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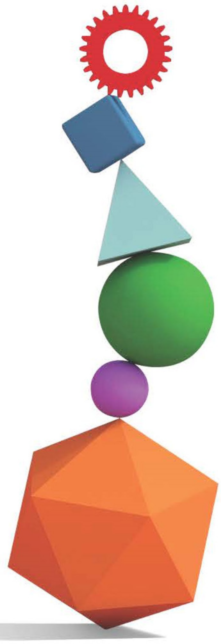
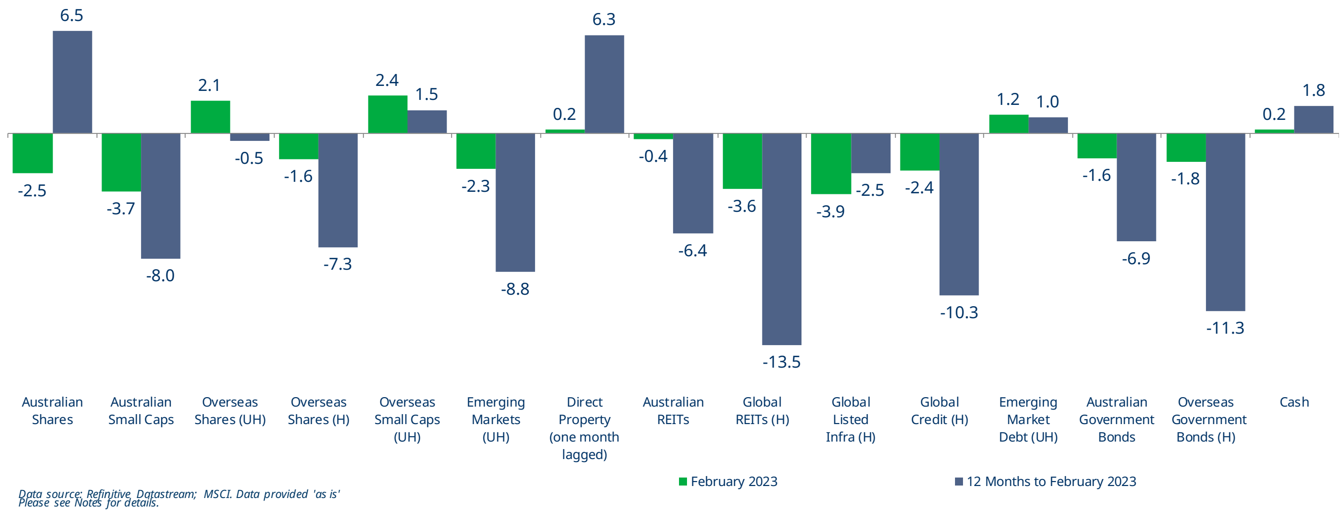


February 2023

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 28 February 2023



Data source: Refinitive Datastream; MSCI. Data provided 'as is'
Please see Notes for details.

Market recap

Both risk and duration assets sold off in February as pessimism over the monetary policy outlook took hold.

The US economy is showing few signs of a material slowdown in spite of almost a year of monetary tightening. Even though more large companies announced layoffs in February, the labour market as a whole remains exceptionally strong. Consumer confidence strengthened to the highest level in over a year, retail spending came in much stronger than expected and one of the forward looking purchasing manager composite indices returned into expansionary territory. Outside the US, economic data also indicated stronger growth momentum.

Consumer inflation continued to come down from high levels in the US, UK and Eurozone, although increased in Japan and China. US producer inflation, however, came in stronger than expected. The combination of a resilient economy and mixed signals on inflation turned sentiment for the worse. Markets once again priced in the possibility of more inflationary growth momentum that could force central banks to continue with monetary tightening.

Over February, Hedged Developed Markets Overseas Shares returned -1.6% as earnings season continues to be disappointing. Earnings appear set to decrease for the first time since mid-2020. Earnings aside, increased concerns over more monetary tightening than was priced in at the beginning of 2023 added to negative sentiment.

In February, emerging markets underperformed developed equities, declining 2.3% as large markets such as Brazil, India and Korea saw negative returns. While foreign inflows into China have been strong over the last few months, domestic equity investors still remain cautious.

Hedged Overseas Government Bonds returned -1.8% over the month. Ten-year yields in developed countries rose over the month as markets priced more monetary tightening. Rising credit spreads were an additional headwind for investment grade bonds during the month, while high yield spreads declined slightly. Australian Bonds also produced a negative return, returning -1.6% over the month as yields increased.

Australian Shares returned -2.5%, underperforming their overseas counterparts in February. The more defensive sectors tended to outperform, with utilities the top performer (3.4%), meanwhile sectors leveraged to the economy struggled, with materials being the worst performer (-6.7%).

Market Outlook

Following some of the recent strength in economic data, the market has priced in further rate hikes in recent weeks. However, a key question that remains is whether these rate hikes will result in a hard landing or a soft landing for the global economy. Our base case view is for a soft landing or a mild recession, with the recovery in China and the decline in energy prices in Europe adding support to this view. Risks however remain, and with earnings growth expectations remaining optimistic, we favour retaining a neutral view on global equities. We also favour retaining a neutral view on Australian equities, with the tailwinds from the re-opening of China's economy tempered by headwinds to household consumption. Finally, following the rise in yields in 2022, we find fixed income asset classes more appealing, with a slight preference to growth fixed income over defensive fixed income, given the level of total yields on offer.

