Month in Review as at February 2023

Index returns at end February 2023 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	-2.45	0.30	6.37	7.16	7.93	7.90	7.95
S&P/ASX Small Ordinaries TR Index	-3.70	-1.21	-2.01	-7.97	4.24	3.56	4.88
Global Equities							
MSCI World NR Index (AUD)	2.09	-0.65	5.73	-0.48	8.27	10.06	13.59
S&P 500 PR Index (USD)	-2.61	-2.70	0.38	-9.23	10.35	7.91	10.12
FTSE 100 PR Index (GBP)	1.35	4.00	8.13	5.60	6.17	1.72	2.16
MSCI Emerging Markets NR Index (AUD)	-2.28	-1.20	-0.66	-8.84	-0.53	1.01	5.84
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	-0.36	3.34	3.84	-6.38	1.20	6.71	8.44
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	-3.60	0.11	-4.50	-14.29	-2.02	1.96	4.41
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	-1.32	-0.69	0.39	-6.37	-3.44	0.82	2.44
Bloomberg Ausbond Bank Bill Index	0.24	0.76	1.40	1.76	0.66	1.05	1.68
Bloomberg Global Aggregate TR Index (AUD Hgd)	-1.80	-1.04	-2.62	-9.40	-4.05	0.02	2.30

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Key Points

- Equity markets had a challenging month with Australia's S&P/ASX 200 Index retracing by 2.5%.
- Developed markets were slightly mixed with the S&P 500 Index (USD) returning -2.4% and European markets faring better, the FTSE Eurotop 100 Index (EUR) returning 1.5%.
- Asian markets suffered strong losses with the Hang Seng Index (HKD) finishing down -9.4% and the CSI 300 Index (CNY) down -2.1% following last month's strong returns.

Australian equities

The month of February saw the S&P/ASX 200 Accumulation Index finish negatively after its strongest month on record in January. The main driver of the negative performance was the persistently high CPI figures in the US and the evaluation of earnings season in the Australian market. The Utilities (+3.4%) and Information Technology (+2.7%) were the top performers, whilst the Materials (-6.6%) and Financials (-3.1%) sectors were the biggest laggards in the month.

The Utilities and Information Technology sectors led all sectors as several companies reported robust earnings or positive corporate actions (i.e. Origin Energy). In contrast, the Materials and Financials sectors were the worst performers as concerns around the global macroeconomic outlook and policy response, coupled with the evaluation of earnings reports resulted in selloffs within these sectors. Investors continued to grapple with the inflation-driven interest rate outlook facing central banks globally and the implications that this may have on the future economic outlook.

Global equities

Resilient economic data in February resulted in a rise in bond yields and a decrease in equity markets. With renewed inflation concerns, US equities stumbled with the S&P500 declining 2.4% during the month.

The European Central Bank, Bank of England, and Federal Reserve announced rate hikes at the beginning of the month. The overall message from their accompanying statements was that inflation remains excessively high despite recent declines and that central banks must continue their efforts.

Economic data suggesting a postponed recession prompted investors to adjust their forecasts for the peak in interest rates and future rate cuts, given the potential lengthier route to target inflation.

Despite the typical positive correlation between robust economic data and stock market performance, equity markets had priced in anticipated rate cuts and were more dismayed by the possibility of reduced monetary easing than they were encouraged by the delayed recession.

Across the globe, a rebound of consumer confidence helped the Eurozone stay positive with the FTSE 100 returning 1.8% and the DAX 30 returning 1.6%, while the Hang Seng Index fell 9.9% driven by escalating geopolitical tensions.

Property

The S&P/ASX 200 A-REIT Accumulation index sold off in February after a strong start to the calendar year in January, with the index finishing the month -0.4% lower. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also regressed, returning -3.6% for the month. Australian infrastructure performed well during February, with the S&P/ASX Infrastructure Index TR advancing 1.9% for the month.

February was relatively quiet across the A-REIT sector. Some activity includes Centuria Industrial REIT (ASX: CIP) settling a $300mn convertible bond raising. The move enables CIP to secure debt at 3.45-3.95% while the cost of bank debt is 5.5%. The funds raised through this effort will primarily be used to pay off existing debts and for general corporate purposes.

