

# MONTHLY MARKET UPDATE

February 2024

## How the different asset classes have fared:

(As of 29 February 2024)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash <sup>1</sup>	1.80	1.47	1.95	4.10	0.71	2.12	1.09	0.34
Australian Bonds <sup>2</sup>	2.28	0.11	-1.58	3.35	-0.10	2.05	2.58	-0.32
International Bonds <sup>3</sup>		-0.49	-3.64	3.38	-1.45	2.16	1.72	-1.05
Australian Shares <sup>4</sup>	8.19	9.00	9.07	11.30	2.25	7.97	9.86	1.17
Int. Shares Unhedged <sup>5</sup>	12.79	13.82	15.23	29.88	10.67	11.87	12.69	5.94
Int. Shares Hedged <sup>6</sup>	10.15	10.83	8.99	24.06	6.52	11.97	10.71	4.66
Emerging Markets Unhedged <sup>7</sup>	5.80	3.07	-1.42	11.49	4.22	3.78	5.27	6.22
Listed Infrastructure Unhedged <sup>8</sup>	8.65	5.04	9.72	4.05	1.85	2.25	2.45	1.66
Australian Listed Property <sup>9</sup>	9.55	6.03	10.40	15.10	6.03	12.83	18.11	4.75
Int. Listed Property Unhedged <sup>10</sup>	6.46	2.23	6.11	3.97	0.34	2.53	6.71	1.31
Gold Bullion Unhedged <sup>11</sup>	4.35	8.93	4.82	12.30	-1.44	4.56	-0.25	-0.25
Oil Unhedged <sup>12</sup>	-10.95	-1.33	20.01	10.28	10.21	-1.66	4.05	3.74

1 S&P/ASX Bank Bill TR AUD, 2 Vanguard Australian Fixed Interest Index, 3 Vanguard Global Aggregate Bd Hdg ETF, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD, 11 LMBA Gold Price AM USD, 12 S&P GSCI Crude Oil TR

Source: Centrepont Research Team, Morningstar Direct

## Key Themes:

- **Equity Markets Reach Further Highs:** US and Australian stock markets continue to hit record levels, driven by economic optimism and strong sector performances, particularly in consumer discretionary and technology.
- **Fixed Income Falls:** Both international and Australian bond prices fall as rate cut expectations are pushed back.
- **Australian Dollar Weakens:** The Australian Dollar depreciated against the US Dollar due to strong labour and CPI reports from the US.
- **Commodity Prices Vary:** Oil prices rose due to geopolitical unrest and supply cuts, while gold declined in a stronger dollar environment and risk-on market sentiment.

## International Equities:

In February, international equities performed well once again, gaining 5.94% over the month with the S&P 500 continuing to reach all-time highs. At the same time hedged equities also performed well but less so at 4.66%. Hedged equities lagged as predictions for early rate cuts in the US were pushed back, leading to a rise in the value of the US Dollar (USD) relative to the Australian Dollar (AUD). This performance can be largely attributed to the Consumer Discretionary, Technology, and Industrial sectors which rose by 6.23%, 4.83%, and 4.70% respectively. The Consumer Discretionary sector grew significantly due to the growing expectation of rate cuts in the US, as the predicted rate cuts come closer consumer discretionary shares will grow in anticipation of increased spending by consumers. The Technology sector also performed well, this can largely be attributed to

NVIDIA surpassing earnings expectations and further boosting excitement around artificial intelligence in the market.

The three worst performing sectors in international markets were Utilities (-2.13%), Consumer Staples (0.86%), and Real Estate (0.42%), following general trends from 2023 as value stocks continued to underperform growth stocks. Overall, in international markets February was a continuation of what we have been seeing since the last half of 2023 with growth sectors such as technology and consumer discretionary outperforming the general market.

### **Australian Equities**

The ASX 200 returned 1.17% over the month of February and reached a new all-time high, with the Technology sector massively outperforming the rest of the market with a 21% return. This can be attributed to the general enthusiasm surrounding technology as well as the proposed purchase of electronic design software company Altium by Japanese chipmaker Renesas Electronics which saw the former's share price jumping 28.76% in a single day. Despite this large return it had little effect on the overall return due to the Technology sector only making up 2.8% of the ASX 200.

The next best performing sector was Consumer Discretionary which returned 8.2%. This was partly due to lower-than-expected inflation figures providing hope for earlier rate cuts from the Reserve Bank of Australia (RBA) which in turn boosted confidence in the largely cyclical sector. The three worst performing sectors in the Australian market were Energy, Materials, and Healthcare which each fell by 6.26%, 4.60%, and 1.50% respectively. The domestic equities market overall in February did not perform as well as international markets, but the Australian Technology sector continued to see massive growth whilst international tech, outside of NVIDIA, has simmered down relative to late 2023.

### **Domestic and International Fixed Income**

Throughout February international fixed income retreated by 1.05% as the US 10-year government bond yield grew by 10%. This can be attributed to expectations for a March rate cut by the Federal Reserve (Fed) being pushed back after stronger-than-expected US employment and CPI reports. This combined with an announced deepening of OPEC's oil output cuts, and other strong economic data releases has led to an expectation that inflation will remain elevated above the target rate for longer, delaying proposed rate cuts and pushing up bond yields.

Australian fixed income retreated in February by just 0.32% after the Australian 10-year government bond yield grew by 3.6%. In its February 2024 meeting the RBA announced no change to the cash rate and that it expected that "it will be some time yet before inflation is sustainably in the target range" and that "a further increase in interest rates cannot be ruled out". This announcement, just like in the US, tempered expectations for rate cuts in the middle of the year and pushed up bond yields.

### **Australian Dollar**

The Australian Dollar depreciated against the USD once again in February, retreating by 0.53%. This depreciation likely stemming from the US employment report and CPI report pushing back expected US rate cuts and a general weakening in Australian commodity export prices of 0.1%. The AUD additionally fell in the last few days of the month after the Reserve Bank of New Zealand left its cash rate on hold with a statement implying rate cuts may be closer than expected in New Zealand. The AUD also depreciated against the Great British Pound and the Euro while appreciating against the Japanese Yen.

### **Commodities – Gold and Oil**

In February, the price of gold fell by 0.25% responding to similar trends from January; the appreciation of the US Dollar, an increase in US treasury yields, and a 'risk on' market sentiment driven by a positive economic outlook

as well as NVIDIA outperforming earnings expectations. All these reasons provide an incentive for investors to move money away from gold and into other assets.

The price of oil rose by 3.74% in February, spurred on by the continuing OPEC supply cuts which were recently extended into Q2 2024. Russia also announced oil supply and export cuts, likely stemming from Ukrainian drone strikes on refining assets in Russia. These supply cuts as well as the geopolitical tensions surrounding the Israel-Palestine conflict in the Middle East have led to the price of oil increasing in February.

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