Count
The confidence to look ahead

Market **Wrap**

February 2025

Economic and market overview

- **Global:** In February, markets wavered in the face of policy uncertainty. The MSCI World Equity Index closed the month down -0.7% in USD terms, tracking declines in US equity indices. Despite concerns around growth, security and the outlook for global trade, European equity markets outperformed major developed markets in February, including the US. The Stoxx600 gained +3.3% over the month and the FTSE100 advanced +1.6% amid several earnings updates, dovish ECB policy, optimism around peace talks and a rally in defence stocks on expectations of higher military spend in the region.
- Globally, bond markets saw high volatility and low conviction, amid fiscal concerns in Europe and deregulation in the US. 2y USTs rallied -21bps, while 10y USTs rallied -33bps.
- The Global Manufacturing PMI reached 50.1 in January, marking the first expansion in seven months, driven by gains in output and new orders. Global Services PMI printed at 52.9, slightly above the 52.8 forecast. This shows 24 months of consecutive growth but is the weakest month of growth since April.

- **US**: The Trump administration rolled forward the February 1st implementation date for tariffs on Canada and Mexico by 30 days. 10% tariffs on all Chinese imports into the US came into effect on February 4th. China promptly announced retaliatory tariffs on US goods on the same day.
- US business activity is at a 17-month low on uncertainty regarding the Trump administration's policies and the pace at which spending cuts and layoffs are occurring.
- January posted a strong jobs report, with unemployment falling to 4.0% for the first time since May. However, headline payroll growth was weaker than expected, adding 143k jobs to the US economy.
- Benchmark revisions to payrolls substantially revised the payroll employment level lower as of March 2024 by -598k. Job growth from April 2023 to March 2024 was revised lower (with the exception of June and October months). This revision was spread across sectors.
- January core inflation is notoriously strong due to "residual seasonality", but even so, January core CPI was stronger than expected at 0.446% MoM. Core PCE (the Fed's preferred inflation measure) was much softer at 0.28%.
- Existing home sales fell 4.9% to 4.08m in January, with sales flat in the Midwest and falling in all other regions.
- The January FOMC Meeting Minutes discussed pausing or slowing the balance sheet runoff until the resolution of the debt ceiling. Further, they advised that they can be patient with adjusting policy rates, as the policy rates are "significantly" less restrictive following 100bps of cuts and taking into account that the economy is near maximum employment.

- **Australia:** The Reserve Bank of Australia delivered the first 25bp rate cut after keeping rates unchanged through 2024. This was primarily off the back of softer than expected Q4 inflation. Despite marking the beginning of a rate cutting cycle, the Governor was quite hawkish in the press conference.
- The labour force survey was stronger than expected, with the Australian economy adding 44k jobs in January, which outpaced consensus expectations for a 20k increase. Despite a stronger-than-expected job print, the unemployment rate inched up from 4.0% to 4.1%.
- Wage costs increased by 0.65% in Q4, the slowest quarterly growth since Q122. This slows the yearly wage cost growth from 3.6% to 3.2%.
- The YoY CPI indicator increased 2.5% in January, slightly below consensus of 2.6%. Notably, 40% of the CPI basket was not measured in January.
- Retail trade in Australia was down -0.1% MoM, ahead of consensus -0.7%. This brought the YoY retail trade to 4.6%.

- **New Zealand**: The RBNZ lowered the OCR by 50 basis points to 3.75%, citing that headline CPI inflation was close to the midpoint, and core inflation was converging on the midpoint.
- The main data print for the month was retail sales, which rose 0.9% QoQ during the December 2024 quarter, higher than the +0.6% increase consensus had expected.

- **Europe:** Conservatives won the German election, with markets waiting to see if fiscal reform will materialise. The German economy has contracted for a second straight year in 2024, in part due to the "debt brake" that limits its structural budget deficit.
- Contrary to US bonds, EGB did not outperform swaps, with fiscal concerns putting downward pressure on bond prices and boosting yields.
- Inflation in the EU area printed in line with expectations at 2.5% YoY, and slightly above December's print of 2.4% YoY. This was driven primarily by a sharp increase in energy costs. Core inflation (which excludes volatile food and energy prices) remained steady at 2.7% for the fifth consecutive month.