The Australian residential property market experienced no change (0%) month on month in January represented by Core Logic's five capital city aggregate. Melbourne (- 0.4%) and Brisbane (-0.4%) were the worst performers whilst Sydney (+0.3%) advanced during the month for the first time in twelve months.

Fixed Income

In a continued bid to reduce inflation to target levels, the Reserve Bank of Australia has raised the cash rate for a ninth month in a row, with a 25 bps increase announced in February. This brings the current February cash rate to 3.35%. Meeting minutes noted uncertain global outlook, upward surprises on inflation and wages, and the substantial increases in rates so far.

The bond market reflected the rate rise with yields rising over the course of the month. Australian 2Yr and 10Yr Govt Bond yields rose by 49 bps and 30bps, respectively, leading to the Bloomberg AusBond Composite 0+ Yr Index to return -1.3% over the month. The Australian CPI inflation over the year to December 2022 was 7.8%. Globally, fixed income markets were much the same. The US. Federal Reserve announced another 25bps rate rise on February 1, bringing the target cash rate to 4.5%-4.75%. US 2Yr and 10Yr Bond yields rose by 41bps and 69bps respectively. Similarly, U.K. 2Yr and 10Yrs Gilt yields rose by 61bps and 37bps, respectively, following the BoE decision to raise the Bank Rate by 50bps.

Key points

- This month marked the first anniversary of the Russian invasion of Ukraine.
- RBA increased the cash rate by 0.25%, taking it to 3.35%.
- Both the Fed and ECB raised interest rates in response to persistently high inflation.

Australia

The RBA increased the cash rate by 25bps at its February meeting, bring the rate to 3.5%. Annual inflation eased to 7.4% in January, below the predicted 8.1%, suggesting that inflation has peaked as the economy absorbs the record run of interest rate rises. The economy expanded 0.5% in the December quarter, below the anticipated 0.8%, with annualised GDP growth at 2.7%.

The unemployment rate rose to 3.7% in January, above the market estimate of 3.5%. Retail sales rose 1.9%% in January, above the 1.5% estimate, bouncing back from the nearly 4% fall in December.

The Westpac-Melbourne Institute Index of Consumer Sentiment for February fell to 78.5% as cost of living pressures and interest rate rises continue to weigh heavily. Composite PMI rose

to 50.6 in February, returning to expansion after four months of contraction, supported by services activity growth. The NAB business confidence index rose 6 points to 6 in January, approaching its long-run average.

The trade surplus narrowed to $11.7 billion in January, below the market forecasts of $12.5 billion.

Global

February marked the first anniversary of the Russian invasion of Ukraine, with many nations providing military and humanitarian aid to Ukraine. Sanctions were also applied to Russia, which caused supply chain disruptions, especially in the energy sector.

The OECD updated its 2023 outlook, saying the global outlook is slightly better as food and energy prices are substantially lower than at their peaks. Inflation remains a risk, but the organisation expects central banks to continue to monitor this and adjust decisions.

US

The Federal Reserve raise the cash rate by 25bps to 4.75% in February, dialling back the size of the increase for a second straight meeting but still pushing borrowing costs to the highest since 2007.

Non-farm payrolls unexpectedly added 311,000 new jobs in February, well ahead of the 205,000 market forecast, led by gains in leisure and hospitality, retail and profession and business services. The unemployment rate rose to 3.6%, above market expectations of 3.4%.

Consumer confidence came in at 102.9 in February, against the revised reading of 106 in January. Retail sales jumped 3.0% month-on-month in January greater than the expected 1.8% increased, showing consumer spending remains robust after a slowdown last year, amid a strong labour market, wage growth and signs of easing inflationary pressures.
The S&P Global Composite PMI rose to 50.1 in February indicating a broadly stable levels if business in private sector firms. PPI increased 0.7% in January, above the forecast 0.4%with the annual rate increasing to 6.0%. Although this is the lowest number since March 2021, it is above the market forecast of 5.4%.

Balance of trade deficit widened to US$68.3 billion, below expectations and slightly weaker on the December revised result.

