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Monthly Market Update
February 2024

Key Events in February 2024

- Both the US S&P 500, and the ASX 200 made new record highs in February, currently insulated from the weakness in the Chinese markets, for now.
- Reserve Bank of Australia (RBA) expect inflation to decline to the 2–3% target range in 2025 and reach the midpoint in 2026. Services inflation remains high and only expected to decline gradually.
- The RBA kept the cash rate unchanged following their February meeting at 4.35% but did not indicate whether there will be an easing in interest rates.
- If the RBA’s forecasts are right, the inflation rate will be close to 3% and the unemployment rate will be over 4% by the end of 2024, then an interest rate cut is on the cards.
- Australian business conditions PMIs (survey of business conditions) for February rose with strength in services (possibly driven by optimism regarding a boost from Swiftonomics) but for the last 18 months they have been range bound around zero.
- Globally PMIs were mixed across major countries – up in Europe (but still soft), and the UK but down in the US and Japan (but to still okay levels).
- Australian December half year earnings reporting season came to close with 46% of companies surprising consensus earnings expectations on the upside and 36% surprising on the downside, better than the long term average for both of around 41%.
- 53% of Australian companies have increased their dividends on a year ago, below the norm of 59% and greater than usual 31% have cut their dividends, which suggests an overall degree of caution.
- Around 90% of US S&P 500 companies have now reported December quarter earnings with 76.5% coming in better than expected, which is just above the norm of 76%.
- US earnings growth for the quarter is running around +9.6% y-o-y, well up from consensus driven by technology companies (+40%) and financials (+11%) with resources earnings down 21%.
- Wall Street continues to be bolstered by Mega-Caps, particularly key components of the “Magnificent Seven” including, Meta +26%, Amazon +14%, and Nvidia +29%.
- Unlisted commercial property returns are likely to be negative due to the lagged impact of high bond yields and WFH.
- Australian home prices continue to show resilience on the back of supply shortage and by the prospect of lower interest rates later this year boosting buyer confidence.

Asset Class Summary
Table 1: Asset Class Returns – Periods to 29 February 2024

29-Feb-24	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
Sectors	%	%	%	% pa	% pa	% pa
Australian Shares	0.8	9.4	10.6	9.3	8.6	8.0
Australian Small Companies	1.7	10.1	7.8	1.4	4.4	6.1
International Shares (unhedged)	6.0	12.9	30.5	15.8	14.3	13.3
International Shares (Hedged)	4.7	10.7	24.0	8.9	10.8	10.1
Emerging Markets	6.4	5.8	13.1	-0.4	4.1	6.7
Emerging Markets (Local Currency)	5.1	4.7	10.1	-3.2	4.4	6.0
Australian Property Securities	5.1	18.7	16.1	10.4	5.8	9.3
Global Property Securities (Hedged)	-0.2	4.3	-0.1	-0.6	-0.8	3.7
Listed Infrastructure (Global)	0.7	3.5	8.3	9.3	6.1	7.8
Australian Bonds	-0.3	2.6	3.5	-1.4	0.3	2.5
Global bonds (hedged)	-1.0	1.7	3.7	-2.8	0.0	2.3
Cash	0.3	1.1	4.1	2.0	1.5	1.8
	Change over the month (%)					
AUD/USD	-1.1					

Past performance is not a reliable indicator of future performance.
Source: S&P ASX 200 Accum Index, S&P ASX Small Ordinaries Accum Index, MSCI World EX Australia, MSCI Emerging Markets AUD, MSCI Emerging Markets in Local Currency, S&P ASX 200 A-REIT Accum Index, FTSE EPRA/NAREIT Developed TR Hdg (AUD), MSCI World Infrastructure in (AUD) , Bloomberg AusBond Composite 0+Yr Index, Barclays Global Aggregate TR Hdg AUD, Bloomberg AusBond Bank Bill Index
Currency Change (Iress-Pro)

Australian Markets

The S&P/ASX 200 closed the month off on a fresh record high in February returning +0.8% for the month and +10.6% for the 12 months, on the back off some very solid earnings results from most Australian blue-chip companies plus some tailwinds out of the US.

Technology stocks were the clear outperformer finishing the month a staggering +19.5%, followed by the Consumer Discretionary sector +9.2%, and the Mid-Cap 50 Industrials sector +6.6%. Energy and Materials sectors weighed down the index, down -6.0% and -5.0% respectively.

Stocks that did some of the heavy lifting over the month were fashion jeweller Lovisa Holding Ltd up+40.9%, Altium Ltd +30.4% after accepting a takeover from Japanese software company Renesas, WiseTech Global Ltd +29.4% on solid half-year results, and Reliance Worldwide Corporation Ltd +29.3% again on half-year results.

Small caps also rose +1.7% in February, with industrials outperforming resources stocks. Small caps are underperforming the broader index by -2.8% over the 12 months.

Global Markets

Global equity markets surged and ended February month on a significantly higher note. The broad MSCI World ex Australia Index (unhedged) returned +6.0% for February whilst the hedged version returned +5.0%.

Global markets were driven by the Nasdaq (NVIDIA) leading the market with a rise of 6.1% for the month. The Dow was up +2.2%, S&P 500 +5.2% and the US Russell 2000 hanging in there with a rise +4.8%. This stock rally remains within a narrow range, with Big Tech the dominant theme. Meta's market cap jumping a record US$197 billion in one day after its quarterly sales and outlook exceeded forecasts. Nvidia then took the record for itself with a US$277 billion increase in value after its report showed demand for its specialised chips continue to outstrip the already-high expectations.

European markets were also strong with Germany and France up +4.6% and +3.5% respectively – the UK continues to be in the misery corner, flat for the month. Germany has now outperformed the UK by 18% over the past 12 months.

Several factors fuelled the recovery in Emerging Market stocks up +6.4% in February including perceived attractive entry points following the recent sell off, signs of recovery in China after positive retail and travel data came out the wash, while Beijing's efforts to stabilise that market have begun to improve investor sentiment in recent weeks.

The Chinese stock benchmark, the Shanghai Composite Index jumped +8.1% followed by the Japanese benchmark Nikkei 225, which gained +7.9% on February 29. India's BSE Sensex surged +1% in February. On the other hand, the Straits Times index of Singapore slipped -0.4%.

Bonds

Bond market were down over the month as investors continue to pare back their forecasts for when the US Federal Open Market Committee will cut interest rates further out into the future.

The Australin fixed interest market returned -0.30% for February but up +2.59% for the quarter, whilst global fixed interest (hedged) returned -0.97% and +1.70% for the quarter.

Currencies

The Aussie dollar weakened further against the US dollar. The AUD/USD rate lost -1.1%, closing at 64.97 US cents,

Outlook

Cash Rates – Is this the best it gets and is time to increase your allocation to equities ?

Encouragingly, inflation seems past its peak and still heading in the right direction. Even more encouragement can be obtained from the results of research conducted in late 2023 by J.P. Morgan, which found that the highest equity returns are generated when inflation ranges between 2 and 3%. According to the investment bank's findings, the S&P 500 Index has generated average returns of 13.8% per cent per annum in years when inflation was below 3% and above 2%. When inflation was recorded below 2%, S&P 500 annual returns averaged 10.7%. And when inflation was above 3%, returns averaged 8.5%. Finally, when inflation was above 5%, S&P 500 returns averaged just 2.4% annually. Are we entering the sweet spot?

As we see the peak in interest rates, for more conservative investors seeking attractive yields on cash, in addition to strategies provided in last month's note, investors should also possibly consider including an allocation to private credit and quality high yield corporate bonds.

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