

Market and Economic Review

August 2022



A welcome respite

July saw shares and bonds recover from their June rout. This brought some welcome positive returns for funds that were up between 2.5% for the Conservative Fund and 6.9% for the Aggressive Fund.

A clear catalyst for market strength has been second quarter earnings reported by US companies. Weakening global growth led to fears that earnings would suffer. Whilst there have been notable disappointments, the large technology companies broadly delivered strong enough reports to allay the worst concerns and boost global share markets. For Milford's holdings, solid reports from HCA Healthcare and Intuit helped propel these companies shares up 26.4% and 18.5% respectively in July.

Australian and NZ share markets also benefitted from the share market rally with both markets up around 6% in July. Global bond markets ended July over 2% higher too, meaning global share and bond markets almost fully recovered their steep June losses.

July saw global central banks hike interest rates sharply. But with peaking global inflation and weakening economic growth, many investors are

expecting a coming pause in the hiking cycle and thus that the worst is over for beleaguered share markets – we believe that amounts to wishful thinking.

Central banks are hiking interest rates to combat inflation, and whilst inflation is likely to moderate from its current eye-watering levels, we think it is unlikely to revert all the way back to 2% targets and stay there. This means central banks will have to keep hiking or maintain interest rates at elevated levels for longer, further damaging economic activity.

Whilst current earnings are reasonable, future profits are likely to be impacted by weaker demand and pressure on profit margins. It is difficult to get too excited about share markets in the near term, given uncertainty over profits and valuations that are not broadly cheap. Therefore, we remain cautiously invested with less exposure to shares and higher cash levels.

Despite the backdrop, we continue to find companies with good outlooks priced at attractive valuations. This is the focus of our investing activities and gives us confidence in the prospect of good, long-term returns.