- **Asia:** Chinese New Year pushed China CPI higher in January, to 0.7%MoM and 0.5%YoY. Despite this, PPI came in below expectations at -2.3%YoY.
- US President Trump imposed tariffs on China on February 1, citing national security concerns related to unlawful migration and fentanyl flows. Retaliatory Chinese tariffs on US goods came into effect on 10 February. This included 15% additional tariffs on US coal and LNGs as well as 10% on crude oil, agricultural machinery and autos.
- Mid-January saw the PBoC publish its Monetary Policy Report for 24Q4, reiterating its "moderately loose" policy stance without providing concrete guidance on future rate and RRR decisions.
- Singapore January core CPI printed at 0.8%YoY, surprising significantly on the downside, driven by healthcare and education costs.

Australian dollar

- After posting a +0.5% gain against the USD in January, the AUD ended February at 0.6209, down -0.1% on the month.
- The AUD hit a low of 0.6088 on February 3, though traded on a firmer footing from there, as markets breathed a sigh of relief on positive US tariff developments. While Chinese tariffs were implemented at the beginning of the month, Trump granted a 30-day extension on tariffs imposed upon Canada and Mexico. China announced retaliatory tariffs however the targeted approach of these was taken as non-escalatory. Mid-month, the AUD broke above 63c after President Trump indicated that he would "consider" an exemption for Australia to his planned aluminium and steel import tariffs given the US runs a trade surplus with Australia.
- The AUD was little changed on February 18 when the RBA commenced its easing cycle with a 25bps cut. This was followed by a round of local jobs data two days later. It appears that slower wage growth is occurring with no loss of employment, supporting the RBA cut and the prospect of further cuts this year.
- The AUD reached a high of 0.6409 on Feb 21 before sliding quickly back towards 0.6209 on tariff headlines, where it closed the month.

Australian equities

- Australian equities lost ground in February, with the ASX200 index falling -4.2% over the course of the month. The decline came as US equities broadly declined amid concerns around economic policy and outlook, as the RBA delivered a hawkish 25bps cut and a slew of domestic earnings updates.
- Weakness in the domestic banks complex was one of the more notable themes during local earnings season as this followed an extended period of outperformance. The Financials sector gauge ended February -4.2% lower. The decline came as investors digested earnings updates which showed rising bad and doubtful debts across the sector, as well as new concerns around cost of funding issues. BEN was the largest decliner, down -20.5% on the month. Of the big four banks, NAB saw the largest decline, down -11.9%, while CBA recorded the most modest loss, ending the month -2.3% lower.
- The other side of the barbell did not fare too much better, with the materials sector group sliding -3.2% over the month. BSL outpaced its peers amid rising US steel prices, with the stock ending the month +14.0% higher than it began. Meanwhile, index heavyweights BHP, RIO and FMG fell -2.3%, -3.4% and -13.7% respectively.
- Notwithstanding MP1 rallying >30% throughout February, the ASX information technology sector declined -12.3% over the course of the month; the largest loss of any GICS sector group. Losses were led by WTC, which fell -27.7%. This followed the resignation of four non-executive directors amid continued governance concerns, and an FY25 revenue guidance downgrade of ~6% at the mid-point.
- DHG gained +58.4% in February. The stock rallied following the news that US property giant CoStar would be lobbing a $2.7bn takeover offer bid for the company, implying a valuation at $4.20/share. A week earlier, DHG also posted profit numbers for the half that beat consensus by 16%. DHG's key competitor REA ended the month -4.6% lower, while NEC (which owns 60% of DHG) closed up +19.9%.

Global equities

- The MSCI World Index declined -0.7% during February in USD terms, as US-led losses outweighed broad gains across European equity markets.
- The S&P500 ended February -1.4% lower and the Dow declined -1.6%, while the tech-heavy NASDAQ posted a -4.0% loss. Consumer discretionary stocks saw the largest losses, falling -9.4%. Meanwhile, consumer staples rallied the most, up +5.6%.
- Driving US losses was market uncertainty around the outlook for both growth and inflation in light of Trump's trade policies, as well as the broad underperformance of the Mag7. Only two stocks in the Mag7 outperformed the S&P on the month (TSLA -27.6%, GOOGL -16.5%, AMZN -10.7%, MSFT -4.4%, META -3.0%, AAPL +2.5%, NVDA +4.0%).
- European equities performed strongly in February, outpacing major DM peers. The Stoxx600 rallied +3.3%, led higher by a +12.8% gain in the banks. The FTSE100 advanced +1.6%. The gains came amid earnings updates, dovish ECB policy, optimism around peace talks and a rally in defence stocks on expectations of higher military spend in the region.

