Monthly Economic Wrap

February 2024

Summary

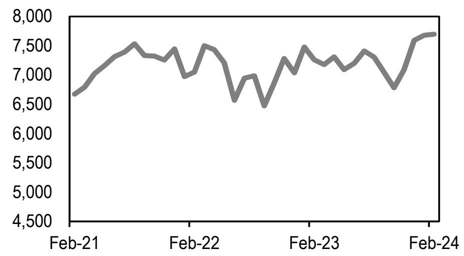
Economic

- S&P's annual global real GDP forecast for 2024 has been revised up from 2.3% to 2.5%. This primarily reflects a significant upward revision to their U.S. forecast, related to unexpectedly strong growth in the final quarter of 2023. Some of that strength is also expected to persist in early 2024. The 2024 growth forecasts for Canada, the eurozone and the U.K. have also been revised higher in February's update, although to a lesser extent.
- Western Europe's growth underperformance is likely to persist in the near term. S&P's global growth forecast remains somewhat higher than market consensus expectations, supported by positive signals in S&P's Purchasing Managers' Index data.

Markets

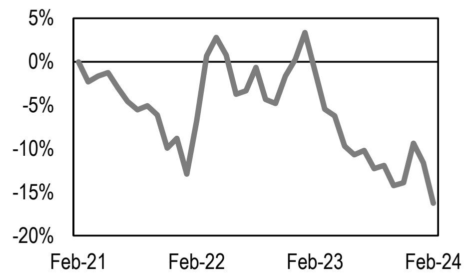
- Share market performance varied for February. The S&P 500 had a great month rising by 5.17%, while the Australian S&P 200 only managed a small gain of 0.23% on a price basis.
- Global shares ex-Australia performed exceptionally well during February, producing a return of 5.9% on an unhedged basis. The result wasn't quite as good for hedged global shares, but they still gained a more than acceptable 4.7%.
- In Australia, Momentum and Equal Weight were the best performing styles for the month, while globally, the best performing styles were Momentum and Growth.
- Within Fixed income markets, Australian government bonds lost ground, while credit was basically flat. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was down 0.3%, while the Bloomberg AusBond Credit 0+ Years Index gained a miniscule 0.05%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained 0.8% for the month of February.

1. S&P/ASX 200 Price Index



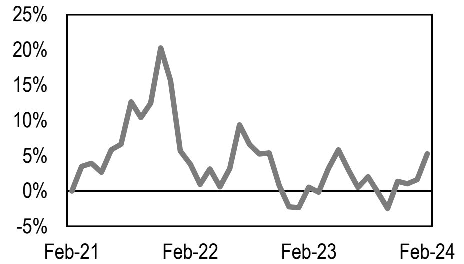
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



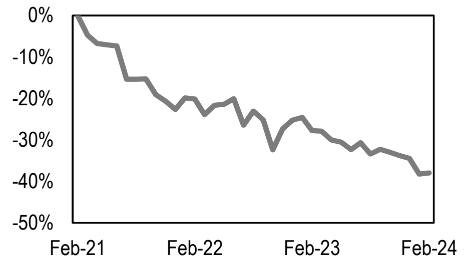
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

4. Emerging markets vs Developed Markets, (In USD)



Source: FactSet, Insignia Financial

Sector and stock returns – February 2024

ASX/S&P 200 Sectors (GICS)				
	Monthly	% ∆	Quarterly	% ∆
▲	Consumer Discretionary	8.17	Consumer Discretionary	17.76
▼	Consumer Staples	-1.17	Consumer Staples	3.73
▼	Energy	-6.76	Energy	1.47
▼	Financials ex Property	-0.04	Financials ex Property	8.14
▲	Financials	2.79	Financials	14.59
▼	Health Care	-2.73	Health Care	10.65
▲	Industrials	2.33	Industrials	7.90
▲	IT	19.48	IT	29.80
▼	Materials	-5.37	Materials	-1.96
▲	Property Trusts	4.54	Property Trusts	16.60
▼	Telecommunications	-1.14	Telecommunications	7.60
▼	Utilities	-0.37	Utilities	-0.49

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks (%)		Bottom five stocks (%)	
Monthly			
Lovisa Holdings Ltd.	+40.9	Strike Energy Limited	-50.0
Altium	+30.4	Corporate Travel Management Limited	-22.6
Wisetech Global Ltd.	+29.4	Healius Limited	-19.9
Reliance Worldwide Corp. Ltd.	+29.2	Neuren Pharmaceuticals Limited	-18.0
CSR Limited	+27.2	Whitehaven Coal Limited	-17.9
Quarterly			
Lovisa Holdings Ltd.	+69.0	Strike Energy Limited	-46.9
Polynovo Limited	+65.8	Sayona Mining Ltd.	-39.4
CSR Limited	+50.4	Nanosonics Limited	-37.0
Megaport Ltd.	+48.7	Evolution Mining Limited	-27.9
Credit Corp Group Limited	+48.3	Healius Limited	-26.0