Euro zone

The ECB increased the cash rate by 50bps to 3.0% in its February meeting. Markets fully

priced in this increase, with a chance of a similar hike to be delivered in May, after several policymakers backed the idea that rates will have to rise higher and stay higher for some time to bring inflation back to target.

The annual inflation rate came in at 8.5% in February above the expected 8.2%, signalling that inflationary pressure remains high in Europe.

Consumer confidence rose to -19 in February on expectations that inflation has slowed as the energy crises eased thanks to mild weather and the region would be able to avoid a recession this year. Retail sales posted a 0.3% increase in January, below market expectations and after a revised -1.7% in December, with the annual rate coming in at -2.3%. January's unemployment rate came in at 6.7%, unchanged from December and above the market forecast of 6.6%.

The Composite PMI rose to 52.0 in February, pointing to further expansion in private sector business activity, With services activity the principal driver in this upturn.

PPI fell -2.8% in January, more than the expected -0.3% decrease, with the annual rate easing sharply to 15.0% well below the anticipated17.7%.

UK

The Bank of England raised rates by 50bps to 4.0% in February, pushing rates to the highest levels since late 2008 as the it tries to combat high inflation. Inflation eased to 10.1% in January, Below the market forecast of 10.3%. The Bank believes inflation has peaked and projects it to fall to around 8.0%t by mid-2023, and to around 4.0% towards the end of the year. Consumer confidence rose to -38 in February, well above market estimates of -43 and the highest reading in nine months. Retail sales increased 0.5% in January, beating marketing forecasts of-0.3%. The annual rate decreased 5.1%, better than the -5.5% forecast but still pointing to a general trend of decline.

The composite PMI index fell rose to 53.1 in February, signalling a solid increase in private sector output.

PPI rose 0.5% in January, above the market estimate of a 0.1% rise, with the annual rate increasing 13.5%, slightly above the anticipated 13.3%.

China

Economic activity in China expanded sharply for a second straight month, in an early sign the country may be shaking off the impact of pandemic curbs sooner than expected. The IMF upgraded its growth forecast for China to 5.2% in 2023 and predicted that China would contribute around a third of global growth for the year. The annual inflation rate fell to 1.0% in February, below the market forecast of 1.9%, as customers remained cautious despite the

removal of zero COVID policies.

The unemployment rate was level at 5.5% in January.

Composite PMI jumped to 54.2 in February, supported by a renewed rise in manufacturing output and a sharper gain in services activity.

Balance of Trade came in at a $116.88 billion surplus for January-February, far ahead of expectations and up on the previous surplus of $78 billion in December.

Asia region

The Bank of Japan maintained its key short terms interest rate at -0.1% at its February meeting.

Inflation increased 0.4% month on month and 4.3% annually in January, the highest level since December 1981, amid continuing higher prices for imported raw commodities and a weakened yen.

The unemployment rate fell to 2.4% in January, marginally below the 2.5% forecast.

The consumer confidence index in Japan increased marginally to 31.1 in February as the economy recovered further from pandemic disruptions, with households' sentiment strengthening for both income growth and employment. Retail Sales in Japan rose 1.9% in January, far higher than the market consensus of a 0.3% rise, with the annual rate rising 6.3%, topping the market forecast of 4.0%.

The Composite PMI rose to 51.1 in February, with services activity growth accelerated to an eight month high.

Currencies

The Australian dollar (AUD) retreated over the month of February, closing 1.6% lower in trade weighted terms to 61.4. In contrast to January, the AUD depreciated relative to all four major currencies referenced in this update.

Volatility over the month expanded as positive risk sentiment brewing in January reversed. Greater resilience in the global economy coupled with stronger than anticipated economic data have moderated views of an imminent recession. This is somewhat bittersweet news as a lack of economic correction suggests that inflation may be stickier and more difficult for central banks to grapple in the short term.

Relative to the AUD, the US dollar (USD) led the pack in February, appreciating by 4.2%. Conversely, the Japanese Yen (JPY) was the laggard of the month, albeit with a positive relative return of 0.1%. Year-on-year, the AUD remains ahead of the JPY and the Pound

Sterling (GBP) by 9.9% and 3.1% respectively. However now trails both the Euro (EUR) and USD by -1.6% and -6.9% respectively.