

Over the course of February, Global equity markets provided further returns for investors. Buoyant markets saw global equities surge by between 4-6% in February, with stock indices rising to record levels across the globe. Resilient economic data and relatively strong earnings reports supported markets.

Whilst some of the recent economic data out of the United States (US) has appeared to soften, gross domestic product (GDP) estimates still indicate the economy is growing at a healthy pace. The US economic climate witnessed some weakness in retail sales as well as industrial and factory production softness, providing tentative evidence that the US consumer may be losing momentum after strong 2023 spending and the cumulative effect of Fed tightening taking effect. Headline inflation continued to cool, to 3.1% in January. With mixed economic data, expectations for rates to remain 'higher for longer' remained, with markets moderating 2024 rate cut expectations to May or June 2024.

In Europe, recent economic data varied with disparities within the overall Eurozone measures. Manufacturing for example, continued to witness weakness in Germany and France, offsetting expansion in countries like Spain, Italy, Ireland, and Portugal. Activity levels in the services sector have improved, with the first expansion seen in seven months. Employment growth has helped, edging once again lower to 6.4%, amongst the lowest on record. Inflation has also improved, declining further from 2.8% to 2.6%, however still exceeds the European Central Bank's (ECB) target of 2%. The ECB maintained interest rates at current levels in March, however markets remain concerned over a looming recession, with the ECB wanting to wait until wage data in April to give an indication on the path for potential rate cuts. Markets anticipate a likely rate cut in June 2024. In the United Kingdom (UK), inflation has also eased, however core and services inflation are still too high. The UK economy is now technically in recession after GDP fell by 0.3% in Q4 following the 0.1% contraction in Q3, with UK growth at its weakest performance outside of COVID since 2009. Markets expect the Bank of England (BoE) to start cutting rates in August 2024.

Facing a very different economic landscape, the China is in the process of exercising fiscal and monetary support due to low consumer activity and weakness in the property market. The People's Bank of China (PBoC) introduced some measures in February in an effort to spur credit demand in China. The PBoC unexpectedly cut their 5-year loan rates by 0.25% to 3.95%, the largest move in five years, in an attempt to assist the property market. Earlier in the month, the central bank unleashed CNY 1 trillion of liquidity into the banking system by trimming the reserve ratio for banks and reducing interest rates on re-lending funds aimed at promoting loans to agricultural and small firms. Manufacturing data grew slightly in February, for the fourth straight month, and the services sector saw further improvement with the 14th straight month of expansion of services activity.



In Australia, similar to many developed countries, the impact of the Reserve Bank of Australia's (RBA) rapid 4.25% of interest rate rises are starting to take effect, with a whopping 126% increase in mortgage interest charges since the RBA's hiking cycle and the household savings ratio dropping to 1.1%, the lowest since 2007. Despite home borrower capacity falling by around 30% due to RBA's rate increases, house prices have continued to increase due to the large imbalance between the supply of new homes and the surge in Australia's population. In February, Australian property prices rose for a thirteenth consecutive month.

The Australian labour market has become less tight over the past year with the unemployment rate increasing to 4.1%, the highest since January 2022, indicating a softening in the overall economic landscape. Even with mixed signals in retail trade over recent months, consumption growth is likely to remain subdued. Business conditions also eased in February, falling below the long-run average for the first time in two years, while consumer confidence remains low. The Australian economy expanded by 0.2% in Q4 2023, and despite further growth, this was the softest pace in 5 quarters with subdued household spending. As expected, the RBA kept its cash rate unchanged in February, with the RBA maintaining that cost pressure in the country continued to ease but inflation remained high as prices of services were not falling quickly enough. Despite these dovish comments, major banks see that the cash rate has reached its peak, with expectations of the RBA commencing an easing cycle as in September-November 2024.

Consumer Sentiment Index

