

## Market Watch February 2025

### Key events in February 2025

- Global share prices fell in February. Notably Australian and US share markets briefly made historic highs during the month. However, this optimism reversed sharply with the US President's announcements of increasing tariffs on key trading partners and products. This ignited concerns of a 'global trade war'.
- President Trump announced that the tariffs applying to China would rise from 10% to 20%, the 25% tariff on Canada and Mexico would be implemented in March, as well as also introducing a 25% tariff on all steel and aluminum imports into the United States. President Trump also signaled the intention to implement a 25% tariff on automobile, semiconductor and pharmaceutical imports which would also dramatically impact global trade relationships. US shares were also negatively affected by softer US economic data with weak results for January's retail sales and consumer sentiment.
- European shares provided a positive surprise with strong gains in February. Expectations for the European Central Bank ("ECB") to continue cutting interest rates proved very supportive. For now, European shares have ignored the deteriorating relationship between the new Trump Administration and Ukraine.
- Chinese shares made very strong gains with improving credit growth and the government's announcement of more capital for banks. This share recovery comes despite concerns over China's weak property sector and the new US President's tariff agenda.
- Australian shares fell sharply after briefly making historic highs in February with the Reserve Bank of Australia ("RBA") lowering interest rates. Leading the slide was the information technology sector given specific concerns over WiseTech's performance. Sharp falls in healthcare, real estate, energy and financial sector shares also occurred with investors becoming more cautious. There were only some modest pockets of gains in the utilities, communication services, consumer staples and industrials.
- Australia's economic data continues to be mixed. There was positive news with strong jobs growth and the monthly inflation indicator showing steady annual inflation at 2.5% in January. However, both consumer spending and sentiment remain subdued.

### Asset class summary

#### Asset class returns in Australian dollars - periods to 28 February 2025

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	0.5	-3.8	-2.6	9.7	8.9	8.8	7.5
Global shares (hedged)	2.5	-0.8	0.8	15.7	9.2	12.0	9.2
Global shares (unhedged)	2.3	-0.3	5.1	20.5	14.9	13.6	11.6
Emerging markets (unhedged)	1.8	0.8	7.0	15.3	5.8	5.0	5.9
Australian property securities	-1.8	-6.1	-7.6	8.9	5.5	5.4	7.2
Global property securities (hedged)	3.5	1.9	-3.0	10.4	-1.9	0.7	2.4
Global listed infrastructure (hedged)	2.5	1.8	-2.8	15.8	4.2	4.6	6.0
Australian bonds	1.1	0.9	1.6	4.2	0.3	-0.6	1.9
Global bonds (hedged)	1.6	1.2	0.7	5.0	-0.4	-0.7	1.8
Global high yield bonds (hedged)	2.0	0.6	1.4	7.7	2.8	3.2	4.3
Australian inflation-linked bonds	0.9	0.5	1.1	3.4	2.4	2.2	2.4
Cash	0.7	0.3	1.1	4.5	3.4	2.1	2.0
AUD/USD	0.4	-0.3	-4.5	-4.5	-5.0	-0.7	-2.3

Past performance is not a reliable indicator of future performance.

**Sources:** Australian shares - S&P/ASX 300 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A\$ (Net); Emerging markets - MSCI Emerging Markets in A\$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian

bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) - Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

## Key events in global markets over the last three months to February 2025

Global shares (hedged) posted a modest 0.8% return over the quarter. Optimism over Artificial Intelligence (AI) and President Trump's agenda for lower taxes faded with the realisation that Trump is threatening a trade war. Global shares (unhedged) recorded a strong 5.1% return given the sharp decline in the Australian dollar.

Wall Street's benchmark S&P 500 Index made historic highs during the quarter, but these gains were partly reversed with tariff concerns. Technology shares have been the key tailwind behind Wall Street's ascent. The US central bank has also been a supportive cheerleader by lowering interest rates given falling inflation.

European shares also delivered very strong returns with the ECB cutting interest rates.

Asian share markets delivered mixed performances. Chinese shares delivered a very strong return over the quarter with more supportive financial measures from the government. However, Japanese share markets have declined as the Japanese central bank continues to raise interest rates in recent months.

Global bonds (hedged) delivered a modest 0.7% quarterly return. While lower interest rate settings in Europe and the United States are positives, investors have taken a more cautious outlook on inflation prospects. Australian bonds delivered a solid 1.6% return given that recent lower inflation results allowed the RBA to cut interest rates in February 2025.

## Key events in Australia over the last three months to February 2025

Australian shares initially made strong gains for the quarter but this reversed into negative territory in the final weeks of February. Australian shares delivered a disappointing return of -2.6% over the quarter. The information technology sector was a key negative contributor with a -13.5% return. There were notable declines in property securities as a subdued Australian economy weighed on investor confidence. There were also falls in healthcare, financial and resource sector shares.

Australia's economy is struggling with soft activity but is seeing lower inflation. The negative impact of high consumer prices and mortgage interest rates as well as rising rents continues to squeeze budgets. Yet there has been some more encouraging news in terms of solid jobs growth. Australia's annual inflation rate declined to 2.4% in the December quarter. This moderation in price rises reflects the benefit of government electricity subsidies. Given modest Australian economic activity and milder inflation results, the RBA cut interest rates by 0.25% in February 2025.

## Global prospects

Global share prices have made very strong gains in the past two years despite some considerable challenges. The enthusiasm for AI and technology have been the key factors supporting global rising share prices. There was also confidence that with global inflation gradually falling, central banks would make further cuts to interest rates. A lower interest rate environment should be more supportive of corporate profits and thereby share prices in the long run.

However, these exuberant expectations are now being challenged by considerable global political risks. The return of Donald Trump to the White House has generated concerns over the imposition of large tariffs for a number of America's trading partners (Canada, China, Europe and Mexico). The continuing Russian-Ukraine war and conflict in the Middle East also provides a troubling environment for investors.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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