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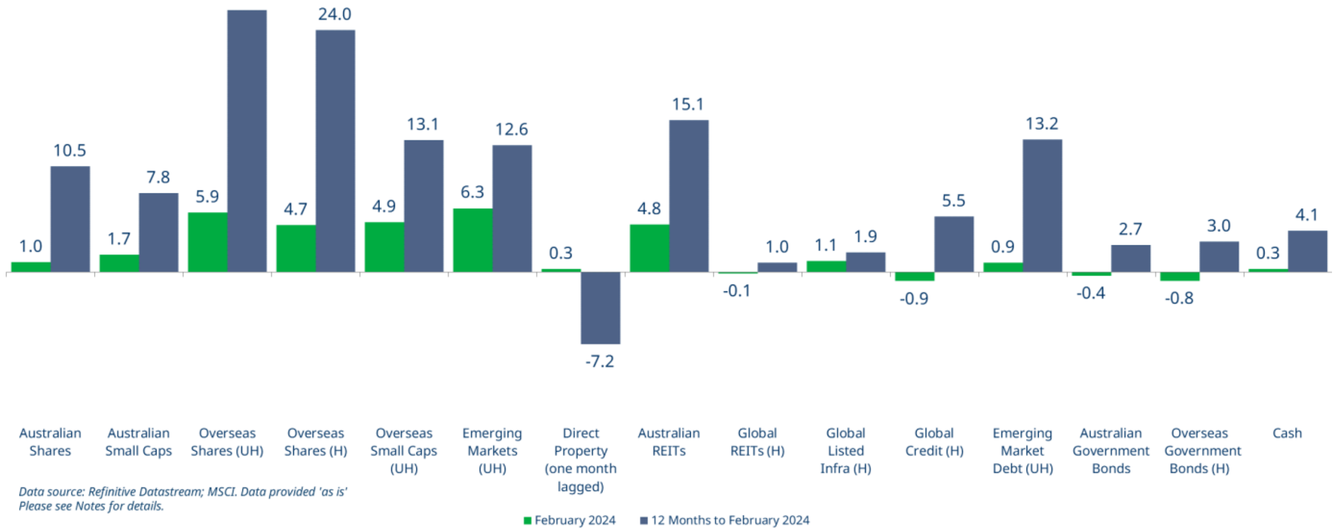
February 2024

Monthly market review

Asset class returns as at 29 February 2024



Economic overview

Economic data released over the past month continues to suggest divergent growth conditions among regions globally. Growth in the US remains resilient, led by the services sector, whilst conditions in the Eurozone remains challenged as weakness across the manufacturing sector, most notably in Germany, continues to weigh on economic activity. Pleasingly, inflation has broadly continued to moderate in most regions, led by declining goods inflation, which has been broadly acknowledged in central bank rhetoric over the past month, albeit also cautioning against expectations for rates cuts in the near term.

Japan, like the UK, also fell into a technical recession, recording its second consecutive negative GDP number in Q4 23. However, there were some positive signs with annual wage negotiations between enterprises and unions pointing to sharp wage increases and business capital spending plans picking up rapidly. This is likely to result in a recovery in growth over the coming quarters. Growth in China appears to be running below trend as weakness in the property sector continues to weigh on sentiment and activity. There are however some signs of improvement, notably within services-related industries. Against this backdrop, the People's Bank of China cut the 5-year loan prime rate by 0.25% to 3.95% p.a., a larger cut than forecasted by most economists.

Domestically, economic conditions have broadly remained resilient albeit with some signs of easing. The unemployment rate ticked up to 4.1% in January (from 3.9% in December), still low relative to historical levels, whilst readings from the latest NAB Business Survey indicated positive but easing business conditions. The January reading of the Consumer Price Index (CPI) indicator remained unchanged at 3.4% Year-on-Year (YoY), a rate inconsistent with the Reserve Bank of Australia (RBA)'s inflation target. Indeed, whilst the RBA had left interest rates unchanged at 4.35% p.a. in their February meeting, the minutes from that meeting showed that the RBA board had also considered the case for raising rates, suggesting that the RBA's focus remains on bringing inflation down for now.

