Investment & Economic Snapshot

February 2025

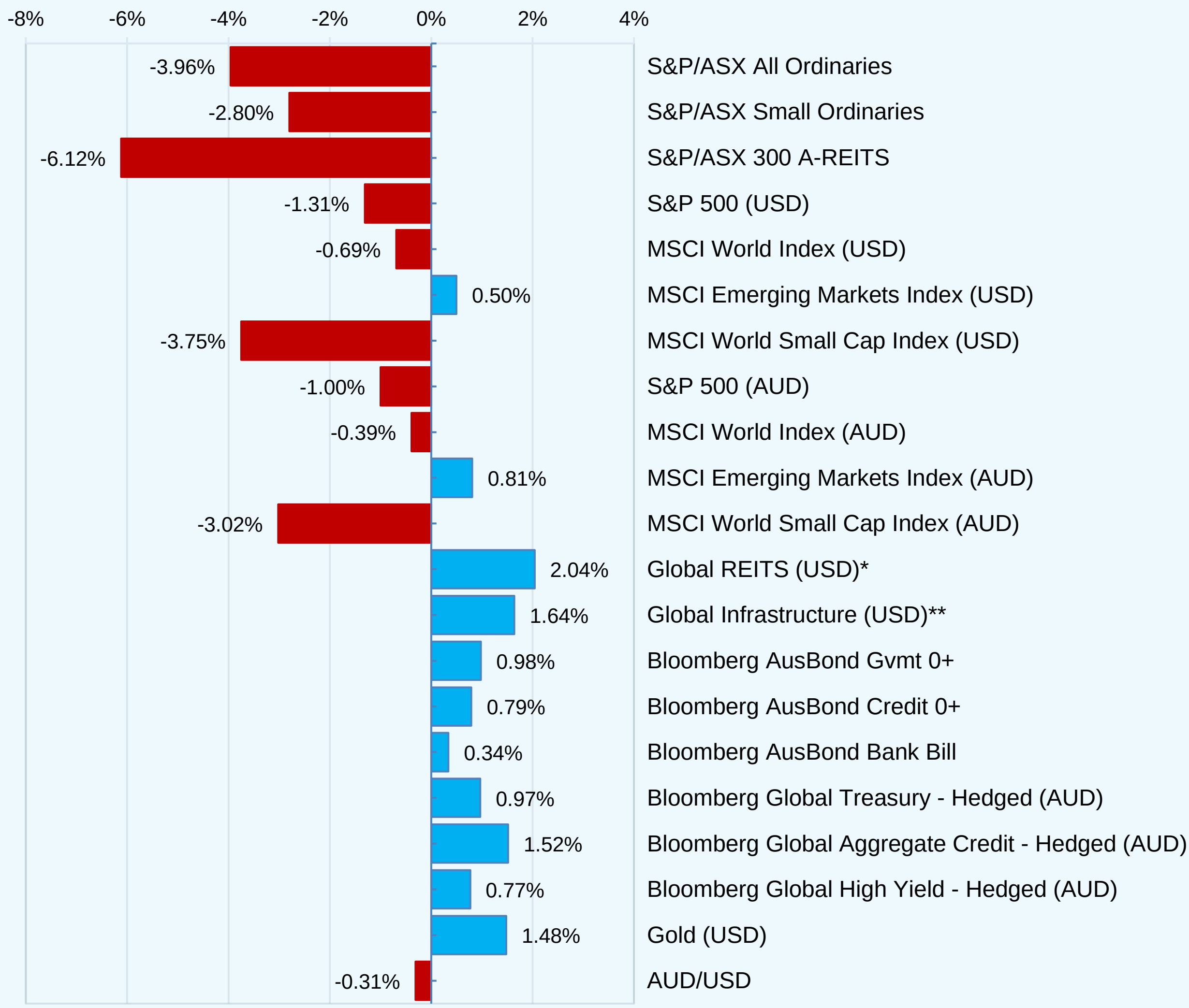
Summary

US tariff concerns continue to weigh on global investor sentiment. Softer US economic data and stable inflation have strengthened expectations for US rate cuts in 2025.

