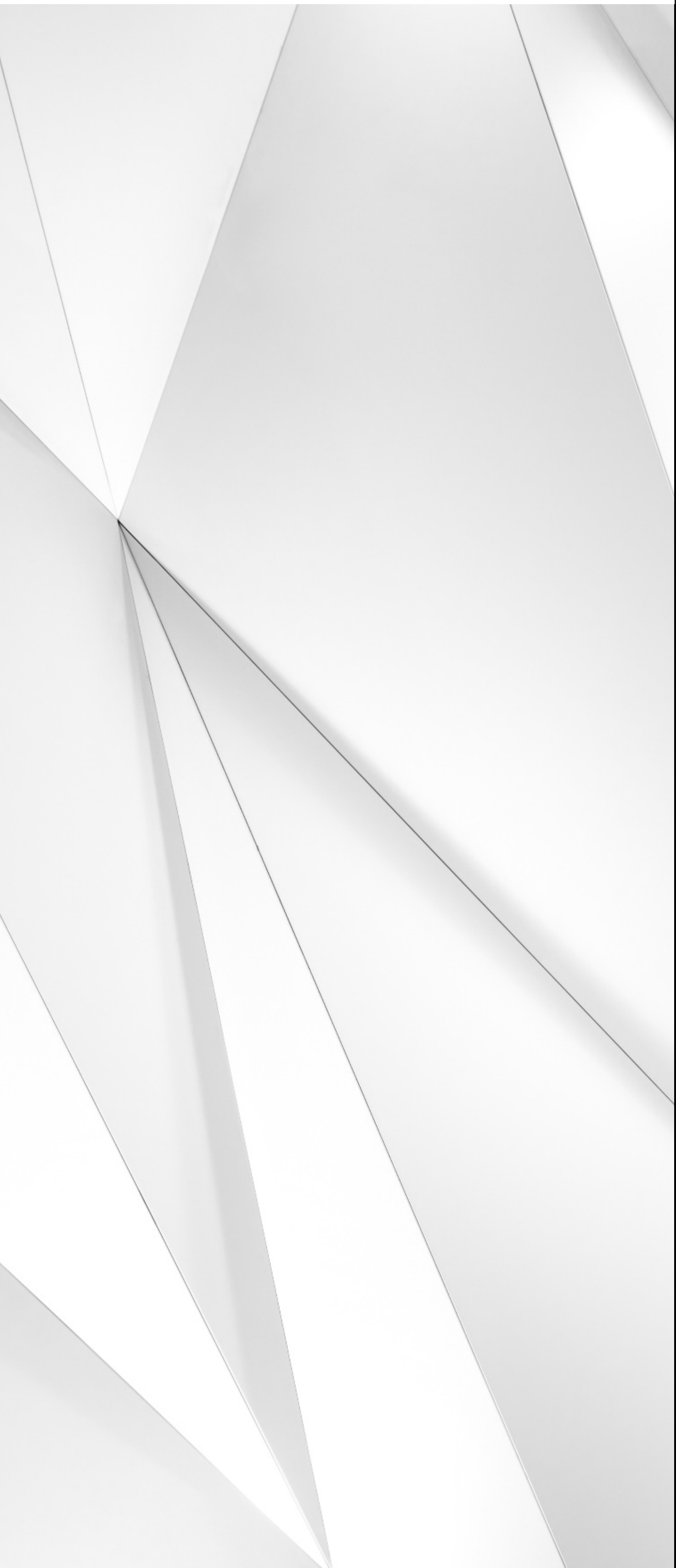


Investment & Economic Snapshot

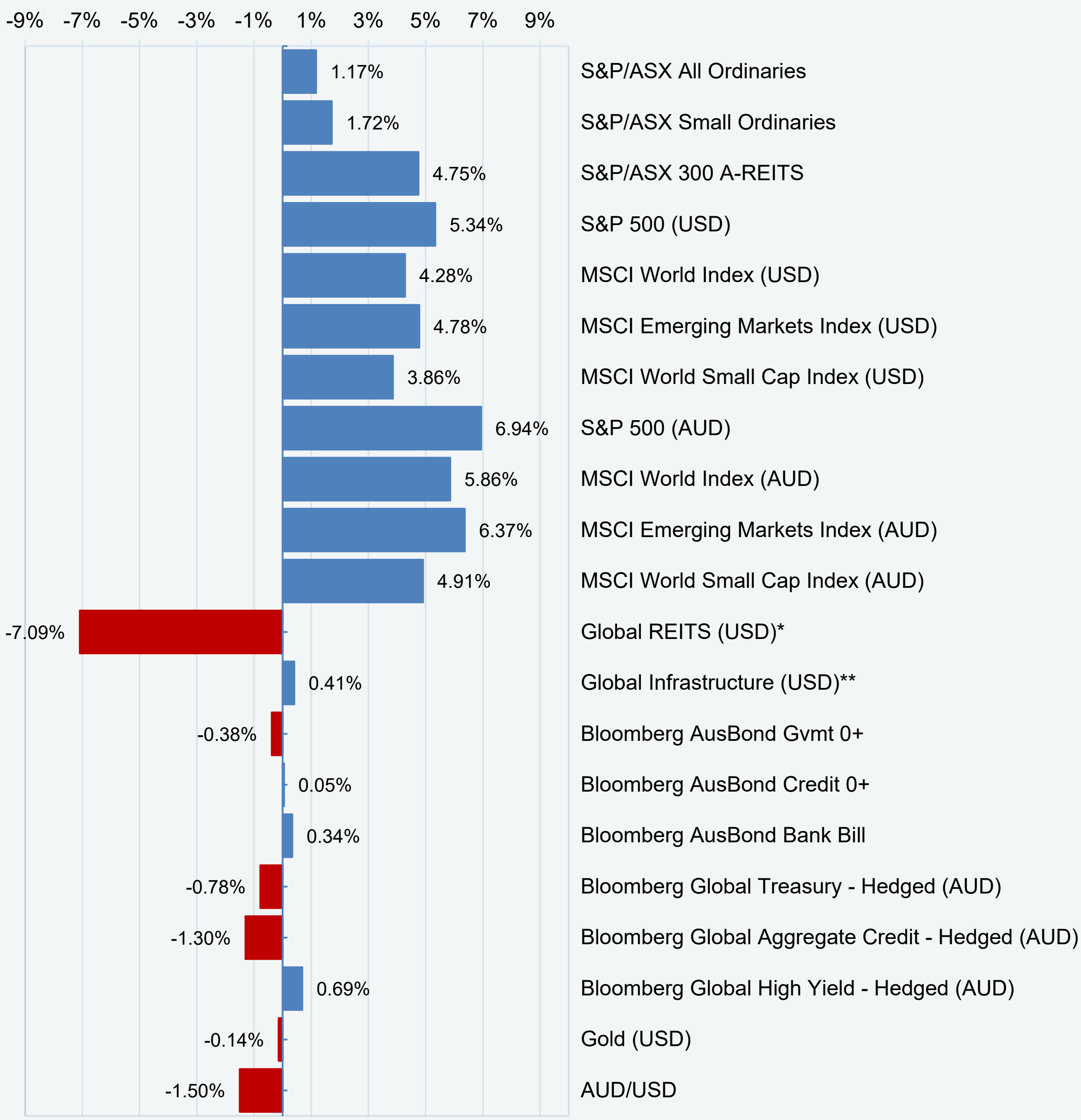
February 2024

Smarter Investment Solutions

Highlights

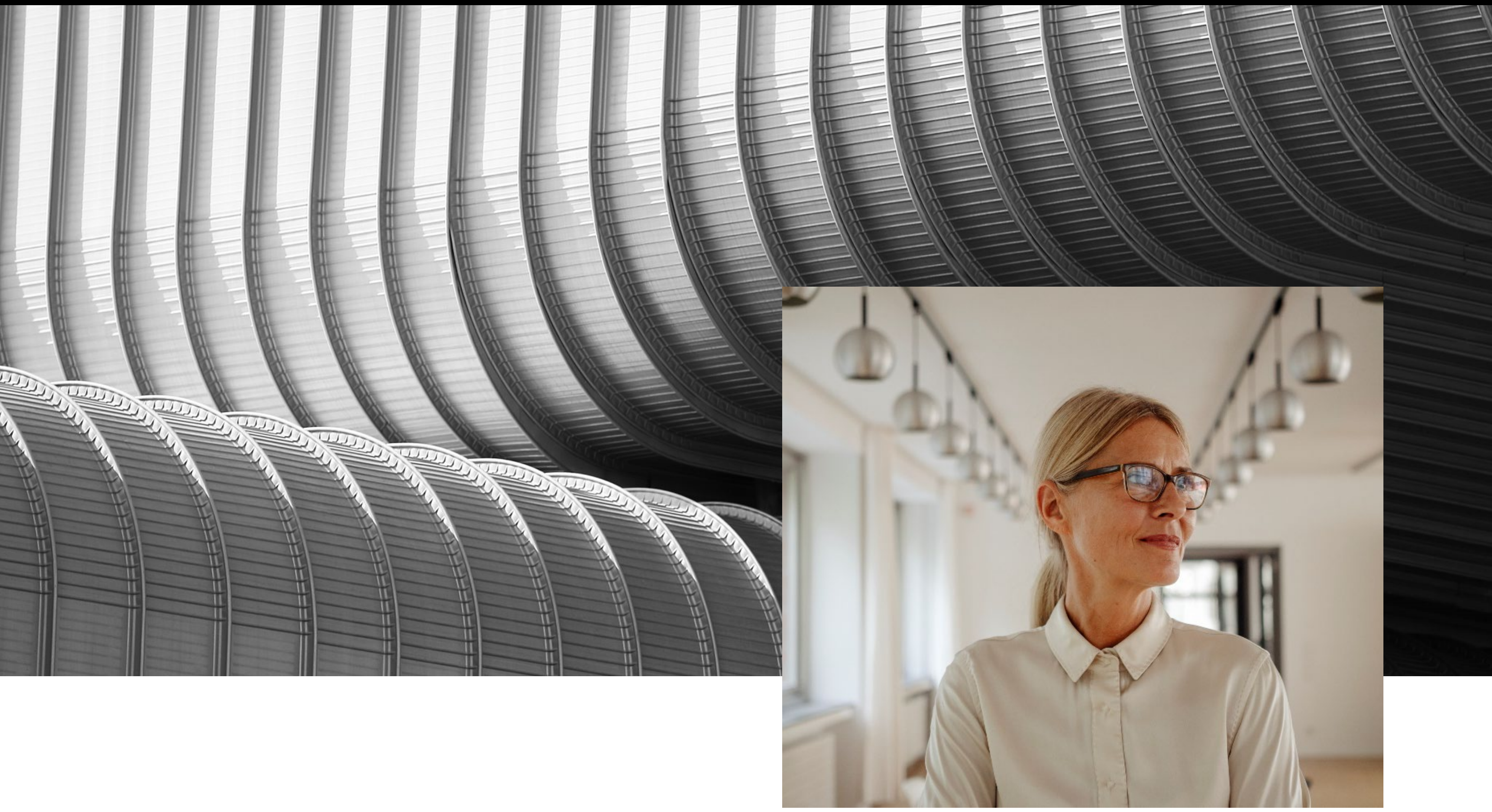
- Global share markets maintained their strong performance into the new year, with several major equity markets reaching record highs in February.
- Chinese equities witnessed a significant rebound during the month, driven by various measures implemented by Chinese authorities to support both the economy and the stock market.
- Artificial Intelligence chipmaker Nvidia delivered exceptional quarterly results driving its market capitalisation to $2 trillion and bolstering investor sentiment.
- In the United States (US), inflation surpassed expectations, delaying anticipated rate cuts. Meanwhile, Australian inflation stood at 3.4%, slightly below the projected 3.6% continuing the disinflationary trend.

Selected Market Returns (%) February 2024



Sources: *Refinitiv G-7 Diversified REIT Index, **FTSE Global Core Infrastructure 50/50 Index

Key developments in February



Financial markets.

Numerous global markets trade at all-time highs.

Global share markets accelerated into month end with the Australian All Ordinaries pushing to new all-time highs in the last few days of trading in February. The MSCI World Index (USD) traded at new highs climbing 4.3% in February, while the Japanese Nikkei continued its stellar run breaking through highs last seen in 1989 as sentiment towards Japanese companies continues to remain robust. Despite tepid economic and sentiment data from the Eurozone, both the French CAC and German DAX also made new all-time highs.