Market review

Global equities ended the month of February higher, extending gains made in January, driven by a combination of resilient economic conditions and better-than-expected earnings in the US, with gains again skewed towards a handful of US mega cap companies. The Australian share market also rose over the month, albeit lagging global markets, given its lower exposure to the technology sector.

Global government bond yields broadly ended the month higher with expectations of near-term interest rate cuts reduced in the US, following resilient economic data and central bank rhetoric cautioning again near-term rate cuts. Australian bond yields also rose, influenced by global market conditions, whilst the Australian dollar depreciated against the US dollar with economic indicators pointing to more resilient conditions in the US.

Commodity markets had a mixed performance. Oil price ended the month modestly higher as mounting concerns regarding supply disruptions in the Middle East drove investor concerns higher, whilst iron ore prices ended the month lower driven by the subdued economic conditions in China and ongoing concerns surrounding their property sector.

Market insights

Globally, we expect growth overall to remain resilient with varying conditions between regions. For the US, we expect slowing conditions as the impact of higher interest rates and tighter financial conditions take their toll, whilst across the Eurozone we expect conditions to improve as inflation continues to slow and global manufacturing activity picks up. For China, we anticipate stronger growth, in part driven by supportive fiscal, monetary, and regulatory policies, as well as a recovery in the manufacturing inventory cycle and potential stabilisation in the housing sector. The cut to the 5-year loan prime rate last month is notable in this regard as most mortgage rates in China are based off this rate and it is broadly being seen as a positive sign that authorities are exhibiting a greater sense of urgency to stimulate activity and boost sentiment across the economy.

Domestically, we expect growth to slow as previous supportive factors such as the additional savings accrued over COVID-19 fades and the persistence of higher interest rates having a greater impact. Inflation is also likely to slow, albeit less than other developed economies, with pressures from the residential rental markets among the drivers. The risks of a more pronounced slowdown in activity appears more likely than currently anticipated by markets, and with markets currently pricing less than 2 interest rate cuts by the RBA this year, we believe the risk to more cuts being considered is high.

From an asset class perspective, we have a favourable view of emerging markets over developed markets in light of their more appealing valuations and more promising economic prospects, whilst domestically, we have a favourable view on Australian Sovereign bonds in light of the balance of risks relative to current interest rate expectations.

From an asset class perspective, we hold a cautious view on developed markets due to their rich valuations and optimistic earnings outlook. We have a favourable view on emerging markets, which offer attractive valuations and more promising economic prospects. In the domestic market, considering the relative risks associated with interest rate expectations, we have a favourable view on Australian Sovereign bonds, despite the persisting risks posed by the volatility of global sovereign bond markets and their impact on our market.

Asset Class Comments

Australian Shares

The S&P/ASX 300 advanced 1.0% in February. The stronger performance of cyclicals was a theme for the month with Consumer Discretionary (9.7%), Financials (3.5%) and Industrials (3.5%) among the positively contributing sectors. The Material sector (-5.9%) was the one outlier, driven by lacklustre economic conditions in China and weakness in a number of metals prices weighing on the sector. Information Technology (19.7%) was also an outlier over the month and was a key contributor to the positive performance of the Australian market despite its small weight. The key driver was WiseTech Global (29.4%), a freight software company, which reported strong earnings and guidance. February also saw several earnings reports for the first half of the financial year with results somewhat better-than-expected. Among the names, Wesfarmers (14.9%) reported better-than-expected results with sales growth from low price leadership a notable theme among its Kmart and Bunnings divisions, with some optimism also expressed by retailers such as JB HiFi (10.4%) around the potential impacts on consumer spending from the upcoming stage 3 tax cut changes. Among financials, Westpac (9.5%) reported a better-than-expected quarterly trading period with net interest margins showing signs of stabilising despite ongoing competition for funding, in part driven by the winding down of the RBA's quantitative easing program.

The S&P/ASX Small Ordinaries index delivered a positive return of 1.7%, outperforming the S&P/ASX 300 in February. Many of the themes evident across the larger end of the market were evident in small caps with Resources (-4.6%) also a drag and Industrials (3.9%) contributing positively.