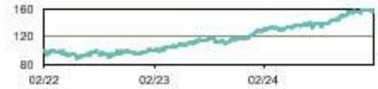
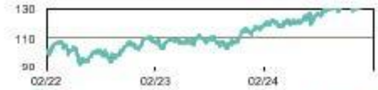
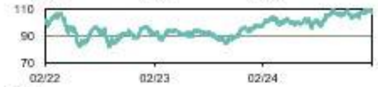
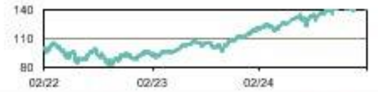
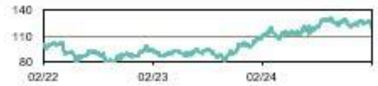
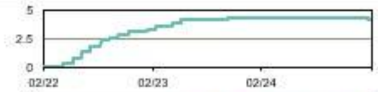
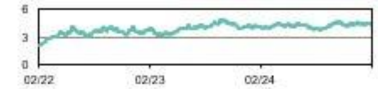
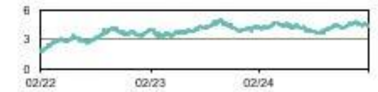
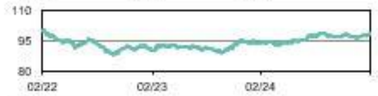
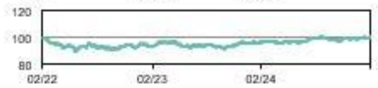
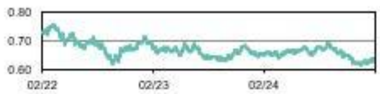
Property securities

- The FTSE EPRA/NAREIT Developed Total Return Index (USD) increased 2.2% in February, strengthening the gains from January, as global bond yields normalised, following rate cuts
- Middle East/Africa led the gains in February up 3.7% in the month, reversing negative returns in January.
- Americas region was the 2nd best performer globally, up 2.8% in the month, and outperforming the global index after underperforming in January.
- Europe/UK underperformed in Feb, after outperforming in Jan.
- Locally, A-REITs were down -7% in the month, with the largest mover being GMG which drove the index down -14% after a surprise equity raising. The performance of the sector outside of GMG was broadly flat.

Fixed income and credit

- The market grew concerned around the outlook for US growth in the month of February, seeing risk off sentiment take hold. Evolving tariff policies generated uncertainty around inflation (both in the US and globally), as well as business activity. The ongoing pullback in US government spending and layoffs are also contributed to the risk-off sentiment. This resulted in sweeping rallies across the US bond complex (2y USTs -20.8bps, 10s -33bps) as investors rotated out of risk assets.
- AU rates got caught up in the large global risk off moves. RBA lowered rates by 25bps, as largely anticipated, however the Board was quite hawkish in their rhetoric. The market continues to expect ~2 cuts for the remainder of the year.
- Credit markets were active during February however slowed down towards the end of the month, with the US investment grade market seeing $162bn of issuance, about 8% below market expectations. The EU investment grade primary market saw EU220bn. Issuers in the primary markets tended to price tighter than IPT in both the EU and US. However, credit spreads in the secondary market ended the month slightly wider.

MARKET WATCH DATA SHEET

		1 Month Return / Change	3 Month Return / Change	1 Year Return / Change	3 Year p.a. Return / Change	3 Year chart
Equities	*Points*					
MSCI World (AUD)	6,853	-0.39%	4.96%	21.60%	16.60%	
MSCI Emerging Markets (AUD)	1,274	0.81%	7.09%	15.86%	6.25%	
ASX 200	8.172	-4.22%	-3.13%	6.15%	5.05%	
ASX Small Ordinaries	3,137	-2.80%	-1.46%	7.33%	2.13%	
S&P 500 (USD)	5,955	-1.30%	-0.97%	18.41%	12.55%	
REITs	*Points*					
ASX 200 A-REIT	1,676	-6.38%	-7.86%	9.08%	5.77%	
FTSE EPRA/NAREIT Developed (AUD)	2,867	1.91%	-3.05%	10.40%	-1.86%	
Cash & Fixed Income						
Official Cash Rate Australia	4.10%	-0.25%	-0.25%	-0.25%	-	
10-year Yield Australia	4.29%	-0.14%	-0.05%	0.16%	-	
10-year Yield US	4.21%	-0.33%	0.04%	-0.04%	-	
Bloomberg Global Aggregate Index, AUD Hedged	-	1.20%	0.71%	5.02%	-0.40%	
Bloomberg AusBond Composite 0+ Year Index	-	0.93%	1.63%	4.18%	0.32%	
Foreign Exchange	*US$*					
AUD/USD	0.6209	-0.14%	-4.65%	-4.43%	-5.09%	

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