ARRIVE
WEALTH MANAGEMENT

MONTHLY MARKET UPDATE

February 2025

THE HIGHLIGHTS

- Market volatility surged in February as the approaching end of Trump's tariff pause on Chinese, Canadian, and Mexican imports unsettled investors. The VIX index hit its highest level this year, driving demand for protection.
- International shares dipped in February, with the US market leading the falls on weakness from the Magnificent 7. China outperformed on renewed policy support.
- Australian shares also stumbled, with cyclical sectors under pressure from inflation fears, rate uncertainty and disappointing earnings.
- Fixed interest markets extended early-year gains as bond yields fluctuated but ultimately fell amid shifting central bank expectations, trade tensions and geopolitical risks.

Key Markets — Trailing Total Returns (%)

Source: Evidentia/Bloomberg

As at 28 February 2025	1 mth	3 mths	6 mths	12 mths	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Australian Shares							
Australian Shares	-3.8	-2.6	2.8	9.9	9.2	8.9	7.5
Australian Small Cap Shares	-2.8	-1.5	5.7	7.3	2.1	5.6	6.5
International Shares							
International Shares (Hedged)	-0.8	0.8	5.6	15.7	9.2	12.0	—
International Shares (Unhedged)	-0.3	5.1	13.6	20.5	14.9	13.6	11.6
Developed Markets Shares (Unhedged)	-0.4	4.9	14.0	21.1	16.0	14.7	12.4
Emerging Markets Shares (Unhedged)	0.8	7.0	9.5	15.3	5.8	5.0	5.9
International Small Cap Shares (Unhedged)	-3.0	-1.4	8.5	12.9	8.8	10.0	9.5
Property & infrastructure							
International Listed Property (Hedged)	1.9	-3.0	-1.9	10.4	-1.9	0.7	2.4
International Listed Infrastructure (Hedged)	1.8	-2.8	1.1	15.8	4.2	4.6	6.0
Fixed Interest & Cash							
Australian Fixed Interest	0.9	1.6	1.2	4.2	0.3	-0.6	1.9
International Fixed Interest (Hedged)	1.2	0.7	1.4	5.0	-0.4	-0.7	1.8
Cash - Bank Bills	0.3	1.1	2.2	4.5	3.4	2.1	2.0