Overseas Shares

The MSCI World ex Australia Index delivered another strong return in February up 4.7% in hedged terms and 5.9% in unhedged Australian Dollar (AUD) terms. Several cyclical sectors were among the top contributors with Consumer Discretionary (9.1%), Information Technology (7.7%) and Industrials (7.4%) among the strongest performers. At the company level, the “Magnificent 7” again performed well albeit with divergences evident within this group with the likes of Nvidia (30.5%) performing well after reporting better-than-expected Q4 23 earnings with a 265% increase in revenues compared to the same quarter last year. The result reflects strong demand for its artificial-intelligence-supporting chips. Elsewhere stocks such as Apple (-0.4%) were more subdued, despite reporting solid earnings, with sales slowing in China and guidance for future sales expected to disappoint current expectations.

More broadly, with US Q4 23 earnings session coming in better-than-expected and with economic conditions remaining resilient, the US was the best performer among the major developed market regions. The NASDAQ Composite Index (6.1%) and S&P 500 Index (5.3%) recorded strong gains for the month. European markets also benefited with the DAX30 (Germany, 4.6%) and CAC30 (France, 3.5%) both ending the month higher. The FTSE100 (UK, 0.5%) was a laggard with its constituent mining companies and drugmaker AstraZeneca weighing on the index following the decline in industrial metals prices and disappointing earnings results respectively. Japan’s Topix (4.9%) performed well with data releases indicating that the economy is emerging from deflation.

The MSCI Emerging Markets Index recorded a return of 6.4% in February, outperforming developed markets. This was driven largely by strong performance from China, with the Shanghai Composite up 8.1% in February. Chinese equities rebounded from losses recorded earlier the month amidst a tightening in short selling restrictions and an announcement by government-owned investment company, Central Huijin Investment Limited, that it would increase its holdings of exchange traded funds (ETFs), a move largely seen as the government seeking to provide some support to the Chinese stock market.

Real Assets

Domestic listed property (S&P/ASX 300 A-REIT Accumulation Index) increased by 4.8% in February, outperforming the broader equity market, driven by strong contributions from companies like Goodman Group (16.9%) which raised its full year guidance for profits with data centres emerging as a key growth driver. Meanwhile, global listed property (FTSE EPRA/NAREIT Developed, AUD hedged) was more subdued, declining by -0.1% over the month, with the rise in global government bond yields and receding expectations for near term interest rate cuts impacting the asset class more than broader equity markets.

The FTSE Global Core Infrastructure 50/50 Index fared better, returning 1.1% in February (in hedged AUD terms). Strong contribution from US infrastructure names over the period contributed, while weaker performance in Europe and the UK weighed on the index. From a sector lens, Oil & Gas and Rail Transportation contributed to index performance while Telecommunications and other Utilities lagged. The Australian unlisted property sector (MSCI/Mercer Core Wholesale Property Fund Index – NAV Pre Fee) produced a 0.3% gross total return in January from rental income.

Fixed Interest

Global sovereign bond yields broadly rose over the month, with markets paring back expectations for near term interest rate cuts following ongoing resilient economic data in the US and central bank rhetoric warning against such expectations. The latter included comments from Fed vice chair Michael Barr supporting the “careful approach” to cutting rates advocated by Chair Jerome Powell and other Fed policymakers. The ECB president Christine Lagarde noted that whilst they expect inflation to decline, and consequently support the case for rate cuts, they need to be confident that inflation is reverting back to their 2% target. The resulting impact was slightly more pronounced for shorter maturity bonds in these respective regions. Meanwhile, other global bond markets fared better, such as Japan where the 10-year government bond yield ended the month unchanged at 0.71% p.a. Comments from Bank of Japan deputy governor Uchida indicated that interest rate hikes are likely to be gradual once the negative interest rates policy is removed, supporting the market. Overall however, the rise in bond yields in most regions globally led to a challenging month for global sovereign bonds as an asset class with the FTSE World Government Bond (ex-Australia) Index down -0.8% on a fully hedged basis.

