon to sound the 'all clear' on market volatility.

As we have been writing all year, global bond and share markets are adjusting to a regime of higher interest rates as central banks fight inflation. This adjustment process will take time, and there remains the risk that an aggressive series of interest rates hikes will push economies into recession. Investors are attuned to this risk and with global bond markets already expecting many interest rate hikes, the global bond sell-off stalled last month. Expected returns from bonds are improving and we continue to add exposure, particularly on the corporate side where high single digit yields are on offer. For example, last month we invested in the loan financing the 2 Degrees/Orcon merger in NZ.

Share markets continue to unwind the excesses of the last two years. This means that many of the companies whose share prices soared in the last two years are struggling this year as high

valuations come back down to earth. The next stage of this process is profit warnings from companies as revenues stall and costs (including wages, fuel costs and other input prices) continue to rise. However, some companies are currently experiencing their own profit boom. This is primarily in the energy and materials space as commodity prices continue to soar. Key picks last month, EOG Resources (+17.3%) and BHP Group (+4.4%) are two companies falling into this category.

A volatile backdrop means we continue to be highly active, with large swings in fund exposures. This is particularly true across our diversified funds that can choose to allocate across different asset classes. Overall, our funds retain a more defensive stance, with lower exposure to share markets and higher cash balances. We are still finding opportunities for investment though, both in bonds (as outlined above) as well as shares. With a rapidly evolving outlook, Milford's investment team is constantly adapting and positioning the funds according to that backdrop.

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