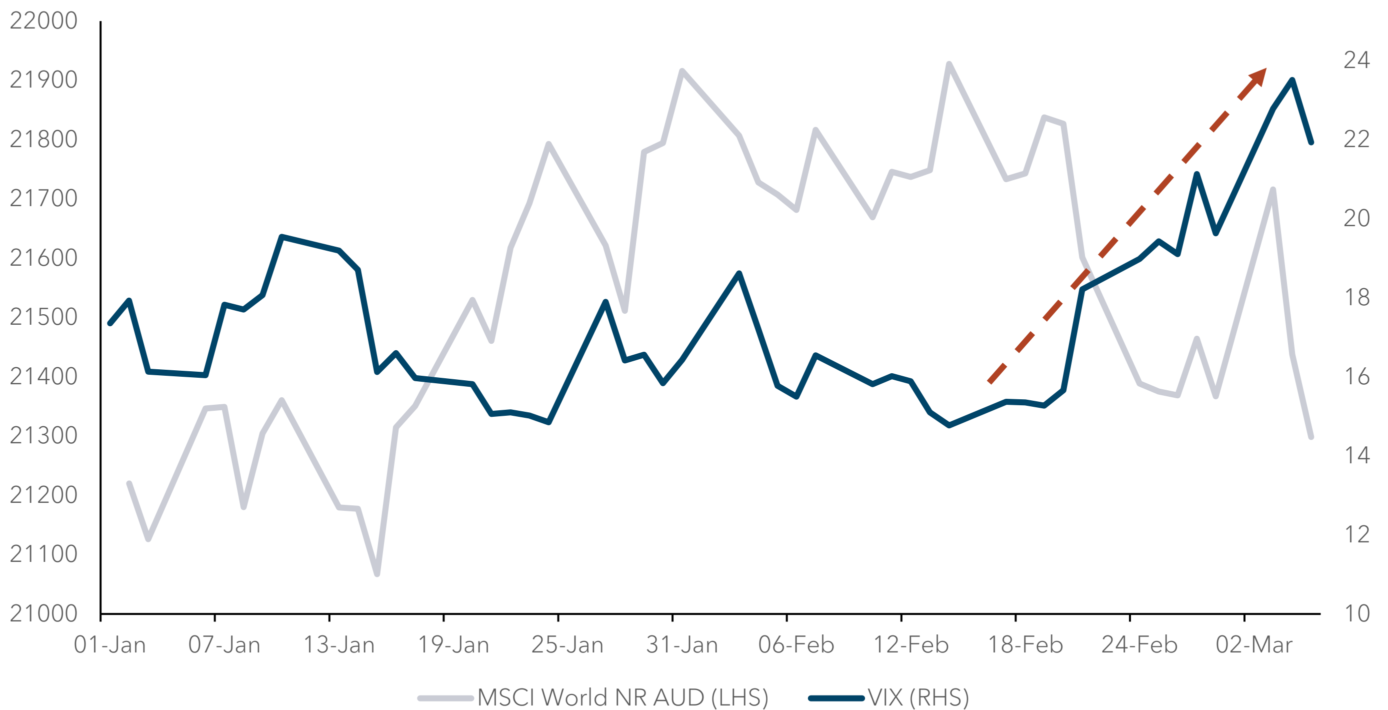
MARKET OBSERVATIONS

Global shares edged lower in February (the MSCI World Index Hedged was down -0.8%), but this modest decline masked growing investor unease. The VIX index, a key measure of market volatility, surged past 20 for the first time this year, reflecting increased demand for downside protection. Shares saw a 3.6% peak-to-trough decline in the latter half of the month, highlighting renewed caution.

Notably, recent market trends reversed sharply — previous high-flyers like the Magnificent 7 fell -8.7%, with consumer discretionary (-7.0%), communication services (-5.3%) and information technology (-2.0%) sectors leading declines. A similar pattern played out in Australia, where recent outperformers, including the big four banks and software company WiseTech, became major detractors. This broadening of market leadership — beyond the Magnificent 7 globally and banks domestically — typically creates a more favourable environment for active managers to generate alpha.

Meanwhile, US 10-year Treasury yields continued to retreat, ending the month at 4.21% after briefly touching 4.80% in January. While falling bond yields generally support equity valuations, the speed of the decline may signal concerns about a faltering US growth outlook. Whether this reflects Trump's tariff rhetoric or normal economic fluctuations remains unclear.

Despite market volatility and uncertainty from the White House, corporate earnings remain strong, supporting a constructive outlook. While we continue to monitor trade developments and economic risks, we believe the current environment warrants a neutral to mildly positive stance on equities.



Source: Evidentia/Bloomberg

ECONOMIC REVIEW

AUSTRALIA

February saw the RBA deliver its first rate cut since 2020, trimming the cash rate by 0.25% to 4.1%. The decision to cut was made easier by a recent softening in inflation data. Month-on-month headline CPI inflation dipped in January, with the annual pace of 2.5% coming in a touch lower than market expectations. This followed an encouraging December quarter reading, where with core CPI inflation — the RBA's preferred measure that excludes volatile items — eased to 3.2%. While this indicates sustainable progress toward the RBA's 2–3% target, the central bank remains cautious about future monetary policy adjustments, with Governor Michele Bullock, stating, "We're going to be data driven on this and I think people just have to be patient."

Although mortgage relief arrived as major banks passed on the rate cut, cost-of-living pressures persist, slowing retail sales growth to 0.3% in January. The labour market remains tight, but there are tentative signs of easing. Wage growth is slowing, and the unemployment rate edged up to 4.1% in January as the number of people wanting to work outpaced the number of jobs created — the participation rate hit a new record high of 67.3%.