Against a backdrop of better-than-expected earnings and resilient economic data in the US, global credit spreads broadly ended the month lower, spreads for the Bloomberg Global Aggregate Corporate Index and the Bloomberg Global High Yield Index declined 4bps to 1.06% p.a. and dropped 0.37% to 3.95% p.a. in February. Among investment grade corporates, spreads contracted notably for Financials, catching up to non-Financials despite ongoing headlines in the US commercial real estate sector. The decline in spreads was however insufficient to counter the rise in government bond yields for composite benchmarks such as the Bloomberg Global Aggregate Bond Index which returned -0.2% for the month on a fully hedged basis. Spread-sensitive high yield benchmarks such as the Bloomberg Global High Yield Index returned 0.8% for the month on a fully hedged basis. Emerging market bonds (as measured by the JP Morgan GBI-EM Global Diversified Composite Index) returned 0.9% on an unhedged basis. Despite a modest rise in bond yields, emerging market currencies broadly held up better than the AUD over the month.

In Australia, government bond yields also moved broadly higher, albeit primarily in longer-dated bonds on the back of global market conditions. Shorter-dated bonds saw little change in yields, with economic data in Australia showing some signs of softening. Investment grade credit spreads in Australia also tightened modestly over the month with the change reasonably broad based across the Financials, Industrials and Utilities sectors.

Currency Markets

The AUD ended February lower against most major developed market currencies. The AUD depreciated against the US Dollar (-1.5%) with the paring of interest rate cut expectations in the US following stronger-than-expected economic data for the region and with Fed officials continuing to caution against the prospects of near-term interest rate cuts.

Meanwhile, signs of moderating economic conditions in Australia combined with weaker commodity prices, particularly iron ore prices, contributed to a broad depreciation in the AUD against the UK Pound (-0.8%) and Euro (-1.1%). On a trade-weighted basis, the local currency declined -0.5% over the month. The AUD however appreciated against the Yen (0.9%), supported by the backdrop of lower interest rates in Japan.