Source: FactSet, Insignia Financial

Share Markets, Returns

Australian Indices		29 Feb 2024 Price	1M return (%)	30 Nov 2023 Price	3M return (%)
▲	S&P/ASX 200	7699	0.23	7087	8.63
▲	All Ordinaries	7960	0.59	7298	9.07
▲	Small Ords	2999	1.46	2739	9.50
US Indices					
▲	S&P 500	5096	5.17	4568	11.57
▲	Dow Jones	38996	2.22	35951	8.47
▲	Nasdaq	16092	6.12	14226	13.11
Asia Pacific Indices					
▲	Hang Seng	16511	6.63	17043	-3.12
▲	Nikkei 225	39166	7.94	33487	16.96
UK & Europe Indices					
▼	FTSE 100	7630	-0.01	7454	2.36
▲	CAC40	1499	4.80	1363	9.91
▲	DAX Index	17678	4.58	16215	9.02

Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial
Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends.

Apart from a standout exception (Hang Seng: -3.12% as Chinese economic stagnation weighed on prices), equity markets continued to enjoy positive momentum into 2024. The Central Banks including the U.S. Fed and The European ECB appear to have managed investor expectations of the timing and number of interest rate cuts in 2024. Investors have amended their expectations from as many as 6-7 cuts starting as early as March to three cuts starting in June. Central Banks and investors will be watching economic data and inflation numbers very closely in the coming months.

22 February 2024 marked a long-awaited day for the Japanese investment history books. After 34 years, the Nikkei 225 extended its rally and finally surpassed its previous high back in December 1989.

Nikkei 225 Index : Feb 1984 – Feb 2024

Source: tradingview.com. Accessed 15/02/2024

Returns to 29 Feb 2024	1-mth	3-mth	6-mth	1-yr
MSCI World Index	4.6%	11.0%	12.9%	25.7%
Value	2.8%	8.6%	9.6%	13.7%
Value-Weighted	3.1%	9.1%	11.1%	18.6%
Momentum	9.6%	20.7%	24.3%	32.6%
Growth	6.4%	13.3%	16.0%	38.1%
Quality	6.1%	14.4%	16.5%	39.5%
Low volatility	1.5%	6.3%	7.6%	14.1%
Equal weight	3.0%	8.5%	8.5%	14.0%
Small caps	4.1%	10.4%	8.7%	11.9%

Source: FactSet, Insignia Financial, MSCI

Momentum as a factor was exceptionally strong again in February, extending its lead over the next strongest factors Growth and Quality. Value and low Volatility who were 2022's best capital protectors have been left behind across all time frames over the past 12 months.

Interestingly, the Small Cap category has outperformed 4 other sub-categories over 1 and 3 months. Small caps have been unloved during the risk off environment of 2022 and most of 2023, as the large cap "Magnificent 7" led the market higher. This has created an attractive discount, with many of these small and mid-cap companies already priced as if a recession is underway. History suggests that productive assets that are discounted and ignored by markets often turn out to perform well in the future.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index rose 0.2% in February, while the larger cap MSCI Australia index (58 stocks) rose 1.0%.

Returns to 29 Feb 2024	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	1.0%	10.3%	9.0%	12.6%
Value	-1.0%	8.1%	8.1%	11.4%
Value-Weighted	0.2%	9.4%	8.5%	12.5%
Momentum	3.3%	12.2%	12.8%	15.4%
Growth	2.8%	12.3%	9.7%	13.7%
Quality	1.1%	10.8%	9.4%	16.8%
Low volatility	1.3%	10.2%	9.2%	13.3%
Equal weight	2.9%	11.3%	7.2%	12.7%
Small caps	2.1%	9.3%	4.1%	7.0%

Source: FactSet, Insignia Financial, MSCI

Momentum and Growth lead the Australian MSCI sub-categories over the 1 and 3 months. The breadth of performance was superior to our overseas counterparts, as we see Equal Weight and Small Caps sub-categories enjoy robust performance during February. Similar to global small caps, the Australian small caps are trading at an attractive discount to larger cap stocks, which may be starting to entice investors.