The US markets continued their upward trend with new all-time highs coming on the back of a positive earnings season where 76% of S&P500 companies exceeded earnings estimates. Particularly noteworthy was Nvidia which beat market expectations while also raising forward guidance, further boosting sentiment. The local earnings season also alleviated concerns as nearly one-third of companies exceeded earnings expectations.

In China, shares rebounded strongly (+9.4%) from depressed levels similar to those of 15 years ago. This rebound was supported by the Chinese authority's initiatives to promote equity market buying while banning major institutional investors from reducing equity holdings at the open and close of each trading day. Additionally, reports of draft laws promoting the private sector economy also fueled positive sentiment. Hong Kong removed all property curbs, effective immediately, in late February.

In contrast to equity markets, bond markets retreated as inflation data pointed to persistent inflation in the US. Consequently, bond yields on US 10-year bonds surged from below 3.9% to close at 4.24% at the end of the month. Similarly, Australian 10-year bond yields followed a comparable pattern rising ~30bps before retracing to unchanged levels for the month.

Economic developments.

The Reserve Bank of Australia (RBA) left rates unchanged as Australian inflation continues its disinflationary trend.

The RBA maintained the cash rate at 4.35% in early February with the hawkish tone continuing to moderate reflecting faster progress in combatting inflation. Governor Bullock did however indicate that inflation was still too high, and that further evidence was required to support the notion that inflation was heading to sustainably lower levels.

Monthly inflation figures published for January, post the RBA announcement, indicated that annual inflation rose by 3.4%, below market expectations of 3.6%. Despite remaining at elevated levels, housing inflation continued its decline from 5.2% in December to 4.6% in January. However, rent inflation has remained stubbornly high at 7.4%. Food inflation lifted the inflation basket rising to 4.4% from 4% in December, whereas holiday travel and accommodation saw a significant decline of 7.1%.

The overall disinflationary trend supports the local interest rate outlook, however, wage data for the fourth quarter showed wages rising at 4.2%, their fastest rate in nearly 15 years. While beneficial for consumer spending, this may reinforce a stickier inflation outlook going forward.

Higher unemployment and weaker retail sales.

The Australian unemployment rate for January rose to 4.1%, increasing above 4% for the first time in two years. This increased from 3.9% in December and came in ahead of consensus estimates for 4%, reflecting a clear weakening trend in the jobs market. This trend is not unexpected as the RBA is forecasting that unemployment will rise to 4.3% by year-end.

However, the rate of this change may test the RBA's expectations as it seems that economic growth and the job market are weakening faster than anticipated.

Retail sales rebounded by 1.1% in January after a slump in December. This increase was below consensus estimates of 1.6%. Overall, retail sales were weighed down by marginally negative growth in the food retailing sector. Sales did, however, show the strongest improvements in household goods as well as clothing, footwear, and personal accessory sectors, with gains of 2.3% and 2.4% respectively.

Mixed signals on US inflation.

The minutes from the recent US Federal Bank meeting indicated progress in tempering inflation but emphasised that further data confirming that inflation would decline sustainably would be required before interest rates are cut. With this in mind, markets absorbed a mixed array of inflation data points causing moderate volatility in equity markets but elevated volatility in bond markets.

January headline inflation (CPI) came in above expectations at 3.1% year on year. Although it was lower than December's 3.4% print, forecasts were for a 2.9% rise. Core inflation remained unchanged at 3.9% also higher than the 3.7% expected.

The Fed's preferred inflation gauge is however Core Personal Consumption Expenditure (PCE), excluding food and energy. It provided a rebound in optimism for markets as the January year-on-year figure slowed to 2.8% as expected, down from 2.9% in December. This reinforced the broad market outlook that the Fed will begin to cut rates in their June meeting.

The US jobs market showed no signs of cooling as non-farm payrolls for January substantially surpassed expectations while the unemployment rate remained stable at 3.7%. The resilience of the US economy, coupled with slowing inflation, continues to drive sentiment and hopes for a soft landing.

Chinese sentiment improves despite economic woes.