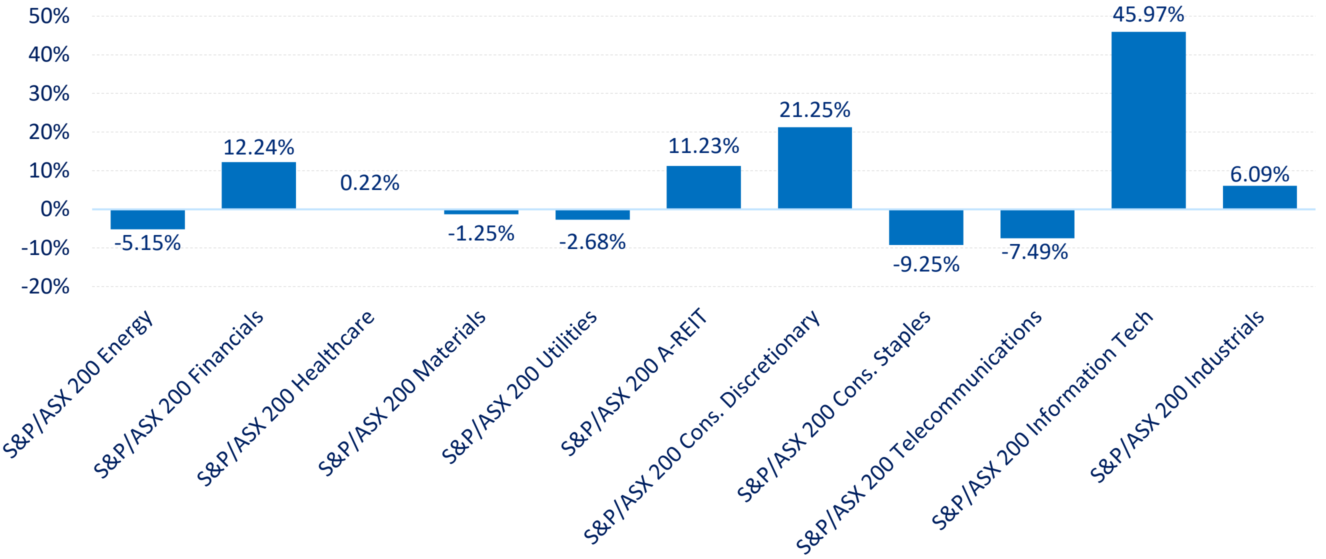
Commodities

The S&P GSCI Commodity Total Return Index (hedged) returned 0.8% in February. A rise in crude oil was the main contributor, ending the month up 2.3% to US$83.78 per barrel (as measured by Brent Crude). Concerns of supply disruptions considering the escalation tensions in the Middle East and OPEC+ supply cuts being a major contributor to the decline. Meanwhile, natural gas prices continued to decline, notably in Europe where a mild winter and lacklustre industrial activity have resulted in increased inventory levels.

Meanwhile in industrial metals, iron ore ended the month down 11.7% to US$117.50 per tonne with China continuing to experience below trend growth and concerns lingering around its property sector. Copper prices were also lower but managed to find better support with supply continuing to be disrupted from several mines, notably across South America. Gold prices ended the month down 0.1% to US$2,045.45 per ounce despite declining during the month following the rise in US interest rate expectations.