Fixed Income

	Fixed Income	29 Feb 2024 Yield	1M mvt (bps)	30 Nov 2023 Yield	3M mvt (bps)
	Australian Cash rate	4.35	--	4.35	--
▲	10-year Bond Yield	4.14	0.12	4.41	-0.27
▲	3-year Bond Yield	3.71	0.13	4.01	-0.31
▲	90 Day Bank Accepted Bills SFE-Day	4.53	0.08	4.68	-0.15
▲	US 10-year Bond Yield	4.24	0.29	4.36	-0.11
▲	US 3-year Bond Yield	4.42	0.42	4.46	-0.03
▼	US Investment Grade spread	1.25	-0.04	1.40	-0.15
▼	US High Yield spread	3.12	-0.32	3.70	-0.58

Source: FactSet, Insignia Financial

Australian bond market

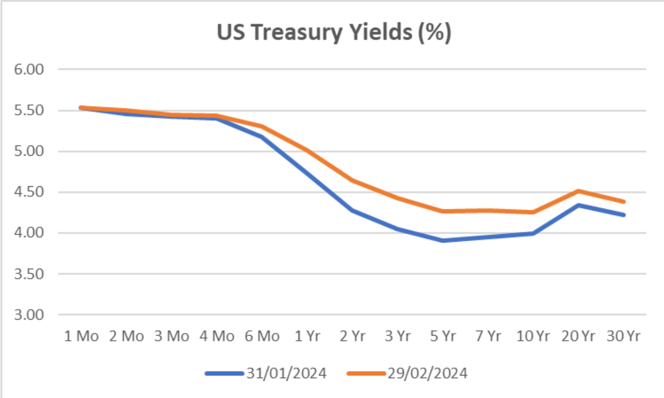
February saw small increases in Australian Bond yields. This resulted in the main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index losing 0.3%. Australian yields compared to the recent past, didn't move too much during February, with the short end (3-year) of the curve rising by 13 basis points. At the long end of the curve, the 10-year yield rose by 12 basis points.

Australian corporate bonds were basically flat for the month, with the Bloomberg AusBond Credit 0+ Years Index gaining just 0.05%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of February was basically unchanged from January at approximately 4.2%, with the index having around 5 years duration.

Global bond markets

During February, U.S. Government bond yields generally increased. As can be seen in the following chart, the U.S. yield curve rose fairly significantly for any maturities of greater than about 6 months. The short end of the curve only moved a very small amount, with the 1-month maturities unchanged and the 2 to 4-month maturities rising by only 3 to 4 basis points.



Source: U.S. Department of the Treasury, accessed 07/03/2024

Government bond yields rose in February, meaning prices declined. The market continued to anticipate interest rate cuts, although not immediately, as labour markets remained strong and inflation data surprised to the upside.

Major global government bond market yields increased across the board, with the U.S. 10-year yield rising by 29 basis points to 4.24% and the German 10-year yield by 24 basis points to 2.40%. The U.K. market lagged behind, with the 10-year yield increasing by 32 basis points to 4.12%.

Uncertainty surrounding the U.S. inflation outlook led the market to dial back some of its enthusiasm for immediate rate cuts. January's consumer price index rose more than expected, driven mainly by the shelter component. The core measure registered the largest increase since April 2023. This data, in addition to January's robust labour market report and concerns over wage pressure reacceleration, were sufficient catalysts for yield increases.

Currencies

Currency		29 Feb 2024 Price	1M return (%)	30 Nov 2023 Price	3M return (%)
▼	$A vs $US	0.65	-1.04	0.66	-1.62
▼	$A vs GBP	0.51	-0.52	0.52	-1.60
▲	$A vs YEN	97.46	0.97	97.89	-0.44
▼	$A vs EUR	0.60	-0.96	0.61	-0.88
▼	$A vs $NZ	1.07	-0.59	1.07	-0.53
▲	$US vs EUR	0.93	0.10	0.92	0.78
▲	$US vs CNY	7.19	1.25	7.13	0.83
▲	$US vs GBP	0.79	0.51	0.79	0.00
▲	$US vs JPY	149.98	2.08	148.20	1.20
▲	$US vs CHF	0.88	2.69	0.88	1.06
▲	US Dollar Index	104.16	0.85	103.50	0.64

Source: Bloomberg, Insignia Financial

February saw another month of USD strength, as it continued its rebound into the second month of 2024. The thematic driving currencies is "when and by how much will the U.S. cut its rates relative to other central banks". Investor expectations have been managed by the Federal Reserve and other developed economy banks from early and many rate cuts in 2024 to current expectations of three cuts potentially starting in June.

The AUD's movement was influenced by changes in expectations of interest rate differentials. Investors reversed expectations that developed economies, especially, would be potentially cutting as early as March, which would have reduced the amount the Australian official interest rates lag other countries.