US

Inflation softened slightly in January as concerns accelerated over President Trump's tariff plans. Core Personal Consumption Expenditures (PCE) inflation increased 0.3% for the month, taking the annual number to 2.6%, which was a step down from the 2.9% level in December. US job growth picked up in February, with 151,000 new jobs added, well above the monthly growth rate. The Fed has indicated a strong labour market will allow the central bank to keep its benchmark overnight interest rate in the 4.25%-4.50% range as it waits for more progress on inflation, which remains above the 2% goal.

New tariffs on Canada, Mexico and China, along with fresh levies on European auto exports, have heightened trade uncertainty, with potential supply chain disruptions and rising costs for businesses and consumers. While aimed at protecting domestic industries, these measures risk dampening growth and prompting retaliatory actions. Despite these challenges, the US economy remains on stable ground, balancing steady expansion with increasing external pressures.

EUROPE

Core European inflation eased to 2.6% in February, which was slightly above analyst expectations but down from the 2.7% reading in January. However, geopolitical developments are making the inflation outlook highly uncertain at the moment and could eventually impact inflation.

The European Central Bank (ECB) met in early March and as widely expected, announced another interest rate cut of 0.25% to 2.5%, marking its sixth reduction since it started easing monetary policy back in June 2024, amid uninspiring economic growth in the region. With economic growth of only 0.1% in the December 2024 quarter and the unemployment rate steady but high at 6.3%, the ECB will weigh up whether further cuts will be necessary at its next meetings.

ASIA

China's economy still faces deflationary pressure. Core Chinese CPI inflation fell 0.1% in February, the first fall since January 2021, as seasonal demand faded and consumers remained cautious about spending amid job concerns. Beijing vowed greater efforts to boost consumption in the face of an escalating trade war with the US. The People's Bank of China (PBoC) signalled further rate cuts and eased bank reserves to boost lending and consumption in the face of a struggling economy and escalating trade war with the US. A 5% GDP growth target for 2025 was backed by infrastructure investment and rising tech and EV demand.

Japan's economy showed strength as core inflation rose to 3.2% in January, exceeding the 2% target set by the Bank of Japan (BoJ). In response, the BoJ raised rates by 0.25% to 0.5%, the highest since 2008, with further hikes possible.

ASSET CLASS REVIEW

AUSTRALIAN SHARES

Australian shares gave back some of their early-year gains in February, with the heightened global volatility triggered by President Trump's tariff policy announcements and a mixed local reporting season, weighing on the market. The S&P/ASX 200 Index retreated -3.8% for the month, underperforming most major developed markets. Persistent concerns around inflation, interest rates and mixed corporate earnings weighed on local investor confidence, leading to broad-based weakness across sectors. While the broader market struggled, smaller companies demonstrated relative resilience, with the S&P/ASX Small Ordinaries Index declining -2.8%, outperforming their larger-cap counterparts.

Sector performance was broadly negative, though defensive sectors provided some shelter from the ongoing volatility. Utilities (+3.2%) led gains as investors sought stability, while communication services (+2.6%) and consumer staples (+1.5%) outperformed, benefiting from their reliable earnings profiles. High-growth sectors saw the sharpest declines, with information technology (-12.3%) plunging as elevated valuations came under pressure following weaker-than-expected earnings guidance and rising concerns over global demand. Health care (-7.7%) struggled as regulatory headwinds and weaker offshore revenue weighed on sentiment. Real estate (-6.4%) faced selling pressure amid concerns over refinancing costs. Lofty valuations finally caught up with the major banks — the star performers over the past 12 months — with financials (-4.4%) retreating.

What fund managers are saying….