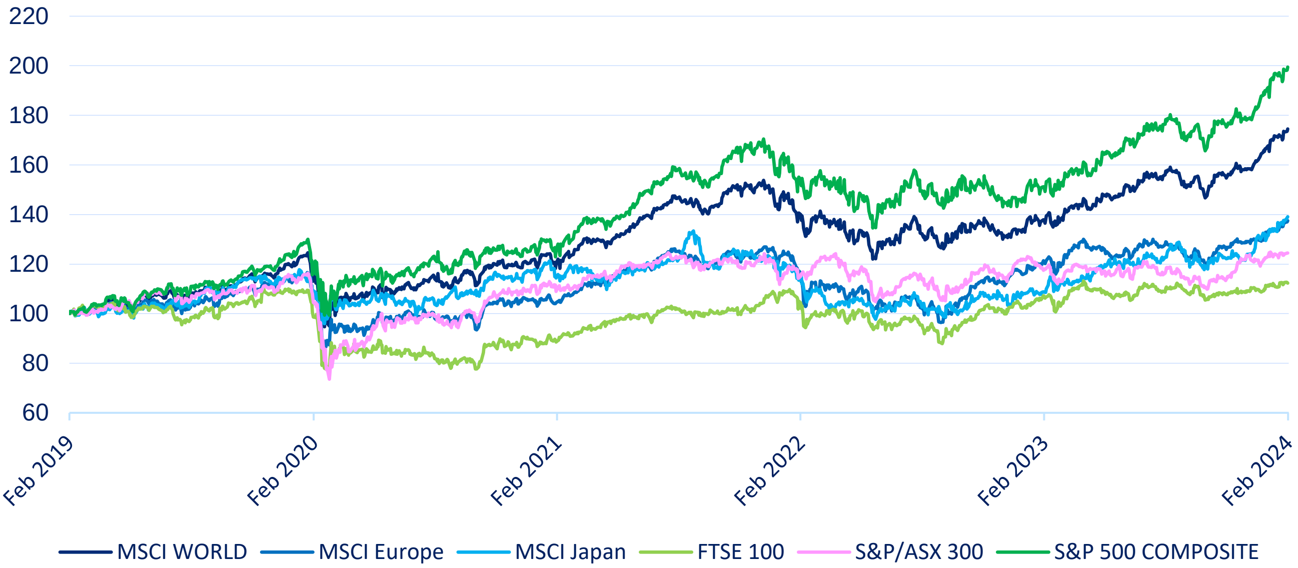
Market Charts

ASX Sector Returns - Rolling 12 months to February 2024



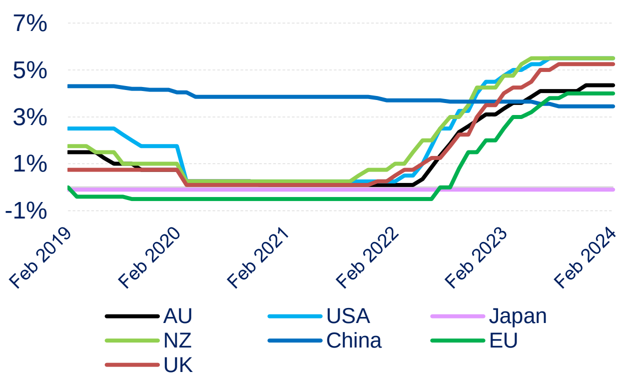
Source: S&P Global

Global Equity Indices (5 years)



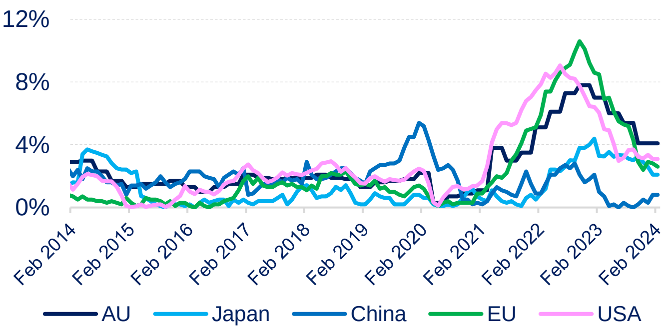
Source: MSCI, Refinitiv DataStream (Rebased to 100. All returns denominated in AUD).

Central Bank Policy Rates - 5 years



Source: Bloomberg

Inflation (10 years)



Source: Refinitiv, Australian Bureau of Statistics, Ministry of Internal Affairs & Communication (Japan), National Bureau of Statistics of China, Eurostat, Bureau of Labor Statistics, U.S. Department of Labor

Market Data – February 2024

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation	0.98%	9.46%	10.53%	9.09%	8.61%
S&P/ASX 300 Industrials Accumulation	3.42%	13.89%	14.15%	9.26%	8.27%
S&P/ASX 300 Resources Accumulation	-5.91%	-2.38%	0.46%	8.29%	9.82%
S&P/ASX 300 Accumulation A-REIT	4.75%	18.11%	15.10%	10.40%	6.03%
S&P/ASX Small Ords Accumulation	1.72%	10.05%	7.84%	1.39%	4.42%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia Unhedged in $A	5.92%	12.74%	29.79%	15.19%	13.75%
EPRA/NAREIT Developed Index Hedged A$	-0.19%	4.34%	-0.11%	-0.58%	-0.80%
STOXX Europe 600 Total Return	1.84%	7.15%	7.27%	6.89%	5.82%
S&P 500 Total Return	5.34%	11.98%	30.45%	11.91%	14.76%
Nikkei 225 Total Return	7.99%	17.21%	45.72%	12.81%	15.14%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.34%	1.09%	4.10%	1.95%	1.47%
Bloomberg AusBond Composite (0+Y)	-0.30%	2.59%	3.51%	-1.40%	0.31%
Barclays Global Aggregate TR Hedged A$	-0.80%	1.87%	3.86%	-2.78%	0.06%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	96.69	-1.89%	-5.02%	-8.91%	4.28%	3.51%
Generic Brent Crude Oil	83.62	2.34%	0.95%	-0.32%	8.14%	4.84%
Generic WTI Crude Oil	78.26	3.18%	3.03%	1.57%	8.36%	6.46%
Gold US$/oz	2044.3	0.23%	0.39%	11.90%	5.64%	9.25%
Iron Ore	115.16	-9.36%	-8.11%	-1.46%	-11.36%	7.13%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.6497	-1.08%	-1.64%	-3.45%	-5.53%	-1.74%
EUR/USD	1.0805	-0.12%	-0.76%	2.17%	-3.64%	-1.02%
USD/JPY	149.98	2.08%	1.20%	10.14%	12.06%	6.13%
GBP/USD	1.2625	-0.50%	0.01%	5.02%	-3.23%	-0.98%

Source: Bloomberg

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Chart constituents

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lagged)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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