February 2025

Monthly Market Update

Looking Around Corners

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 17 MARCH 2025

Since our last update, share markets globally have become more volatile reflecting a combination of slower economic data in the US, moderate growth in China and eurozone and greatly increased geopolitical instability. The whiplash associated with President Trump's tariff announcements have seen dramatic swings in bond and share markets around the world including Australia. Volatility increased, as the Trump administration initially delayed, then reaffirmed, the introduction of tariffs on its largest trading partners. Although we know that data remains moderate, **increased tariffs will cause higher inflation and an eventual slowing of growth – or stagflation.** We are looking around corners to try and determine the rate of slowdown and indeed whether a recession will be induced on the US.

Investor confidence since the end of February has faded further, amid the rising stagflation risks, driven by retaliatory tariffs due to be announced in April. This will likely cause growth to slow further and inflation to rise further. The S&P/ASX 200 Accumulation Index fell -3.8% in February and those losses extended in early March following the fall in the US share market. Global equities fell in February (MSCI World Index -1.0%) and also extended that loss in early March. The S&P 500 reached a high of almost 6150 before retreating to a low of 5509 at the time of writing.

US economic data showed some signs of weakness, with personal consumption and consumer confidence falling and inflation expectations rising. Year-over-year inflation continued to fall - Core personal consumption expenditure PCE (the Federal Reserve's preferred measure of inflation) slowed to +2.6% over the year, however, the recent month-on-month trend remains above the target. **The uncertain outlook impacted profit expectations as the US share market saw profit downgrades by analysts.** Profit estimates for 2025 are now -1% below their end-2024 levels.

In Europe, macroeconomic data indicate a potential bottoming out of the eurozone economy. Revised GDP data showed that the economy narrowly avoided contraction in the final quarter of 2024. Confidence indicators for January and February showed some improvement, primarily in the industrial sector, which moved from very weak to still weak. Inflation has not worsened further but remains high. Inflation expectations in the industry have risen in recent months and in services remain above historical averages. A rate cut on 6 March seems likely given the current macroeconomic backdrop.

Emmanuel Calligeris
Chairman of the Investment Committee

In China, we have seen a series of retaliatory actions following the implementation of an additional 10% tariff on 4 March by the US. These measures include imposing new tariffs on agricultural products. Agricultural products accounted for around 15% of total exports, worth USD 25bn from the US to China in 2024. This covers more than the roughly 10% of goods targeted in the first round of retaliation measures but is still a relatively muted response compared to the 10% broad-based tariffs implemented by the US. China's countermeasures are still relatively measured for now. Along with the retaliation to the February tariffs, after both countermeasures have come into play, only around a quarter of US exports to China have been hit with tariffs. The retaliation could have been a lot stronger, and with every further escalation the risks are also rising for a stronger response.

Australia has not been spared from President Trump's tariffs and the share market has reacted accordingly. The Reserve Bank revised its medium-term inflation forecast higher and acknowledged the continued strength of the labour market. The recent employment report showed solid growth and a record high participation rate, although the unemployment rate ticked up slightly to 4.1%. Wages growth slowed to 3.2% over the year. This was the slowest pace since the second quarter of 2022. The slowdown was evident across both private and public sectors. Consumer spending showed signs of improvement, with retail trade growth rising to 4.6% over the year — a better outcome than the market anticipated. National house prices resumed growth in February, rising 0.3%, and auction clearance rates increased as expectations of lower interest rates lifted buyer sentiment.

Notwithstanding the weaker data in the US, higher tariffs will temporarily push up inflation and make the US Federal Reserve less willing to cut rates. Share markets have adjusted to reflect slower GDP growth stemming from tariff policy. Whilst some value has been restored, the US share market remains above fair value with the Australian share market close to fair value. As mentioned last month, the interplay of trade policies, economic indicators, geopolitical tensions and investor sentiment has created a dynamic and often unpredictable market environment. It is likely to continue for the remainder of 2025.

Returns

28th February 2025

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 28TH FEBRUARY 2025

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.31	1.05	2.14	4.37	3.56	2.15	1.98
Australian Bonds	0.93	1.63	1.16	4.18	0.32	-0.59	1.90
International Bonds Hedged	1.20	0.71	1.42	5.02	-0.40	-0.74	1.83
Australian Listed Property	-6.38	-7.86	-1.89	9.08	5.77	5.24	6.99
International Property Hedged	2.46	-3.07	-1.02	11.96	-0.77	2.05	3.60
Australian Shares	-3.79	-2.56	2.77	9.94	9.24	8.87	7.51
Emerging Market Shares	0.79	7.00	9.52	15.26	5.77	5.02	5.90
International Shares	-0.36	5.01	14.24	21.30	16.15	14.85	12.49

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