In Australia, a solid earnings season and the first cash rate reduction since 2020 did little to lift the share market.

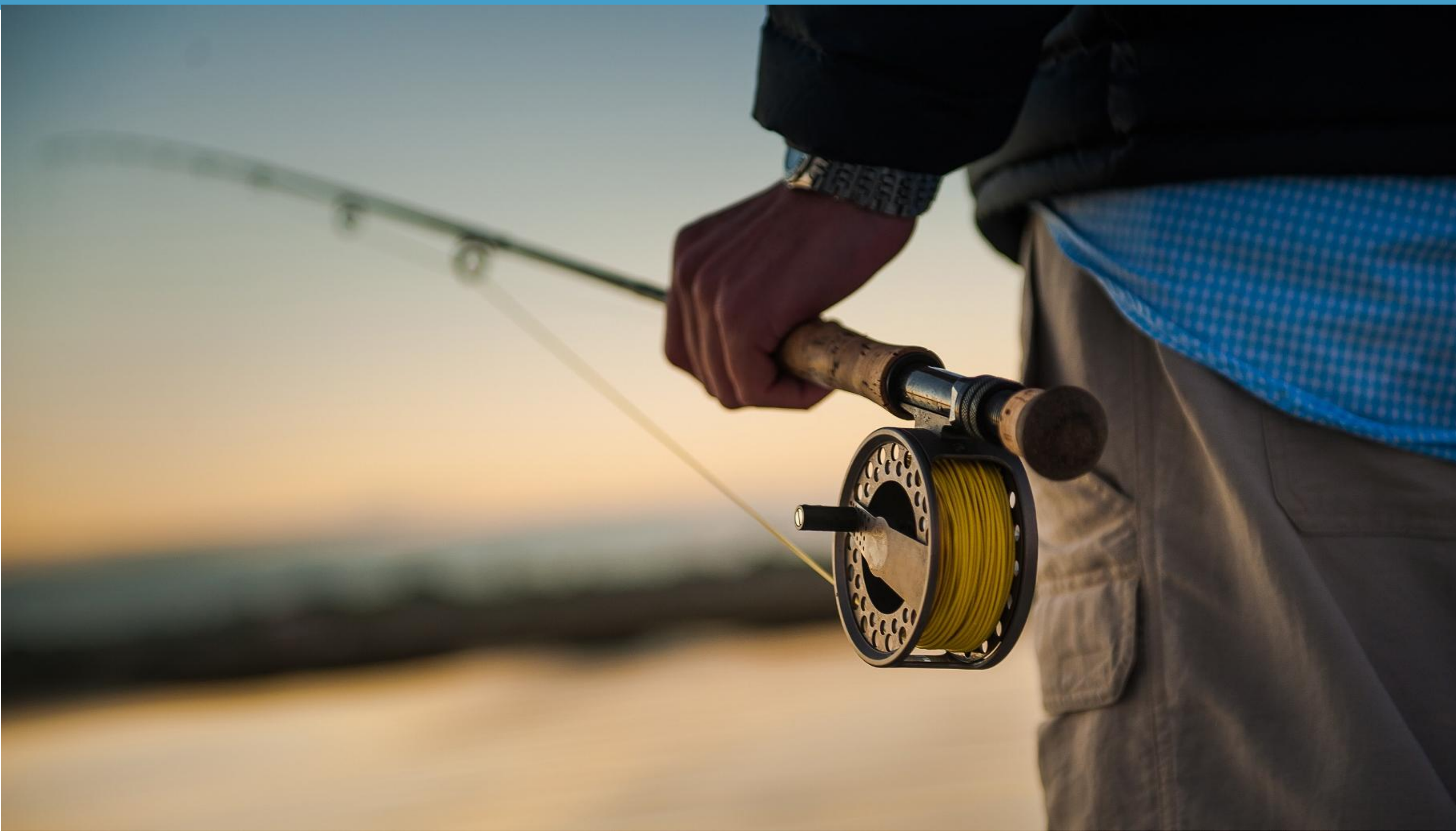
Economic indicators suggested a more supportive outlook for the Australian economy.

