Market Commentary

BlackRock.

February 2024

Market Overview

Global equity markets continued to rally strongly over February, alongside positive corporate earnings and bullish sentiment regarding artificial intelligence (AI). However, sovereign bond yields broadly rose as investors pushed out the timing and magnitude of central bank rate cuts – resulting in negative returns for most fixed income asset classes. Global equities, as measured by the MSCI World Index (hedged), ended the month up 4.6% in Australian dollar terms, while Fixed Income markets, as represented by the Bloomberg Barclays Global Aggregate Index (hedged), declined 0.8%.

United States

In the US, the S&P 500 Index rose by 5.3% in February (in local currency terms), to reach new highs with the Magnificent Seven (namely Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) driving overall market returns. Strong earnings results for Q4 2023 underpinned sentiment and saw investors downplay US core inflation, which printed above consensus at 3.9% annualised for January. In a closely-watched release, US chipmaker, Nvidia, significantly beat lofty earnings forecasts driven by strong growth in its AI-related businesses. On the other hand, meeting minutes by the US Federal Reserve (Fed) struck a hawkish tone and showed most participants worried about acting “too quickly to ease the stance of policy” – implying the Fed sees greater risks of inflation remaining sticky above their target. As a result, markets priced out their expectations of rate cuts this year and now reflect a more muted easing cycle in 2024.

Europe

European equities, as represented through the Euro Stoxx 50 Index, gained 5.0% over the month (in local currency terms), benefitting from the AI-fuelled rally and expectations that interest rates have peaked in the region. With the majority of European companies having now reported their earnings for Q4 2023, most missed expectations with earnings down 13% year-on-year. The European Central Bank’s (ECB) January meeting minutes also underscored unease over premature easing, citing that the risk of cutting policy rates too early outweighed that of cutting rates too late. Markets continued to dial back expectations of ECB rate cuts after inflation fell less than expected in February at 2.6% year-on-year.

In the UK, the FTSE 100 Index underperformed its developed market peers and gained 0.5% over the month (in local currency terms). Britain slipped into technical recession as the economy contracted 0.3% during Q4 2023, recording two consecutive quarters of negative economic growth. This places the UK as the weakest performer among the G7 economies alongside Germany. Subsequently, the Bank of England’s (BoE) Governor, Andrew Bailey, noted that inflation does not need to fall to the BoE’s target of 2% before cutting interest rates. UK inflation steadied in January at an annualised rate of 4.0%, which was unchanged from December.

Asia

China’s CSI 300 Index rose sharply over February (in local currency terms) to gain 9.4%, outperforming most other major markets, after struggling in 2023. Chinese equities bounced across the period after a slew of policy announcements and reports that President, Xi Jinping, will discuss the nation’s stock market with financial regulators. However, policymakers appear to be sticking to targeted easing measures rather than aggressive stimulus to address sluggish sentiment. China’s main onshore index remains near a five-year low as ongoing property concerns, geopolitical risks and sluggish growth continue to remain headwinds. Earlier in the month, inflation for January declined 0.8% year-on-year which was the biggest drop since 2009 and underscored that deflationary pressures remain persistent in China.

Japanese equities, as represented by the Nikkei 225 Index, rose by 8.0% (in local currency terms) in February and remain amongst the best performing sharemarkets in 2024, underpinned by the return of inflationary pressures coupled with robust earnings and corporate reforms. Investors are closely watching the Bank of Japan (BoJ) for signs that the central bank will end negative interest rates, although the BoJ is likely to remain cautious to avoid disrupting an exit from decades of disinflation. Japanese core consumer inflation printed at 2.0% year-on-year for January to beat economist consensus and focus now shifts to the annual wage negotiations held in March, with expectations that large firms could offer significant wage rises.

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Australia

The S&P/ASX 300 Accumulation Index gained 1.0% in February, with Financials and Consumer Discretionary the best performing sectors. The Reserve Bank of Australia (RBA) left interest rates on hold during its first meeting of the year but surprised markets by retaining a mild tightening bias. The RBA noted that the interest rate trajectory remains data dependent, and “further increases in interest rates cannot be ruled out”. Australia’s headline inflation held steady at 3.4% year-on-year in January, while Australian unemployment hit a two-year high at 4.1% over the month. Although retail sales grew 1.1% month-on-month, seasonal spending patterns from Black Friday sales inflated these numbers. Australian house prices, as represented by CoreLogic Home Value Index, rose 0.6% in February, its strongest monthly gain since October 2023.

Fixed Income

Fixed income markets were weaker in February as markets repriced yields higher on the back of central banks appearing hesitant to implement rate cuts in the near-term. Over the month, the US 10-year yield rose by 34 basis points, while the Australian 10-year yield increased by 12 basis points to end February at 4.3% and 4.1% respectively. The rise in rates pushed bond prices lower. The Global Aggregate index (hedged) finished the month down 0.8%, while the Australian composite bond index fell 0.3% over February. Riskier parts of the fixed income market saw mixed performance, with high yield corporate credit and emerging market debt indices gaining slightly over the period.

Commodities & FX

Commodity markets and energy prices were generally lower over the month. Iron Ore fell by 10.2% and Copper declined 2.1%, while European natural gas prices also saw weakness. However, Oil was an exception and rose by 2.0% in February amid speculation that OPEC+ would extend their production cuts. Gold was modestly up 0.2% across the period. Within currencies, the US dollar appreciated 0.5% over the month against its developed market peers, while the Australian dollar fell 1.1% against the US dollar.

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