# Current Market View

**Investment Markets**

**Global Markets**

The US Republican Party led by President Donald Trump has initiated a series of tariffs with China, Mexico, Canada and Australia that has really startled markets. Suddenly, the extent and consequences of the imposition of tariffs hit home and the US share markets responded by falling sharply believing that the tariffs will be inflationary and hurt their economy.

 Global markets were mixed in their response as the tariffs were not widespread but rather specific in their focus on imported steel and aluminium. Several countries have retaliated with their own tariffs on the US imports in what is seen as a tit-for-tat exercise.

Company reporting season added to the volatility. Early signs in the US are that most will **meet or exceed expectations** so that should add some support to the equity market. The Australian company reporting season was subdued with markets impacted by the US volatility.

Most investors are still of the opinion that interest rates and inflation are heading lower over the medium to long term, however these short-term adjustments driven by market data and the US Federal Reserve (the Fed) awaits fresh inflation news to consider their next move.

The Fed left the target cash rate at **4.25%-4.50%** at its meeting held on the 29th of January 2025. A recent update given to the US Senate indicated hold may be on the cards for the near future:

*“Recent indicators suggest that economic activity has continued to expand at a solid pace. The* ***unemployment rate has stabilized*** *at a low level in recent months, and* ***labor market conditions remain solid****.* ***Inflation remains somewhat elevated****.” Source: The Board of Governors of the Federal Reserve System, Chair, Jerome Powell, 29th January 2025.*

Most analysts see a **“hold”** for the cash rate at the next FOMC meeting. Inflation prints have revealed the US Inflation YOY eased to 3.1% in March 2025 from 3.3% in February 2025. US Retail Sales MOM fell by (-0.9%) in January 2025 down from revised 0.7% in December 2024. Core inflation excludes volatile items such as food and energy. The next **FOMC meeting on Monetary Policy is the 18/19th of March 2025.**

For Australia, the latest inflation prints for (year-on-year) fourth quarter of 2024 **was 2.4%** which was down from the 2.8% in the third quarter of 2024. The market awaits the next RBA board meeting, which is due on the **31/01 April 2025**. Most analysts see a **“hold”** for the cash rate at the next **RBA board meeting due on the 31/1st April 2025**.

With more supply coming onto the housing market over February and early March 2025, the domestic house prices are softening in several suburbs as interest rates remain on hold. This year and 2025 will be challenging however, **the broader economy is weathering the storm well** given the mixed support from high immigration levels and the strong level of employment with unemployment drifting higher to 4.1% in January 2025 up from 4.0% in December 2024.

From a risk return perspective, markets are improving:

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 Source data: Lonsec as of 28th February 2025

From the chart above, you can gain an understanding of why investors over the past year have tilted their exposures towards shares over bonds given the higher risk score resulting in higher returns in most cases.

*The risk measure is simply the one-year annualised standard deviation of the monthly total return time series for each category. The total return is the share or bond price movement monthly including any cash dividends and coupons payable.*

The issues at the forefront of investors thoughts included:

* US Politics – President Donald Trump is top of mind with expectations for a big shake up for trade tariffs, immigration, and climate. We can now see how this will impact Australia in terms of **trade tariffs** after the steel and aluminium announcement.
* Political conflict – the ongoing war in the middle east for Israel, Hamas and now Hezbollah, along with Ukraine and Russia, remains a concern for investors. While not panicking, the underlying impact of these events put doubt into expectations for any speedy economic recovery in Europe.
* Global growth and Commodity Prices – for our region, China is the focus with growth prospects the central theme. China’s annual GDP is resilient around the 5.4% level despite the property market concerns. The benefits of rekindling growth include productivity gains from which Australia will also benefit given, they are our biggest trading partner. The problem is the **falling global growth prospects for EV and alternative energy has impacted the demand prices of oil, iron ore** and other resources, except Gold which remains well supported by Central Bank buying.
* Inflation numbers are indicating a slight **rising bias Y-O-Y which is making Central Banks nervous**, as the inflation numbers were starting to hit within their target ranges. The impact of monetary policy changes typically takes 12 to 18 months to be felt and so markets are watching the economic data closely for signals that will challenge growth expectations.
* Bond markets are searching for the elusive **equilibrium level** post the initial round of Central Bank easing. The direction is still lower longer term but short term, volatility remains.
* Market valuations have come under the spotlight in recent weeks as the tariff question appears to have investors challenging recent high valuations on some of the tech companies, with economic indicators flagging downside risks; however, **investors are encouraged to maintain their cautious optimism**, navigate this period of uncertainty, and expect better conditions to prevail in the rest of 2025.