"The number of companies seeing upgrades versus downgrades for out-years was pretty evenly split. As a result of revisions, around 1% has been taken from both consensus FY25 and FY26 overall ASX200 profit expectations. Year-on-year EPS growth for the market now sits at -0.7% for FY25, then accelerating to +8.0% for FY26. The downgrade skew was disproportionately driven by lower-than-expected earnings being factored into some larger-cap names in the Energy, Banks, Health Care and Tech sectors. There was a step-up in stock price volatility in response to earnings results over recent periods. 40% of stocks that reported moved by more than 5% either way – a level not seen since the second half of FY2019 and well ahead of the ~25% average over reporting seasons going back to FY2007.

This is also reflected in a new high for the ratio of a stock's earnings day move versus its thirty-day average daily move. This hit 5x, versus an average of 3x in reporting seasons back to FY2007. Ultimately, the ratio of beats to misses remained just in positive territory. 26% of companies beat consensus EPS expectations by 5% or more, versus 24% that missed. The ASX 100 performed better than the Small Ordinaries in this regard. 23% of ASX 100 companies beat consensus EPS expectations by 5% or more – and 17% missed – while 28% of Small Industrials beat but 28% also missed. 35% of ASX 100 Resources beat and 24% missed, while 23% of Small Resources beat and 38% missed. Dividends provided decent support; 26% of companies beat DPS by 5% or more, versus 20% that missed. Changes to guidance were balanced. 15% of ASX 100 companies upgraded guidance, while 15% also downgraded. In Small Industrials, 12% upgraded and 12% downgraded."

Pendal Group

INTERNATIONAL SHARES

After a strong start to the year, international shares faced a modest pullback in February. The MSCI All Country World Index declined -0.3% in local currency terms, with hedged shares falling -0.8% on a weaker Australian dollar (AUD). Growth concerns outweighed the benefits of lower bond yields (which normally support higher valuations) for international small companies, with the MSCI World ex Australia Small Cap Net Return AUD Index retreating -3.0% for the month.

February saw mixed sector performance, with defensives leading gains while growth-oriented sectors struggled. Consumer staples (+4.5%) outperformed on stability demand, while real estate (+2.8%) rebounded on falling bond yields, and energy (+2.3%) benefited from resilient oil prices. In contrast, consumer discretionary (-7.0%) lagged on weaker retail spending, while communication services (-5.3%) fell on advertising concerns. The sector homes for the Magnificent 7 — information technology (-2.0%), communication services (-5.3%) and consumer discretionary (-7.0%) — led market declines, with the recent reporting season pointing to a potential peak in earnings growth, with worries about tariffs and rising costs adding to the outlook uncertainty for these mega-caps.

China led global markets in February, with the MSCI China Net Total Return Index surging a stellar +11.6% on policy support and tech sector gains. China helped the MSCI Emerging Markets Index edge up +0.8% into positive territory. Europe followed, as the Euro Stoxx 50 Index climbed +3.4% on easing inflation and rate cut optimism. In contrast, the S&P 500 Index fell -1.3%, weighed down by the Magnificent 7 and broader tech sector. Japan lagged, with the Topix Total Return Index dropping -3.8% amid a stronger yen, and policy uncertainty.

International Shares — Trailing Total Returns (%)

Source: Evidentia/Bloomberg

As at 28 February 2025	1 mth	3 mths	6 mths	12 mths	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Local Currency							
Australia	-3.8	-2.6	2.8	9.9	9.2	8.9	7.5
US	-1.3	-1.0	6.1	18.4	12.6	16.9	13.0
Europe	3.4	14.0	10.8	14.8	14.5	13.0	6.9
UK	2.0	6.9	6.5	19.8	9.8	9.8	6.4
Japan	-3.8	0.2	0.0	2.6	15.3	14.9	8.3
China	11.6	15.9	29.3	38.6	0.7	-0.1	2.7
Asia (ex-Japan)	1.3	3.5	4.8	17.3	3.9	6.2	5.5

What fund managers are saying….

