# Current Market View

**Investment Markets**

**BREAKING NEWS:**

**RBA cuts target cash rate by 0.25% to 4.10% at RBA board meeting 18th February 2025**

**Global Markets**

The transition of power in the US Government was the main attraction over January 2025. The Democratics made way for the Republican Party led by President Donald Trump.

Markets were bullish initially, but this momentum faded as the Presidential executive orders rolled out changes and more recently, tariffs on imported steel and aluminium being announced for Canada (25%), Mexico (25%) and China (10%). President Trump also announced 25% tariffs for **all aluminium and steel imports** which will have ramifications for Australia being two major commodity exports. The start date has been extended to mid-March 2025 after discussions with Australia’s Prime Minister, Anthony Albanese.

Company reporting season is underway which will add a bit of volatility to the mix. Early signs are that most will **meet or exceed expectations** so that should add some support to the equity market.

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 lowered the target cash rate by 0.25% to 4.25%-4.50% at its meeting held on the 19th of December 2024 however, left the target cash rate unchanged at the next meeting held on the 28/29 January 2025. A recent update given to the US Senate indicated hold may be on the cards for the near future:

*“As the economy evolves, we will adjust our policy stance in a manner that best promotes our maximum-employment and price-stability goals. If the economy remains strong and inflation does not continue to move sustainably toward 2 percent,* ***we can maintain policy restraint for longer.*** *If the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we can ease policy accordingly. We are attentive to the risks to both sides of our dual mandate, and policy is well positioned to deal with the risks and uncertainties that we face.” Source: The Board of Governors of the Federal Reserve System, Chair, Jerome Powell, 11th February 2025.*

Inflation prints have revealed the US Inflation YOY edged up to 3.0% in January 2025 from 2.9% in December 2024. US Retail Sales MOM climbed by 0.4% in December 2024 down from revised 0.8% in November 2024. Investors are now feeling less convinced that the **Fed will continue to ease** at the next Fed meeting following the inflation print. Core inflation Y-O-Y was 3.30% for January 2025. 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 this week, **17-18th February 2025**. **Please see Breaking News.** The RBA cut the target cash rate **by 25 basis points to 4.10%** at today’s Monetary Policy meeting.

The **next RBA meeting is on the 31/01 March/April 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 4.0% in December 2024 up from 3.9% in November 2024.

From a risk return perspective, markets are improving:

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 Source data: Lonsec as of 31st January 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 watch to see how this will impact Australia in terms of **trade tariffs** after the iron-ore and steel 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 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 are still challenging along 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 2025.

Despite the geopolitical conflict, the investment markets are looking solid underpinned by company profits and the expected **gradual easing interest rates**.

Investors have maintained their risk appetite at **“cautiously optimistic”** short term and remain **“optimistic”** medium term as they await the next round of inflation data and Central Bank activity however, the signals are getting better and **opportunistic 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%,** in response to an increase in US tariffs after President Trump inauguration in January 2025. China has been hit with 10% tariffs on imported goods and has responded with 15% on US imported goods.

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



Source data: Lonsec as of 31st January 2025

The developed markets asset classes finished stronger for the month. The AUD/USD finished lower at 0.6225 (+0.13%) for the month which cost returns for unhedged holdings.

**Asset Class Performance**



Data Source: Lonsec as of 31st January2025 & Fox Asset Management

**Investment Climate**

The underlying investment climate remains **“cautiously optimistic”** in the short term as 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 interest rate retreat and the European and middle east conflict.

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 goldilocks 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 in inflation and every indication is for future easing in monetary policy to be possible in the first half of 2025. Remember **markets are forward looking** so the support now is reflecting the expectations for conditions in October 2025.

**The following commentary is based on month-end closing prices as of 31st January 2025:**

Global share markets over January were strong with returns did not impact the USD with minor change from December 2024. The AUD/USD strengthened from 0.6217 to 0.6225. The AUD/USD has since continued to rebound in recent trading to 0.6335 from the December 2024 month end close trading as high as 0.6356 in recent days.