The expectations for the Japanese Yen have moved downwards from moving up to 0.0% and away from negative rates (currently -0.1%) to potentially no movement. While this change in movement is small, the directional change retains the negative carry for anyone buying or holding Japanese Yen.

USD/JPY: 31 Oct 2023 – 29 Feb 2024

Source: tradingview.com. Accessed 13/02/2024

Commodities

Commodity		29 Feb 2024 Price	1M return (%)	30 Nov 2023 Price	3M return (%)
▼	Aluminium	2163	-3.09	2158	0.25
▼	Copper	8389	-1.46	8332	0.68
▲	Nickel	17435	8.49	16335	6.73
▼	Zinc	2382	-6.64	2478	-3.87
▼	Crude Oil - Brent	81.95	-1.24	81.72	0.28
▼	Natural Gas	1.86	-11.43	2.80	-33.62
▲	Metallurgical Coal	131	10.92	132	-0.87
▼	Thermal Coal	125	-11.93	142	-12.12
▼	Iron Ore	124.86	-7.60	130.46	-4.29
▲	Gold	2044	0.20	2037	0.36
▼	Silver	23	-1.18	25	-10.29

Source: Bloomberg, Insignia Financial

On average, commodities were weaker in February, however, part of this is USD strength, but the USD only rose 1% against the AUD and 0.85% against its trading partners. From an AUD perspective, we see negligible change in Copper, Brent Crude and Silver.

Natural gas continued its price slide in February. The price weakness was mainly due to a lack of new buying and an extension of momentum in short selling. The U.S. Energy Information Administration (EIA) expect inventories at the end of this winter to remain 15% above the previous 5-year average. The last few days of February saw a bit of an uptick in pricing from its low of $1.60. This could represent price resistance as the level is near the most recent lows of June 2020 ($1.54) or it could be a temporary pause as short sellers take profits near month end.

Natural Gas Price: 31 Oct 2023 – 29 Feb 2024

Source: tradingview.com. Accessed 13/02/2024

Australia

The economy is a mix of easing and resilience. The Composite and Services PMIs showed the first month of expansion in 5 months. The CPI Indicator continues to ease despite quarterly wage data still being "sticky". Unemployment continues to edge up, but remains tight relative to pre-COVID levels. Consumer spending rebounded broadly across retail stores again, reflecting just how influential Black Friday bargains are on holiday spending.

Monetary Policy

As expected, the RBA kept rates unchanged at 4.35% in February. Cost pressures continued to ease, but prices of services were not easing quickly enough.

Inflation

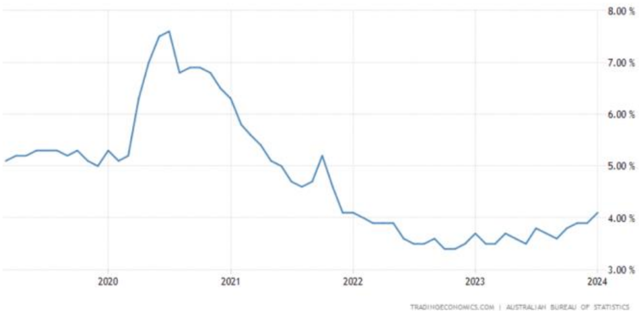
The Monthly CPI Indicator came in at 3.4% for the year to January, unchanged from December and less than forecasts of 3.6%. Slower increases in transport prices (3.0% v 3.6% in Dec) and housing (4.6% v 5.2%) helped. As did continued price deflation in recreation & culture (-1.7% v -2.4%). Food prices accelerated (4.4% v 4.0%) and prices rebounded for furniture, household equipment & services (0.3% vs -0.3%), and clothing & footwear (0.4% v -0.8%). Excluding volatile items & travel, the metric came in at 4.1% p.a. for January, down from a 4.2% p.a. gain in December.

Wages continues to show resilience as the seasonally adjusted wage price index increased by 4.2% YoY in Q4 of 2023, exceeding both forecasts and Q3's 4.1%. It marked the highest reading since Q1 of 2009. The main contributors to the rise were healthcare & social assistance (5.5%), education & training (4.8%), administrative & support services (4.5%), and retail trade (4.3%). On a quarterly basis, wage prices advanced by 0.9%, slowing from a 1.3% growth in Q3.

Labour Market

Australia's unemployment rate increased to 4.1% in January from 3.9% in December and above forecasts of 4.0%. The number of unemployed individuals climbed by 22.3k to 600.6k, with those seeking full-time jobs rising by 24.8k, while those looking for part-time jobs decreased by 2.5k. Employment rose by 0.5k to 14.20m missing the forecast of +30k. Full-time employment advanced by 11.1k, while part-time employment declined by 10.6k. The participation rate was unchanged at 66.8%, compared to expectations of 66.9%, and after a record high of 67.3% last November.

