

MONTHLY MARKET UPDATE

February 2025

How the different asset classes have fared:

(As of 28 February 2025)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash ¹	1.98	2.10	3.44	4.48	0.72	2.21	1.10	0.34
Australian Bonds ²	1.70	-0.77	0.17	4.01	1.09	1.08	1.60	0.92
International Bonds ³		-1.42	-1.22	4.68	1.82	1.19	0.53	1.41
Australian Shares ⁴	7.78	9.20	8.82	9.27	0.25	2.82	-2.83	-3.96
Int. Shares Unhedged ⁵	12.58	14.91	16.20	21.37	2.43	14.21	5.04	-0.35
Int. Shares Hedged ⁶	10.03	13.19	10.18	16.12	2.59	5.95	0.55	-0.88
Emerging Markets Unhedged ⁷	5.40	4.47	5.46	15.28	2.14	10.08	7.35	2.70
Listed Infrastructure Unhedged ⁸	8.25	6.06	9.83	22.26	3.41	10.30	2.07	2.79
Australian Listed Property ⁹	7.23	5.38	5.48	8.90	-1.84	-1.88	-7.57	-6.12
Int. Listed Property Unhedged ¹⁰	4.86	2.79	3.86	15.77	3.72	6.40	1.06	2.85
Gold Bullion Unhedged ¹¹	9.03	11.96	14.56	40.76	9.60	13.36	7.40	2.50
Oil Unhedged ¹²	-4.22	4.19	2.37	3.30	-0.51	1.35	5.83	-3.21

1 S&P/ASX Bank Bill TR AUD, 2 Vanguard Australian Fixed Interest Index, 3 Vanguard Global Aggregate Bd Hdg ETF, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD, 11 LMBA Gold Price AM USD, 12 S&P GSCI Crude Oil TR

Source: Centreport Research Team, Morningstar Direct

Key Themes:

- **Equities Declined:** Equities fell over the month following increased uncertainty as Donald Trump imposed new policies and economic data in the U.S. continued to weaken. AI and large-cap technology stocks struggled as scepticism grew over whether their vast outperformance and high valuations could be sustained.
- **Bond Prices Rose:** Demand for safe government bonds increased as market uncertainty led to a general risk-off investor sentiment.
- **Australian Dollar Appreciated:** The U.S. dollar declined amid falling bond yields, making it comparatively less attractive. Additionally, rising metal prices provided a tailwind for the Australian dollar.
- **Metals Performed Well, but Oil Fell:** Oil declined due to ongoing concerns over future demand, coupled with increased supply. Meanwhile, metals such as gold performed well as investors flocked to safe-haven assets during uncertainty. Gold also served as an effective hedge against inflation.

International Equities:

Global markets struggled in February due to concerns over ongoing geopolitical tensions, Trump's proposal of aggressive tariff policies, and weakening U.S. economic data. As a result, international equities declined by -0.35% in February.

U.S. economic indicators came in weaker than expected: retail sales fell significantly (-0.9% vs. -0.1% expected), services PMI was lower than forecast (49.7 vs. 53.0 expected), and consumer confidence saw its steepest monthly decline since August 2021. In addition to a spate of negative economic data, Trump continued to propose additional tariffs on various countries in an attempt to stimulate the domestic economy—though at the cost of growing market uncertainty. He has imposed a further 10% levy on Chinese imports, maintained a proposed 25% tariff on Mexico and Canada, and has also begun threatening Europe with tariffs. These measures pose a risk to economic growth by slowing activity and increasing inflationary pressures, leading to cautious investor sentiment.

In 2025, the Magnificent Seven stocks have struggled to sustain the strong performance of previous years. NVIDIA has seen a significant decline, falling 17.53% in the first two months of 2025 amid growing scepticism over whether its expensive chips can maintain dominance, despite an earnings report that exceeded expectations in February. Tesla was hit even harder, declining 28% during the month due to fears of reputational damage from CEO Elon Musk, who has become increasingly entangled in U.S. politics.

Elsewhere, European markets performed well in February as hopes for an end to the Russia-Ukraine war increased, and lower valuations attracted global investors. As a result, the MSCI Europe index rose 3.40% for the month and is currently outperforming the S&P 500 by 9.40% year-to-date. Similarly, the UK and Asian markets also ended February in positive territory.

Australian Equities

Australian equities declined by 3.96% in February. While the Reserve Bank of Australia (RBA) cut interest rates by 25 basis points, the long-awaited rate cut was not enough to sustain market gains.

Earnings results were mixed, with around 45% of companies reporting below expectations. This led to declines in several stocks, particularly in the financial sector, which was a strong performer in the previous year. As a result, NAB and Westpac declined by 11.10% and 6.90%, respectively. Mining companies also struggled during earnings season, weighed down by continued demand concerns from China and ongoing geopolitical tensions.

Australian listed property performed poorly in February, falling 6.12%. The market remains uncertain due to both supply and demand challenges, as well as an unclear interest rate path following the RBA's rate cut.

Domestic and International Fixed Income

Australian fixed income returned 0.92% in February, with the Australian 10-year government bond yield falling 13 basis points to 4.30%. While the RBA's rate cut gave investors some optimism for a lower interest rate environment and stronger economic growth, the central bank remained cautious. The RBA stated that the market is "too confident" in pricing in further rate cuts, emphasising that future decisions will be data-dependent. As a result, while yields declined in February, investors remain wary.

International bonds also performed well, returning 1.41% for the month. Despite ongoing concerns about inflation and interest rate policy in the U.S., Trump's aggressive tariff threats increased global uncertainty, leading investors to seek safety in U.S. 10-year Treasury bonds. During periods of uncertainty, these bonds are a preferred safe-haven asset, leading to rising bond prices and falling yields.

Meanwhile, Japanese bond yields rose following a higher-than-expected economic growth rate, prompting investors to factor in the possibility of rising inflation risks.

Australian Dollar

The Australian dollar appreciated 1.47% against the U.S. dollar in February. This was largely due to a depreciation of the USD, following a drop in U.S. Treasury bond yields that reduced the interest rate differential between the U.S. and other developed economies, making the U.S. dollar less attractive. A rebound in commodity prices also provided a tailwind for the Australian dollar, as Australia is a major exporter of these goods.

Commodities – Gold and Oil

Oil prices declined 3.21% in February due to increased supply from countries such as the U.S. and Brazil, while concerns over weak future demand—particularly in China—persisted. Increased global economic uncertainty, largely driven by Trump’s erratic policy decisions, also weighed on oil prices.

Gold performed well, rising 2.50% in February. Similar to U.S. Treasury bonds, gold is a defensive asset that attracts investors during periods of economic and market uncertainty. The heightened volatility in February contributed to gold’s gains. Additionally, gold is frequently viewed as an effective hedge against inflation, and ongoing inflation concerns further supported its price. Other metals also saw broad price increases over the month.

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