Selected Market Returns (%) February 2025



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

Key Developments in February



Financial Markets

Global share markets mostly retreated from all-time highs in February with the MSCI World Index (USD) dipping 0.7%. Weakness was driven by US large cap companies while the Australian share market also faltered despite a marginally better-than-expected reporting season. The Trump administration's trade and tariff rhetoric increased market volatility, while softer economic data lifted bond markets.

Australian Equities

The S&P/ASX All Ordinaries dropped 4%, erasing most year-to-date gains despite a reasonable earnings season. The selloff was broad-based, with the S&P/ASX MidCap 50 and Small Ordinaries falling 4.7% and 2.8% respectively. Defensive sectors provided some support with utilities and communication services rising 3.2% and 2.6%. The information technology sector led declines, falling a substantial 12.3% after being the best-performing sector over the previous 12 months. Healthcare followed falling 7.7%, and financials lost 4.4% as banking shares produced lacklustre results.

Commodities

Gold continued to rise, closing 1.5% higher at US$2,851/oz, supported by trade tensions and market uncertainty. The copper price rose by 7.2% ahead of potential US tariffs. Iron ore remained rangebound dipping 1.4%, while crude oil slipped 3% to $72.80 per barrel.

Global Equities

US equities surged in a late recovery but still closed the month lower. The S&P 500 (USD) fell 1.3% but the losses were more pronounced in the tech-heavy Nasdaq (USD) which dropped 4%. Despite a solid earnings season, investors' enthusiasm for Artificial Intelligence (AI) shares waned. The Russell 2000 Index (USD) underperformed significantly, falling by 5.3% as US small caps pared their post US election gains.

While US shares reacted negatively to downbeat economic data, European equities responded positively to economic data and a potential end to the Ukraine war. The Euro 100 Index (EUR) gained 2.8% and the German DAX (EUR) rallied 3.8% taking the index to double digit gains for the year-to-date. The Hang Seng (HKD) jumped by 13.4% as investors poured capital into Chinese technology companies. Positive investor sentiment was driven by stronger earnings and a rare meeting between Chinese President Xi Jinping with tech executives which was seen as a strong show of public support for the sector.

Bond Markets

Despite rising concerns about the inflationary impacts of tariffs, global bond markets produced solid gains. US bonds rallied as yields fell in line with softer US economic data. The US benchmark 10-year yield ended at 4.20%, 35 basis points lower. Australian bonds also gained as the Reserve Bank of Australia (RBA) cut the cash rate, joining global peers in the monetary easing cycle. The Australian benchmark 10-year yield closed the month 14 basis points lower at 4.34%.

Economic Developments

The RBA delivers a hawkish rate cut

The RBA reduced the cash rate by 25 basis points to 4.1%, as expected. The tone of the board's communications was more hawkish than anticipated, with Governor Bullock cautioning that market pricing of a further three rate cuts is too optimistic.

The monthly Consumer Price Index (CPI) reading for January came in at 2.5%, below the forecast of 2.6%. The data provided favourable news as the trends in some of the larger components of the CPI basket continued to moderate with rental growth slowing and dwelling construction costs falling marginally.

The strength of the labour market has continued to surprise positively. Employment rose by 44,000 in January, doubling expectations, and a strong outcome following a rise of 60,000 recorded in December 2024. The domestic economic picture remains steady with signs of improvement as the Westpac-Melbourne Institute Leading Economic Index reached two-and-a-half-year highs and consumer expectations about the economy tended more optimistic.

Weakening economic confidence as trade uncertainty intensifies

Preliminary US Q4 GDP remained steady at 2.3%, supported by strong consumption trends. The January jobs report reflected healthy labour conditions. Despite payrolls rising by less than expected at 143 000, the previous month's number was revised higher. The unemployment rate ticked down 0.1% to 4.0% when no change was expected.

Measures of US consumer confidence and sentiment contracted with weakening assessments of current conditions and expectations. This was further illustrated by the January NFIB Small Business Optimism Index which retreated as high expectations moderated in the wake of rising uncertainty related to the Trump administration's economic policies.