Despite ongoing economic challenges in China, investor sentiment stabilised in February on the back of market-supportive measures from Chinese authorities. The People's Bank of China cut the 5-year lending rate, a key reference rate for mortgages, by 0.25% to 3.95%. This cut was largely expected but the magnitude exceeded general expectations. Policymaker support for the housing market was welcomed, particularly as housing prices continued to decline in January, albeit at a slower pace than in previous months.

In contrast to global trends, China continues to battle deflation. The January CPI data indicated that consumer prices fell by 0.8%, lower than the expected decline of 0.5%. Producer inflation figures also reinforced the deflationary trend as January producer prices (PPI) declined by 2.5%.

China's manufacturing sector has faced ongoing challenges, with the National Bureau of Statistics manufacturing PMI contracting for a fifth consecutive month, coming in at 49.1. Conversely, the non-manufacturing PMI expanded to 51.4 reflecting improved sentiment and conditions in the services sector. Furthermore, domestic optimism was supported by a surge in tourism spending during the Chinese New Year holiday period.

Outlook

Global equity markets have exhibited robust performance in the initial months of the year, driven by a combination of favourable economic data, strong corporate earnings, and expectations surrounding potential rate cuts. While current valuation signals are mixed, there exists a possibility of a short-term correction given the current overbought conditions in some markets. Typically, the current momentum is persistent until such time as a catalyst for a reversal presents itself.

We continue to believe the global economy will slow in 2024. The extent of the slowing will become clear as the year plays out. The possibility of a recession in the US is a scenario we are watching closely, especially given the UK, Japan and Europe are already experiencing negative growth. Balanced with this is the potential for inflation pressures to continue easing and the prospect for central banks to cut interest rates.

Nevertheless, we maintain a slightly cautious stance, which can be achieved without significantly compromising return potential should the global economy and equity markets remain resilient. We will continue to adapt portfolio risk and return settings as these key scenarios develop of the course of 2024.

Major market indicators

	29-Feb-24	31-Jan-24	31-Dec-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.34%	4.35%	4.35%	-4.0	+88.0
Aus 10yr Bond	4.15%	4.15%	4.19%	-43.2	+44.4
US 90 day T Bill	5.25%	5.22%	5.20%	+0.0	+53.0
US 10 yr Bond	4.24%	3.95%	3.87%	-9.6	+33.0
Currency (against the AUD)					
US Dollar	0.651	0.661	0.682	-1.79%	-3.44%
British Pound	0.515	0.518	0.537	-1.68%	-7.88%
Euro	0.602	0.608	0.618	-0.73%	-5.30%
Japanese Yen	97.53	96.45	96.09	-0.26%	6.29%
Trade-Weighted Index	61.10	61.40	62.60	-0.65%	-0.49%
Equity Markets					
Australian All Ordinaries	1.2%	1.1%	7.4%	9.9%	11.3%
MSCI Australia Value (AUD)	0.2%	1.8%	7.2%	9.4%	12.5%
MSCI Australia Growth (AUD)	2.8%	1.9%	7.2%	12.3%	13.7%
S&P 500 (USD)	5.3%	1.7%	4.5%	12.0%	30.5%
MSCI US Value (USD)	3.5%	0.5%	5.5%	9.8%	14.0%
MSCI US Growth (USD)	7.2%	2.6%	3.9%	14.3%	48.2%
MSCI World (USD)	4.3%	1.2%	4.9%	10.8%	25.6%
Nikkei (YEN)	8.0%	8.4%	0.1%	17.2%	45.7%
CSI 300 (CNY)	9.4%	-6.3%	-1.8%	0.7%	-11.4%
FTSE 100 (GBP)	0.5%	-1.3%	3.9%	3.0%	0.8%
DAX (EUR)	4.6%	0.9%	3.3%	9.0%	15.1%
Euro 100 (EUR)	2.6%	2.2%	2.8%	7.8%	11.5%
MSCI Emerging Markets (USD)	4.8%	-4.6%	3.9%	3.9%	9.2%
Commodities					
Iron Ore (USD)	-11.7%	-6.7%	7.6%	-11.4%	-7.5%
Crude Oil WTI U$/BBL	3.9%	6.1%	-4.9%	4.8%	2.9%
Gold Bullion $/t oz	-0.1%	-0.8%	1.4%	0.4%	12.0%

Source: Quilla and Refinitv