Unemployment Rate 5 Years to January 2024.

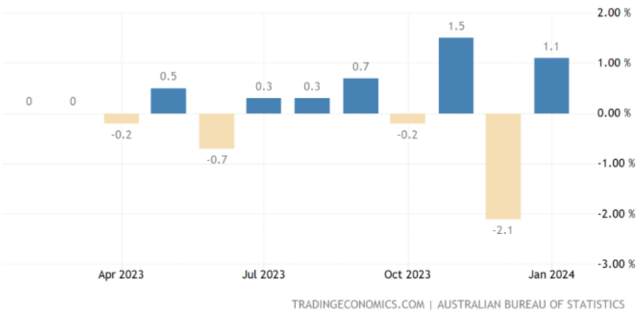


Source: tradingeconomics.com, ABS, Accessed 04/03/2024

Retail Sales

Retail sales in Australia increased by 1.1% MoM in January, reversing from a 2.1% fall in December, but missing consensus of +1.5%. All retail industries rose after holiday shopping was impacted by Black Friday sales in November. Sales of clothing, footwear & personal accessory retailing bounced back (2.4% vs -5.4% in Dec), along with those of household goods retailing (2.3% vs -8.2%) and department stores (1.7% vs -6.5%). For the year to January, retail turnover grew by 1.1%, accelerating from 0.8% p.a. in December, the softest since August 2021.

Retail Sales MoM: Jan 2023 – Jan 2024



Source: tradingeconomics.com, ABS, Accessed 05/03/2024

Purchasing Managers Index

The Judo Bank Australia Composite PMI rose to 51.8 in February from 49 in January. This marked the first month of expansion of the private sector in five months.

The Judo Bank Flash Australia Services PMI Business Activity Index rose to 52.8 in February, up from 49.1 in January. The return to growth was driven by a renewed rise in incoming new business, and export business increasing marginally. Australian service providers hired staff to manage increased workloads. However, higher increased labour and input material costs were seen.

United States

Job openings went down by 26,000 from the previous month to 8,863 million in January 2024, the lowest in three months and below the market consensus of 8.9 million. Headline inflation for February is expected to be the same as January's figure.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. fell by 0.4% in January 2024 to 102.7 (2016=100), following a 0.2% decline in December 2023. The LEI contracted by 3.0% over the six-month period between July 2023 and January 2024, a smaller decrease than the 4.1% decline over the previous six months.

"The U.S. LEI fell further in January, as weekly hours worked in manufacturing continued to decline and the yield spread remained negative," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "While the declining LEI continues to signal headwinds to economic activity, for the first time in the past two years, six out of its ten components were positive contributors over the past six-month period (ending in January 2024). As a result, the leading index currently does not signal recession ahead. While no longer forecasting a recession in 2024, we do expect real GDP growth to slow to near zero percent over Q2 and Q3."

Labour Market

The number of job openings went down by 26,000 from the previous month to 8,863 million in January 2024, the lowest in three months and below the market consensus of 8.9 million. During the month, job openings decreased in retail trade (-170,000), transportation, warehousing, and utilities (-66,000), durable goods manufacturing (-48,000), construction (-21,000), private educational services (-41,000) and government (-105,000). On the other hand, job openings increased in non-durable goods manufacturing (+82,000). Regarding regional distribution, job openings fell in the South (-12,000), the Midwest (-19,000), and the West (-52,000), but rose in the Northeast (+58,000).

The unemployment rate in the United States rose by 0.2% to 3.9% in February 2024, touching the highest level since January 2022 and surpassing market expectations of 3.7%. The number of unemployed people increased by 334,000 to 6.5 million. The labour force participation rate was 62.5% for the third consecutive month, and the employment-population ratio was little changed at 60.1%.

Inflation

According to the U.S. Bureau of Labor Statistics, the annual inflation rate in the U.S. likely steadied at 3.1% in February 2024, the same as in January, holding at 2021-lows. Compared to the previous month, consumer prices are expected to rise 0.4%, slightly higher than 0.3% in January. On the other hand, the annual core inflation is expected to slow slightly to 3.7%, which would be the lowest reading since April 2021, compared to 3.9% in January. The monthly core inflation rate likely edged down to 0.3% from 0.4%.

Interest Rates / Fed Policy

The benchmark interest rate in the United States is at 5.50%. The fed funds rate is likely at its peak for this tightening cycle, and it will likely be appropriate to begin dialling back policy restraint at some point this year, although only when there is greater confidence that inflation is moving sustainably toward 2%, according to remarks from Fed Chair Powell in his semi-annual Monetary Policy Report to the Congress.