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 positive for shares however, the sharp retracement moves in the bond market in since November 2024 has stalled further aggressive risk-on trades.

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



Data Source: Lonsec as of 31st January2025

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 more 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 31st January 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 strengthening AUD/USD (0.6225 from 0.6217) which had a **negative impact of (-0.13%) 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 31st January 2025

In AUD terms, the global share markets posted one month return of (+2.76%). The US posted returns of (+2.03%), Asia ex Japan (+0.65%), Japan (+0.82%), the UK (+4.44%), Europe (+6.11%) and the Emerging Markets (+1.06%).

**Australian Shares**

Australian shares posted positive returns reflecting the thin markets and cash flows from bond coupons, trust distributions and company dividends paid at the end of the half-year. Shares finished (+4.57%) for the month and (+5.11%) 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 4.35%.

Commodity markets ended mixed with Iron Ore closing at US$101.59 per tonne at the end of January 2025 with a monthly loss of (-1.95%) and losses of (-2.11%) for the previous three months. Oil (WTI) closed higher at US$72.53 a barrel at the end of January 2025 resulting in gains of (+1.13%) for the month and up (+4.72%) 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 31st January 2025

Consumer Discretionary was the best performing sector posting gains of (+7.13%).

Utilities were the worst performing sector finishing (-2.40%) for the month.

**Australian Shares - Sector Returns**



Source data: Lonsec as of 31st January 2025

## Debt Market Returns

Bonds and Fixed Interest markets finished in **negative territory** as global bond prices pushed lower (up 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 been caught up in the post US election sell-off however, the market settled and the short-dated 2-year Government bonds trading at **3.96%** on the 17th of January 2025 and longer dated 10-year bonds trading at **4.528%.**

Global Bonds ended higher (+0.26%) and Australian Bonds ended up (+0.19%) for the month of January 2025 and up (+0.45%) and (+1.85%) 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 (**4.542%**) for the month down in yield (+0.03%) from the previous month close of (4.572%).

The Australian Government 10-year bonds finished lower in yield in January 2025 at (**4.363%**) down in yield (-0.064%) from (4.367%) in November 2024.



Source data: Lonsec as of 31st January 2025

## Currency

The $A closed stronger AUD/USD 0.6225 at the end of January 2025 which was a negative for returns for investors who held offshore assets unhedged (-0.13%) over the month and (+5.24%) 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 third quarter of 2024 revealed an **annual growth rate of 0.8%** which was down from 1.00% in the second quarter of 2024. Unemployment moved higher to 4.0% in December 2024 up from 3.9% in November 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 remains **“cautiously optimistic”** and **optimistic** **over the long run** as interest rates are **expected to continue the down trend** following today’s easing 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 are supported by the strength of the US economy and the pace of Central Bank easing. The US bond price sell-off which peaked mid-September 2024 at around 3.62%is trying to consolidate at the higher level of around 4.5%-4.75%. This has made bond investors cautious about the future trend of bond prices given the change of urgency by the Fed on easing interest rates. The unemployment data dipped to 4.0% in February 2025 down from 4.1% in January 2025 does not help with any monetary policy easing that may be considered by the Fed.

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 expect Q4 to reflect cyclical factors (festive season spending), improving company results plus conservative company forward guidance, will help support investor appetite as interest rates search for equilibrium somewhere between the current supply and demand for capital.

**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.

Company reporting season appears to be **going well** with early signs that guidance is being met or exceeded which will support the positive momentum of the share market.

US tariffs will add to the complexity of markets as the inflationary impact filters through the data. It may not be as disruptive as earlier indicated, hopefully.

**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.

**Markets are forward looking**, so it is likely they have **found a bottom and now seeing a clearer picture 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 18/02/2025. 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.