In the face of the recent volatility, short-term investors have taken **risk off** the table in the mostly growth companies although fear has seen more wider spread of selling. Medium and longer term have maintained their risk appetite at **“cautiously optimistic”** as they await the next round of inflation data and Central Bank activity. O**pportunistic buying** is preferred despite the threat of an economic slowdown at some future point, but the severity is now seen as limited. We are looking for a **soft landing** for Australia.

Ukraine and Israel conflict is still a major concern for investors however, we are a long way from the conflict zone and the global economic data is improving slowly but the main influence on our market remains from offshore, especially China.

China has recently made several fiscal and monetary policy announcements to consolidate economic growth, **targeting 5% over the next year.** In response to an increase in US tariffs, China has introduced a 15% tariff on US imported goods.

**The following total returns across the asset classes are as of 31st January 2025:**



Source data: Lonsec as of 28th February 2025

The developed markets asset classes finished mixed for the month. The AUD/USD finished lower at 0.6214 (-0.18%) for the month which benefitted returns for unhedged holdings.

**Asset Class Performance**



Data Source: Lonsec as of 28th February2025 & Fox Asset Management

**Investment Climate**

The underlying investment climate in the short term has changed reflecting the volatility the US tariffs have created. **Risk-ff trades** have dominated recent activity. This downside risk is seen as temporary given that not all countries are impacted by the tariffs. For Australia the **impact is limited** to the **steel and aluminium exporters to the US.**

Medium-term investors are encouraged by the anticipated gradual easing of interest rates however, the unsettled nature of the share and bond markets clouds the short-term direction. The soft-landing expectations and economic recovery are still supported by the economic data, despite the recent volatility.

The risk is that the conflict in the middle east may escalate and involve neighbours which could then inflame the situation. While this situation continues and further sanctions are introduced, investors will be cautious around exposure to Europe, oil, and gas, however any fall in interest rates will spur buying in asset classes that have been oversold in recent months (property) however, the volatility of prices is a concern.

Consumption is firm and holding up well with **retail sales YOY in Australia rising by (+4.60%)** in December 2024 which will impact company profit expectations in the short-term and worry the RBA from an inflation perspective.

The **medium-term view remains positive** for returns despite the US Fed Chair, Jerome Powels comments regarding further easing of interest rates in the US over 2025.

**Longer term investors are optimistic** for a recovery period ahead. Global Central Banks continue to indicate a resolve to get inflation under control however, the economic data is showing signs of a stabilising despite inflation being elevated and every indication is for future easing in monetary policy to be possible over 2025. Remember **markets are forward looking** so the support now is reflecting the expectations for conditions in November 2025.

**The following commentary is based on month-end closing prices as of 28th February 2025:**

Global share markets over February were mixed with returns impacted by the tariff situation. The AUD/USD had a minor change from January 2025 weakening from 0.6225 to 0.6214 (-0.18%). The AUD/USD has since continued to rebound in recent trading to 0.6329 from the January month end close.

The US has halted the easing bias in monetary policy by holding the target range for federal funds at **4.25%-4.50%** when it met on the 28/29th January 2025. Investors are gaining more confidence that the economy is headed for a soft landing.

The underlying theme is uncertain for shares however, the sharp retracement moves in the bond market in since January 2025 has not had a material effect on share prices.

**Summary of global share returns in AUD terms:**



Data Source: Lonsec as of 28th February 2025

The situation in Russia/Ukraine conflict remains unchanged however the latest conflict between Israel, Gaza (Hamas) and now Lebanon is showing signs of abating with cease fire talks underway.

Unfortunately, a resolution to the regional conflict may be a way off however, the underlying economies elsewhere are emerging with a growth orientated momentum after such an extended period of uncertainty.

**Investor Focus**

**For Australia**, investors focussed on the following issues:

* **Cost of living expenses** and the impact on **consumer spending**.
* **Commodity prices** (post China policy changes) **and the impact on company profits.**
* The level of **interest rates** and the delicate position of the RBA given the elevated inflation level.
* **US tariffs** and the impact on Australia’s exports of iron ore and aluminium.
* **Inflation** (Y-O-Y) trending down at **2.4%** down from 2.8% in the third quarter of 2024 which is finally heading in the right direction.
* **Government spending** and the rising debt level.
* **China growth prospects** – The Peoples Bank of China has stated that it “would make use of its full monetary policy toolkit to provide **ample liquidity and support economic growth**.” PBOC Q4 MP report published 13th February 2025.

