February 2025

Market Update

Nugents Wealth Management

Nugents Wealth Management Pty Ltd
ABN 20 098 652 2180

Markets

Markets were weaker over February (Australian equities down 3.8%) largely due to macroeconomic and trade policy changes in the US. Investor sentiment was further impacted by uncertainty over the impact of the Department of Government Efficiency (DOGE), as it looked to retrench a significant number of government employees. Market weakness continued in early March, with notable weakness in the technology heavy Nasdaq, whilst domestically there were drawdowns in both mines and banks.

Early March also saw tentative evidence of a slowdown in hiring and business confidence, as companies waited for confirmation of tariffs on various trade partners. The on-again/off-again announcements with respect to these tariffs created a very difficult environment for business investment and hiring, leading to declines in both. Other concerns included evidence that the impact of tariffs may be greater than initially expected amid some businesses raising prices ahead of actual tariff impositions, as well as some outlooks now calling higher inflation over the next year.

As demonstrated over the past month, the lifespan of a well-reasoned opinion about markets or geopolitics has become very short.

Globally, three interesting developments have occurred since we last published, as discussed below. Important to note is that with the current levels of policy change, any forecasting is fraught with unpredictability and the investment outlook is open to rapid change.

1. First, European leaders agreed to become masters of their own destiny instead of relying on the security blanket of the US. This will result initially in large defence spending and a strong fiscal impulse and came with an immediate market reaction of higher long-term bond yields and a stronger stock market. This policy change has the possibility to durably underwrite European economic growth and stock market performance.
2. Second, China's tech leaders have returned from the figurative wilderness to the embrace of Xi Jinping, whilst the definition of Common Prosperity has been rolled back to the previous definition where some are allowed to get rich first to 'grow the pie'. Aside from stimulus, this is the most significant market-friendly development in years and could lead to a reassessment of investors' structural bearish view on China's share markets. Whilst China's demographic challenges remain insurmountable, there is a load of cash on the sidelines with the potential to drive a self-reinforcing multi-year stock market rally.
3. Third, some indicators are showing a slowdown in the US economy as a result of the issues noted above and bond markets have abruptly moved from pricing in one more US Federal Reserve interest rate cut this year to now expecting four rate cuts by year-end.

We remain cognisant of headwinds to share markets in the near term. The constant barrage of US government announcements, many of which are contradictory, the looming April deadline for the review of China's Permanent Normal Trade Relations status (PNTR), and very weak outlook for earnings growth across the Australian equity market all make for a difficult outlook. We gauge the likelihood that the US revokes China's PNTR status as better than even money, given that taking action against China's anti-competitive trade behaviour is a key area of bi-partisan agreement with overwhelming voter support. Should it happen, markets may face some volatility.

Data and Events

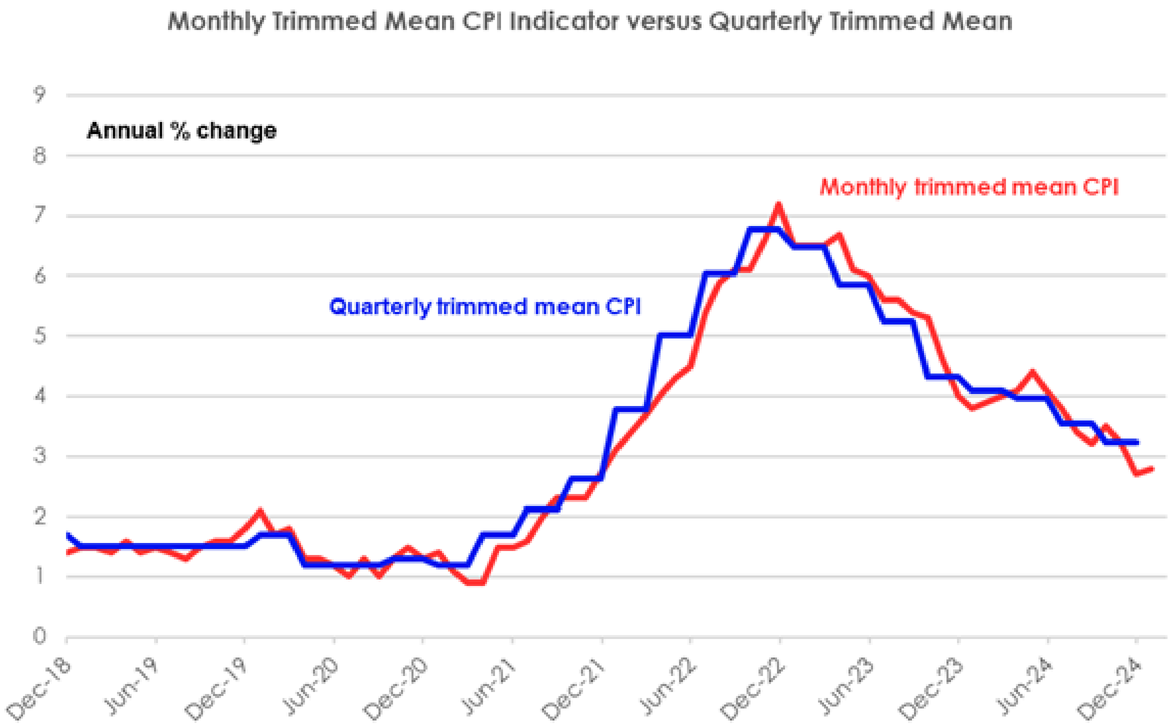
Inflation is still what really matters for the Reserve Bank of Australia, and late in the February we received the official quarterly data, which continued to moderate. The market is pricing in three rate cuts by year-end, and at this point it appears this may be the end of the cutting cycle, particularly when considering the volatile environment.

Most other economic data was in line expectations and much of the analysis was overtaken by events in the political environment. Perhaps more importantly, recent data releases have led markets towards a view that the US economy is slowing whilst the downward trend in inflation may be reversing. Further data over the next few months will give a better indication as to whether this interpretation is correct.

Chart of the Month

The following chart shows that in the current volatile climate one of the very positive factors which has gone somewhat unnoticed is the ongoing decline of inflation in Australia, now at 2.4% (as at the end of December 2024), using the widest measure of inflation.

The chart shows trimmed-mean inflation, which is a measure used to reduce the impact of irregular or temporary price changes in the Consumer Price Index.



Source: ABS, AMP

Market Return Summary

Asset class (% change)	1 month %	3 months %	1 year %	3 years % p.a.
Cash	0.3	1.1	4.5	3.4
Australian Fixed Interest	0.9	1.6	4.2	0.3
International Fixed Interest	1.2	0.7	5.0	-0.4
International Fixed Interest – High Yield	0.8	1.9	11.0	4.6
Australian Equities	-3.8	-2.6	9.7	8.9
International Equities – Unhedged	-0.4	5.0	21.3	16.1
International Equities – Hedged	-0.9	0.6	16.1	10.1
Emerging Market Equities	0.8	7.0	15.3	5.8
Global Listed Property	2.8	-2.9	11.7	-2.1
Global Listed Infrastructure	2.4	-1.7	18.5	-
Australian Listed Infrastructure	0.7	3.7	9.3	-
Direct Property	0.3	0.4	-6.3	-2.6

Source: AMP Investments.Returns are shown on a total return basis as at 28 February 2025. Past performance is not a reliable indicator of future performance.

Get in touch

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