Significant Developments

- Australian seasonally adjusted employment decreased by 11,500 in January, below expectations for an increase of 20,000 and above the prior month's (revised) decrease of 20,000. The unemployment rate increased in January to 3.7%, above expectations of 3.5%. The participation rate decreased to 66.5%, below expectations of 66.6%. Part time jobs increased by 31,800 and full time jobs decreased by 43,300.
- Australian building approvals decreased by 27.6% month-on-month to January, compared to the increase of 15.3% (revised) for December 2022.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 47.7 in February, below consensus for 48 and above below the 47.4 recorded in January. Of the four manufacturing industries that reported growth in Febraury, the top performers were Apparel, Leather & Allied Products; and Transportation Equipment. There were 14 industries that recorded contraction in February compared to January. The ISM Services Index recorded 55.1 in February, above consensus for 54.5 and below the 55.2 recorded in January. Of the 13 services industries that reported growth, the top performers were Agriculture, Forestry, Fishing & Hunting; and Public Administration. There were four industries that reported a decrease in the month of February.
- US Non-Farm Payrolls increased by 311,000 in February, below the 517,000 increase recorded for January. The unemployment rate increased to 3.6% over January, above expectations of 3.4%.
- US GDP second estimate for Q4 2022 is 2.7% quarter on quarter (QoQ) annualised, below expectations of 2.9%.
- The Caixin Manufacturing PMI in China recorded 51.6 in February, above expectations of 50.7, as the manufacturing sector returned to growth over the month.
- The preliminary estimate of the European Core CPI recorded 5.6% over the year to February, above expectations of 5.3%.
- The Eurozone composite PMI increased to 52 in February, below expectations for 52.3.
- The final estimate recorded for Q4 2022 Eurozone seasonally adjusted GDP is 0.0% QoQ and 1.8% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned -2.5%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning -2.3%, while the S&P/ASX Small Ordinaries was the weakest, returning -3.7% over the month.

The best performing sectors were Utilities (3.4%) and IT (2.3%), while the weakest performing sectors were Materials (-6.7%) and Financials (-3.1%). The largest positive stock contributors to the index return were CSL, QBE and Macquarie Group with absolute returns of -0.5%, 10.0% and 1.4%, respectively. In contrast, the most significant detractors were BHP, CBA and NAB with absolute returns of -7.8%, -6.6% and -5.3%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned -1.6% in hedged terms and 2.1% in unhedged terms over the month as the AUD depreciated against most major world currencies. In AUD terms, the strongest performing sectors were IT (4.5%) and Industrials (3.7%), while Real Estate (-1.5%) and Energy (-0.4%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was up by 2.4%, while the MSCI Emerging Markets Accumulation Index was down by 2.3% over February.

Over the month, the S&P500 Composite Index (-2.4%), the Dow Jones Industrial Average (-3.9%) and the NASDAQ (-1.1%) decreased, all in USD terms. In local currency terms, for the major European share markets the FTSE 100 (UK) (1.8%), the DAX 30 (Germany) (1.6%) and the CAC 40 (France) (2.6%) all increased. In Asia, the Chinese SSE Composite (0.7%) and the Japanese TOPIX (0.9%) increased, while the Hong Kong Hang Seng (-9.4%) and the Indian S&P BSE 500 (-2.9%) decreased, all in local currency terms.

Real Assets

The listed real assets sector produced negative returns over February. Over the month, the FTSE EPRA/NAREIT Developed (Global REITs) decreased by 3.6% and the FTSE Global Core Infrastructure 50/50 Index decreased by 3.9% (both in AUD hedged terms). S&P/ASX 300 Industry Group: A-REIT (Domestic REITs) decreased by 0.4% over February, whilst the MSCI/Mercer Australia Core Wholesale Monthly PFI NAV Post Fee (Australian Direct Property) returned 0.2% (on a one month lagged basis).

Fixed Interest

Global bond markets decreased over February, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -1.8% and the FTSE World Government Bond (ex-Australia) Index (Hedged) also returning -1.8%. Ten-year bond yields moved higher over the month, increasing in the UK (49bps to 3.83%), Germany (36bps to 2.61%), the US (39bps to 3.92%) and Japan (28bps to 0.50%). Most two-year bond yields also rose over the month, increasing in Germany (48bps to 3.13%), the UK (24bps to 3.69%) and the US (57bps to 4.85%), while decreasing in Japan (-2bps to -0.04%),

Returns for Australian bondholders were negative over February, with 10-year bond yields increasing (30bps to 3.85%), five-year bond yields (40bps to 3.67%) and two-year bond yields (50bps to 3.67%).

Currency Markets

The AUD Trade Weighted Index decreased to 61.4 over February, down by 1.6% from January. The AUD depreciated against the US Dollar (-4.3%), the Pound Sterling (-2.7%) and the Euro (-2.0%), and slightly appreciated against the Japanese Yen (0.2%).

Commodities

Iron Ore decreased by 2.3%, finishing the month at US$126.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 0.5% over the month. Gold prices decreased by 5.3% at US$1,825.97 per ounce and the oil price decreased by 1.3% to US$83.99 per barrel over February.

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Chart Constituents

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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