## Asset Class Returns

Returns across the various asset classes ended higher over the month:



Source data: Lonsec as of 28th February 2025

## Global Share Returns

For share markets, the focus remains on **inflation, employment** and the momentum **of interest rate easing** for Central Banks to look at over the longer time horizon should inflation data continue to drift lower. Unhedged global shares had returns were mostly unaffected by a weakening AUD/USD (0.6214 from 0.6225) which had a **positive impact of (+0.18%) in AUD returns** over the month for unhedged investors.

Most investors are content to **stay invested and opportunistically add to their positions** which has proven the correct strategy over the recent medium-term trend.



Source data: Lonsec as of 28th February 2025

In AUD terms, the global share markets posted one month return of (-0.33%). The US posted returns of (-1.00%), Asia ex Japan (+0.52%), Japan (-1.05%), the UK (+3.86%), Europe (+4.01%) and the Emerging Markets (+0.81%).

**Australian Shares**

Australian shares posted negative returns reflecting the global markets trend and tariff fear. Shares finished (-3.79%) for the month and (-2.56%) over the last three months.

The focus for investors was:

* **Cost of living expenses** and the impact on consumer spending.
* **Commodity Prices** and their impact on company profits and forward earnings guidance.
* **Consumer confidence** post the offshore interest rate changes and inflation impacts.
* **Mortgage stress** and the impact on domestic house prices and banks.
* **Inflation** and the response by the RBA to hold the target cash rate at 4.10%.

Commodity markets ended mixed with Iron Ore closing at US$106.90 per tonne at the end of January 2025 with a monthly gain of (+5.23%) and gains of (+4.35%) for the previous three months. Oil (WTI) closed lower at US$69.76 a barrel at the end of February 2025 resulting in losses of (-3.82%) for the month and up (+2.59%) over the last three months. China remains our main export market followed by Japan.

**Australian Industry Returns**

Industry sectors posted mixed results for January 2025. The industry sector performance results for the last month were:



Source data: Lonsec as of 28th February 2025

Communication Services was the best performing sector posting gains of (+6.44%).

Information Technology were the worst performing sector finishing (-12.28%) for the month.

**Australian Shares - Sector Returns**



Source data: Lonsec as of 28th February 2025

## Debt Market Returns

Bonds and Fixed Interest markets finished in **positive territory** as global bond prices pushed higher (down in yield) following on the trend established last month when Central Banks began to ease their target cash rates. Not all economies are experiencing inflation falls and remain focussed on the longer-term for both inflation and cash rates to come down. Australian bonds have recovered from the post US election sell-off however, the market settled and the short-dated 2-year Government bonds trading at **3.79%** on the 17th of March 2025 and longer dated 10-year bonds trading at **4.46%.**

Global Bonds ended higher (+1.14%) and Australian Bonds ended up (+0.93%) for the month of February 2025 and up (+0.41%) and (+1.64%) respectively for the previous three months.

The RBA cut the **target cash rate by 25 basis points to 4.10%** following the 18th of February 2025 board meeting and stated that:

*“Sustainably returning inflation to target within a reasonable timeframe remains the Board’s highest priority. This is consistent with the RBA’s mandate for price stability and full employment. The Board’s assessment is that monetary policy has been restrictive and will remain so after this reduction in the cash rate. Some of the upside risks to inflation appear to have eased and there are signs that disinflation might be occurring a little more quickly than earlier expected. There are nevertheless risks on both sides.*

*The forecasts published today suggest that, if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range. In removing a little of the policy restrictiveness in its decision today, the Board acknowledges that progress has been made but is cautious about the outlook.*

*Michelle Bullock, Governor, RBA Monetary Policy Board meeting, 18th February 2025.*

The US 10-year Government bonds closed at (**4.202%**) for the month down in yield (-0.34%) from the previous month close of (4.524%).

The Australian Government 10-year bonds finished lower in yield in February 2025 at (**4.308%**) down in yield (-0.123%) from (4.431%) in January 2025.



Source data: Lonsec as of 28th February 2025

## Currency

The $A closed weaker AUD/USD 0.6214 at the end of February 2025 which was a small positive for returns for investors who held offshore assets unhedged (+0.18%) over the month and (+4.65%) over the last three months.