The US Services Purchasing Manager Index (PMI) showed an unexpected contraction of the services sector. The reading of 49.7 came in below both the key 50 level and the 53 forecast with policy uncertainty being the major negative factor. PCE inflation matched expectations as headline inflation rose by 2.5%, near the US Federal Reserve's (Fed) projection for 2025. In response, market pricing for future rate cuts became more optimistic with at least two 25 basis point cuts anticipated for 2025.

Meanwhile, other developed markets such as the Eurozone and Japan have started to post positive economic surprises. Japanese GDP growth of 2.8% year-on-year, far exceeded the 1% expectation. The latest European sentiment data has also shown improved positive momentum.

Outlook

An unpredictable global backdrop is restraining expectations for the global economy. US economic growth remains stable but weakening consumer trends point to a more challenging environment ahead. However, other developed markets, including Australia, are showing signs of improving economic growth, supported by moderating inflation and easing monetary policy. Risks are prevalent though, with the potential for a reacceleration of inflation under an aggressive trade war scenario.

The current investment climate is complex, where pro-growth policies compete with policies that undermine investor confidence. It requires an adaptive and measured approach to portfolio positioning; particularly as new opportunities arise.

Major Market Indicators

	28-Feb-25	31-Jan-25	31-Dec-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.12%	4.33%	4.44%	-30.0	-22.0
Aus 10yr Bond	4.34%	4.48%	4.31%	-20.8	+19.5
US 90 day T Bill	4.20%	4.20%	4.23%	-19.0	-105.0
US 10 yr Bond	4.20%	4.55%	4.57%	+0.3	-4.7
Currency (against the AUD)					
US Dollar	0.622	0.624	0.619	-4.54%	-4.50%
British Pound	0.494	0.501	0.496	-3.69%	-4.04%
Euro	0.598	0.599	0.597	-2.98%	-0.58%
Japanese Yen	93.40	96.37	97.39	-4.34%	-4.23%
Trade-Weighted Index	59.50	59.60	59.70	-3.25%	-2.62%
Equity Markets					
Australian All Ordinaries	-4.0%	4.4%	-3.1%	-2.8%	9.3%
MSCI Australia Value (AUD)	-3.1%	4.1%	-3.3%	-2.4%	8.5%
MSCI Australia Growth (AUD)	-4.0%	4.6%	-2.7%	-2.3%	14.7%
S&P 500 (USD)	-1.3%	2.8%	-2.4%	-1.0%	18.4%
MSCI US Value (USD)	1.0%	4.5%	-7.0%	-1.9%	15.9%
MSCI US Growth (USD)	-3.8%	1.8%	1.7%	-0.5%	21.1%
MSCI World (USD)	-0.7%	3.6%	-2.6%	0.2%	16.1%
Nikkei (YEN)	-6.0%	-0.8%	4.5%	-2.6%	-3.4%
CSI 300 (CNY)	1.9%	-2.8%	0.6%	-0.3%	14.3%
FTSE 100 (GBP)	2.0%	6.2%	-1.3%	6.9%	19.8%
DAX (EUR)	3.8%	9.2%	1.4%	14.9%	27.6%
Euro 100 (EUR)	2.8%	6.3%	1.0%	10.3%	12.3%
MSCI Emerging Markets (USD)	0.5%	1.8%	-0.1%	2.2%	10.6%
Commodities					
Iron Ore (USD)	-1.4%	4.5%	-2.9%	0.0%	-12.4%
Crude Oil WTI U$/BBL	-3.0%	0.6%	6.1%	3.5%	-10.9%
Gold Bullion $/t oz	1.5%	7.0%	-1.3%	7.2%	39.4%

Source: Quilla and Refinitv

Townsville Office

Location	11 Ross River Rd, Mysterton Townsville QLD 4812
Postal	PO Box 3143, Hermit Park Townsville QLD 4810
Phone	(07) 4753 9999

Ayr Office

Location	146 Queen Street, Ayr QLD 4807
Postal	PO Box 1425, Ayr QLD 4807
Phone	(07) 4783 1767