Powell reinforced that the economic outlook is uncertain, and ongoing progress toward the 2% inflation objective is not assured and there are risks of reducing policy restraint either too soon or too late. As a result, the Fed will continue to assess the incoming data, the evolving outlook, and the balance of risks to make any adjustments to the fed funds rate. On the economic front, Powell noted that labour market tightness has eased, and inflation has diminished substantially, although it remains above the target.

China

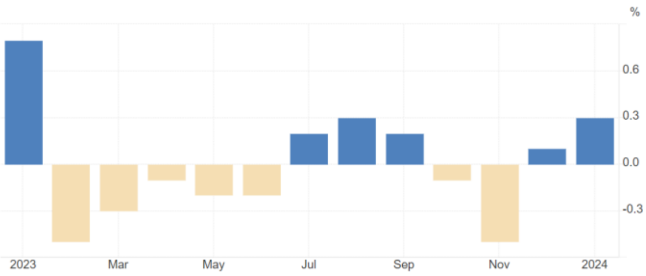
China's Central Bank (PBoC) reduced its mortgage benchmark rate and injected CNY 1 trillion into the banking system in an endeavour to support its economy. Year on Year Inflation has been in negative territory for the 4th straight month and is now the biggest yearly decline in more than 14 years. House prices continue to decline reflecting the influence of the property crisis on the biggest part of consumer wealth and weighing on economic activity.

Monetary Policy

The PBoC cut its rate for mortgages, the 5-year loan prime rate by -0.25% to 3.95% in February, more than the forecast of -0.15%, as the board ramped up efforts to spur credit demand and reverse a property downturn. The 1-year rate, the benchmark for non-mortgage lending was retained at 3.45%. The PBoC also released CNY 1 trillion of liquidity into the banking system by trimming the Reserve Ratio Requirements (RRR) for commercial banks by 0.50% and reducing interest rates on re-lending funds aimed at promoting loans to agricultural and small firms.

Inflation

Inflation (MoM) Jan 2023 – Jan 2024

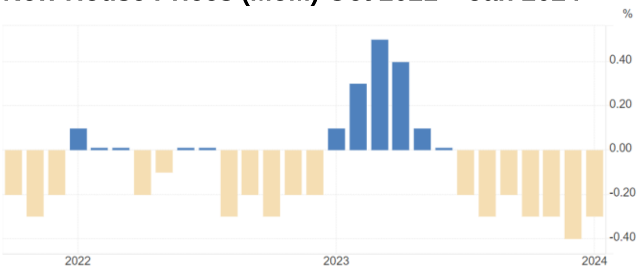


Source: Tradingeconomics.com, NBS China, Accessed 08/03/2024

China's consumer prices fell by 0.8% YoY in January, the most in more than 14 years and worse than market forecasts of a 0.5% fall. It was the fourth straight month of decline in CPI, the longest streak of decline since October 2009. Food prices declined at a record pace (-5.9% vs -3.7% in Dec). Meanwhile, non-food inflation was down to 0.4% (vs 0.5%). Transport prices declined more quickly (-2.4% vs -2.2%) and price inflation eased for health (1.3% vs 1.4%) and education (1.3% vs 1.8%), more than offsetting continuing cost increases for clothing (1.6% vs 1.4%). Core consumer prices, which exclude prices of food and energy, increased by 0.4% YoY in January after a 0.6% gain in the prior three months. Monthly, both the CPI and core CPI rose by 0.3%.

Housing

New House Prices (MoM) Oct 2021 – Jan 2024



Source: Tradingeconomics.com, NBS China, Accessed 08/03/2024

China's new home prices declined by 0.7% year-on-year in January, steeper than a 0.4% fall in December. Monthly, new home prices fell by 0.3% in January, after a 0.4% decrease in December, which was the deepest fall since February 2015.

Economic Activity – Purchasing Managers' Index

The Caixin China General Composite PMI stood at 52.5 in February, the same as January, as an improvement in the Manufacturing PMI offset a moderation in the Services PMI.

The Caixin China General Manufacturing PMI was up to 50.9 in February from 50.8 in the prior two months and beating market estimates of 50.6. It was the fourth straight month of growth in factory activity, in contrast with official data that showed an extended decline. Output rose as new order growth accelerated and foreign sales expanded. Meanwhile, employment was subdued amid efforts from companies to reduce costs and enhance efficiency. However, input prices rose at the weakest rate in seven months and firms cut their selling prices slightly for the second month in a row due to efforts to stimulate new demand.