"Over the past couple of years, the Magnificent Seven cohort have dominated returns, driven primarily by investor optimism in artificial intelligence and superior earnings growth. But earnings growth is now expected to be more evenly distributed, with the gap between the Mag 7 and the rest of the market on track to narrow over the coming years. We expect this market broadening to benefit those strategies that have the scope to diversify across different parts of the equity market, such as high-dividend companies (with their higher exposure to energy and financials) and minimum-volatility stocks (where valuations are more palatable). We also see tactical opportunities in US small- and mid-cap stocks. Smaller companies tend to be more domestically focused, so they could benefit disproportionately from the new administration's agenda, especially when it comes to corporate tax cuts."

Alliance Bernstein

PROPERTY AND INFRASTRUCTURE

Property and infrastructure extended January's gains as lower bond yields supported sentiment. The FTSE EPRA Nareit Developed Index (Hedged) rose +1.9% on stabilising real estate markets, while the FTSE Global Core Infrastructure 50/50 (Hedged) Index gained +1.8%, driven by strong demand for essential services.

FIXED INTEREST

Fixed interest markets showed their defensive qualities in February, as investors rotated out of risk assets into government bonds, causing yields to fall and bond prices to rise. US Treasuries initially sold off on strong economic data but rebounded mid-month as softer inflation and US tariff concerns drove safe-haven demand. The 10-year US Treasury yield fell -0.33% to 4.21%, while Australia's 10-year Government Bond yield declined -0.14% to 4.29% following the RBA's rate cut and cautious outlook. Global bonds outperformed Australian bonds, with the Bloomberg Global Aggregate Bond Hedged Index gaining +0.5% versus a +0.3% rise for the Bloomberg AusBond Composite 0+ Yr Index.

Credit markets remained resilient despite tariff uncertainty and mixed corporate earnings. Investment-grade credit offered attractive yields, offsetting wider spreads in US credit, while local spreads remained stable. Global investment-grade credit outperformed Australian credit, with the Bloomberg Global Aggregate Credit Total Return Index Hedged AUD gaining +1.1% and the Bloomberg AusBond Credit 0+ Yr Index rising +0.9%. Global high-yield credit also performed well, up +0.8%, as demand for higher yields remained strong.

Fixed Interest — Rates, Yields & Spreads — Source: Evidentia/Bloomberg

As at 28 February 2025	month end	1 mth earlier	3 mths earlier	6 mths earlier	12 mths earlier	10 yr average
Australian Fixed Interest						
Australian RBA cash rate	4.10	4.35	4.35	4.35	4.35	1.83
Australian 10-year government bond yield	4.29	4.43	4.34	3.97	4.14	2.59
Australian corporate composite bond spread	1.05	1.09	1.17	1.30	1.43	1.26
Bloomberg AusBond Comp 0+ Yrs yield	4.27	4.38	4.43	4.12	4.24	2.52
International Fixed Interest						
US Fed funds rate	4.50	4.50	4.75	5.50	5.50	2.01
US 10-year Treasury yield	4.21	4.54	4.17	3.90	4.25	2.51
US corporate bond spread	0.87	0.79	0.78	0.93	0.96	1.21
US high yield bond spread	2.80	2.61	2.66	3.05	3.12	4.15
Bloomberg Global Aggregate yield	3.54	3.66	3.52	3.48	3.80	2.09

What fund managers are saying….

"Financial markets continue to forego momentum, reacting to evolving global policy, both monetary and geopolitical. This led to yet another month of choppy moves, culminating in lower yields by month end. The rise in uncertainty surrounding broad trade policy is hampering business activity, shown by the drop in the global S&P purchasing manager services indices. US consumer confidence is also being tested by domestic uncertainties, which in turn is pressuring belief about future economic growth. Meanwhile, inflation gauges appear to have based offshore. The US Federal Reserve has noted that they are in no hurry to lower policy as a result. This created an environment of risk aversion and lower yields, favouring longer dated tenors."

Janus Henderson

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