 

Currency forecasters see the AUD/USD range between:

**0.6050 and 0.7050** cents in the medium term and most likely to trade within the:

**0.5500 to 0.7500** range in the longer term.

## Australian Economy

Australia’s latest GDP data for the fourth quarter of 2024 revealed an **annual growth rate of 1.3%** which was up from 0.80% in the third quarter of 2024. Unemployment moved higher to 4.1% in January 2025 up from 4.0% in December 2024. The Y-O-Y **inflation rate fell to 2.4%** in the fourth quarter of 2024 down from 2.8% in the third quarter 2024, which is within the Reserve Bank’s targeted 2% to 3% target range.

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## Current Market View

### Domestic View

The overall investment view for shares in the short-term is **“uncertain”** and “**cautiously optimistic”** **over the long run** as interest rates are expected to **continue the down trend** post theeasing of Monetary Policy by the RBA.

All eyes are on when the next Australian Federal election will be called and how the State Governments are going to tackle the growing debt burden and the impact on consumer spending. Needless to say: **Higher spending=higher demand=higher prices=higher inflation=higher for longer interest rates.** Both State and Federal debt levels are rising, and it is unclear how they are going to reign in this spending. **Government debt is now 43.80% of GDP**.

### Global View

Global share market returns have been supported by the strength of the US economy and the pace of Central Bank easing. The latest imposition of tariffs by the US Government has disrupted the ebb and flow of markets and will take some time to understand the impact on companies and consumption. This makes it difficult to gain an oversight of interest rates and share markets that have suffered bouts of volatility since January 2025.

Global markets have dealt with tariffs in the past and they will settle given the charges have only just begun. **We remain optimistic about the future**.

Despite the uncertain geopolitical situation with the Russia-Ukraine, Israel-Hamas, Hezbollah and Houthi conflict, and economic slowdown concerns, we expect the **medium-term outlook to reflect reasonable opportunities for investors**. Post the US election, short-term, we look for the company results to reflect a recovering economy with conservative company forward guidance and improving inflation data. Interest rates search for equilibrium somewhere between the current supply and demand for capital. We see the US equilibrium interest rates between 3.75% and 4.00%

**Where to From Here?**

**For Australia**, a **soft landing is still on the cards**. Markets take the lead from what is happening in the global markets as this directly impacts our markets given there is alignment in trade terms, but the fallout remains mitigated given our immigration, agricultural and resource assets.

Tariffs have had a **muted impact** on our resource sector to date although the market seems to have oversold the whole tariff issue. Company reporting season was subdued however, there are early signs that guidance is being met or exceeded in key industries which will support the positive momentum of the share market.

**The Middle East political unrest** is a background factor that is not easily solved.Let us hope the situation will be contained and a solution that ceases further aggression and violence is forthcoming.

**Global markets** have already weathered tough conditions over 2023/24 and now there is economic evidence pointing to a **soft landing** rather than a mild recession in the US and eventually Europe down the track.

The latest sell-off is **healthy for markets** as it lets investors **recalibrate** their portfolios and pick up bargains along the way. Disruption can be rewarding but care needs to be taken in the bouts of volatility not to overreact.

**Markets are forward looking**, so it is likely they have not yest **found a solid bottom and now seeking evidence of what lies ahead.** We suspect we have just seen the start of that recovery process and **the recent volatility is simply the ebb and flow of markets**.

Fingers crossed monetary policy direction remains accommodative and trending towards further easing in the months ahead which hopefully, will lead to a moderation in prices and the start of a more stable global growth platform.

**Footnote**

This market update written by Graham Fox for and on behalf of HNW Planning on 17/03/2025. Graham Fox is an external asset consultant and consults to the HNW Investment Committee. Graham has enjoyed a career in financial services covering several private, corporate and investment banking institutions including, Genesys Wealth Advisers (research), Standard & Poor’s Australia (fund ratings), Westpac Private Bank (research, strategy and product), Gold Link Capital (sales and marketing), Challenger Financial Services Group (COO asset management), Deutsche Funds Management (head of treasury), Canadian Imperial Bank of Commerce (regional head of FX), Banque Nationale de Paris, (F/X) and Commercial Bank of Australia (International and Treasury). Graham references material made available from HNW Planning’s' contracted research houses including Lonsec and Morningstar.