The Caixin China General Service PMI moderated for to 52.5 in February from 52.7 in January. It was the 14th straight month of expansion in services activity, but a subdued increase in overall new work weighed on the data. New order growth was little changed and remained slower than 2023's monthly average. Employment fell with the rate of job shedding being the quickest seen in over a year, due to subdued demand conditions. On the price side, input prices rose pushing output prices up by the quickest pace since May 2023.

Europe

According to Eurostat, the unemployment rate in the Euro Area edged lower to 6.4% in January 2024, the lowest on record, matching market forecasts. The inflation rate in the Euro Area fell to 2.6% year-on-year in February 2024, down from 2.8% the previous month. Meanwhile, core inflation declined again, but remained above forecasts.

Growth / Economic Activity

According to the European Commission, this Winter interim Forecast lowers the growth outlook for this year and sets inflation on a lower downward path than projected last autumn. Economic activity in 2023 is now estimated to have expanded by only 0.5% in both the EU and the euro area. The growth outlook for 2024 has been revised down to 0.9% in the EU and 0.8% in the euro area. In 2025, economic activity is still expected to expand by 1.7% in the EU and 1.5% in the euro area. EU HICP inflation is forecast to fall from 6.3% in 2023 to 3.0% in 2024 and 2.5% in 2025. In the euro area, it is projected to decelerate from 5.4% in 2023 to 2.7% in 2024 and to 2.2% in 2025.

Last year's modest growth largely owes itself to the momentum of the post-pandemic economic rebound in the previous two years. Already towards the end of 2022, the economic expansion came to an abrupt end and activity has since been broadly stagnating, against the background of falling household purchasing power, collapsing external demand, forceful monetary tightening and the partial withdrawal of fiscal support in 2023. The EU economy thus entered 2024 on a weaker footing than previously expected. After narrowly avoiding a technical recession in the second half of last year, prospects for the first quarter of 2024 remain subdued.

Inflation

The consumer price inflation rate in the Euro Area declined to 2.6% year-on-year in February 2024, down from 2.8% in the previous month, but remaining slightly above market expectations of 2.5%, a preliminary estimate showed. It was the lowest rate in three months, but still exceeded the European Central Bank's target of 2%. Energy prices saw a decline of 3.7% (vs -6.1% in January), while the pace of price rises moderated for services (3.9% vs 4.0%), food, alcohol & tobacco (4.0% vs 5.6%), and non-energy industrial goods (1.6% vs 2.0%). The core rate, excluding volatile food and energy prices, also cooled to 3.1%, reaching its lowest point since March 2022, but also remaining above forecasts of 2.9%. On a monthly basis, consumer prices increased by 0.6% in February, following a 0.4% drop in January.

Labour Market

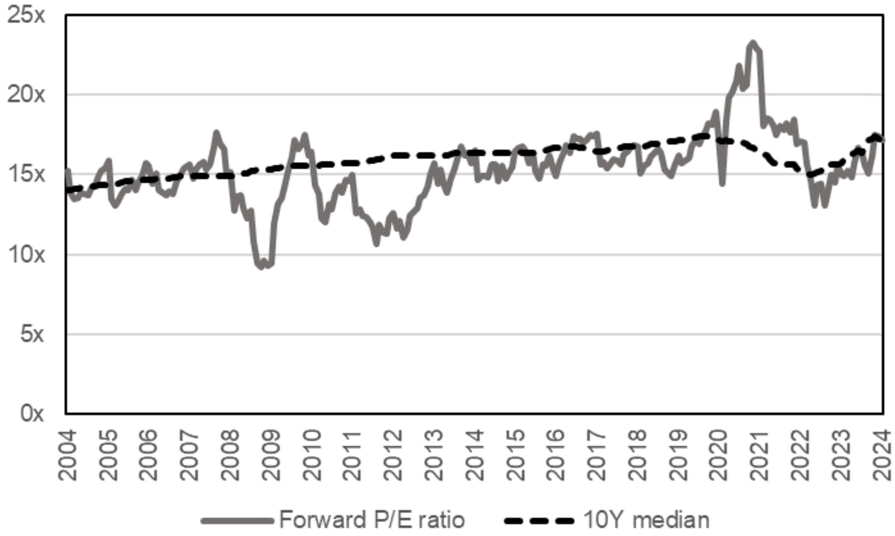
According to Eurostat, the unemployment rate in the Euro Area edged lower to 6.4% in January 2024, the lowest on record, from 6.5% in December, matching market forecasts. The number of unemployed individuals declined by 34,000 from the prior month to 11,009 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, was unchanged at 14.5%. Across the major Euro Area economies, Spain continues to report the highest jobless rate at 11.6%, followed by France at 7.5% and Italy at 7.2%. In contrast, Germany recorded the lowest rate at 3.1%.

Policy

The European Central Bank maintained its interest rates at historically high levels during its March meeting, as policymakers balanced concerns over a looming recession with persistently elevated underlying inflationary pressures. The main refinancing operations rate remained at a 22-year pinnacle of 4.5%, with the deposit facility rate unchanged at an unprecedented 4.0%. Meanwhile, the ECB has projected inflation to average 2.3% in 2024 (compared to 2.7% in December projections), 2.0% in 2025 (compared to 2.1%), and 1.9% in 2026. The core rate is expected at 2.6% in 2024 (compared to 2.7%), 2.1% in 2025 (compared to 2.3%), and 2.0% in 2026 (compared to 2.1%). The ECB has also revised its growth projection for 2024 downward to 0.6%, anticipating continued subdued economic activity in the near future. However, they foresee a subsequent uptick in growth, with the economy expected to expand by 1.5% in 2025 and 1.6% in 2026.

Market valuations (Forward P/E vs 10Y median Forward P/E)

Australian Shares Forward P/E – spot vs trailing 10Y median (February-14 to February-24)



Sources: FactSet, MSCI, S&P (February 2024)

Australian Shares based on the S&P/ASX 200 Index.

Performance as of 29 February 2024

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	0.8%	9.4%	7.4%	10.6%	9.3%	8.6%	8.6%	8.0%	10.3%	8.8%
	Australia - mid cap	5.3%	10.1%	3.0%	8.3%	9.0%	10.4%	10.4%	11.3%	12.0%	9.8%
	Australia - small cap	1.7%	10.1%	6.9%	7.8%	1.4%	4.4%	6.5%	6.1%	7.7%	5.6%
	Australia - micro cap	5.1%	6.1%	-0.2%	-3.2%	1.4%	11.0%	8.1%	7.8%	8.4%	5.4%
	World ex Australia	5.9%	12.7%	11.9%	29.8%	15.2%	13.8%	13.5%	12.7%	12.5%	8.8%
	World ex Australia (Hedged)	4.7%	10.0%	11.1%	22.2%	7.0%	9.6%	9.3%	9.3%	13.0%	8.8%
	World - small cap	4.9%	12.2%	6.5%	12.5%	6.7%	8.9%	9.7%	9.9%	12.6%	8.9%
	Emerging Markets	6.3%	5.7%	4.4%	12.6%	-0.7%	3.7%	6.2%	6.3%	7.3%	7.3%
Property & Infrastructure	A-REITS	5.1%	18.7%	13.4%	16.1%	10.4%	5.8%	6.7%	9.3%	11.5%	5.9%
	Global REITs	0.9%	6.3%	2.7%	4.0%	4.5%	1.6%	3.8%	6.0%	9.1%	-
	Global REITs (hedged)	-0.2%	4.3%	2.6%	-0.1%	-0.6%	-0.8%	1.0%	3.7%	10.2%	-
	Global infrastructure	2.2%	4.4%	3.2%	6.4%	10.3%	5.5%	7.6%	8.8%	-	-
	Global infrastructure (Hedged)	1.0%	2.5%	3.2%	1.0%	4.0%	2.9%	4.6%	6.4%	10.8%	-
Fixed income	Australia Total Market	-0.3%	2.6%	2.1%	3.5%	-1.4%	0.3%	1.5%	2.5%	3.6%	4.4%
	Australia government bonds	-0.4%	2.6%	2.0%	3.1%	-1.7%	0.1%	1.3%	2.4%	3.5%	4.3%
	Australia corporate bonds	0.0%	2.6%	3.1%	5.7%	0.0%	1.8%	2.6%	3.3%	4.6%	5.0%
	Australia floating rate bonds	0.5%	1.5%	2.7%	5.2%	2.5%	2.3%	2.5%	2.7%	3.8%	4.1%
	Global Total Market (Hedged)	-0.8%	1.9%	2.3%	3.9%	-2.8%	0.1%	0.8%	2.3%	4.3%	4.9%
	Global government bonds (Hedged)	-0.6%	1.7%	2.1%	3.7%	-2.7%	-0.1%	0.8%	2.3%	4.0%	-
	Global corporate bonds (Hedged)	-1.2%	2.2%	3.3%	5.0%	-3.3%	0.6%	1.2%	2.7%	5.8%	-
	Global high yield bonds (Hedged)	0.8%	4.5%	6.7%	10.2%	0.1%	1.9%	2.5%	4.0%	9.8%	7.7%
Cash	Bloomberg AusBond Bank Bill Index	0.3%	1.1%	2.1%	4.1%	2.0%	1.5%	1.6%	1.8%	2.5%	3.4%

Sources: FactSet, Lonsec

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index