MONTHLY MARKET REPORT SUMMARY: FEBRUARY 2025

Global share markets were mixed in February, with European shares outperforming while US shares lagged due to weaker technology performance. Central banks remained in focus, with the US Federal Reserve holding rates steady and the European Central Bank (ECB) cutting rates amid easing inflation. Australian shares benefited from a resilient financial sector, and expectations for the Reserve Bank of Australia (RBA) rate cuts strengthened as inflation continued to decline. Emerging markets faced challenges from tariffs and a stronger US dollar, while commodities like gold and oil posted gains. Investor sentiment remained driven by economic data, central bank decisions, and evolving trade policies.

Link Wealth Group
Financial Advice

KEY SECTOR TAKEAWAYS

GLOBAL DEVELOPED SHARES

After a strong opening to 2025, global shares gave up ground in February, dropping 0.9%. European shares continued their strong start to the year, as signs of slowing economic growth, more aggressive ECB easing, and the prospect of increased defence spending as terms are negotiated to end the war in Ukraine all contributed to the stronger performance. US shares were positive but underperformed their European counterparts, as the consensus view of continued US exceptionalism, underpinned by strong tech companies, strong earnings growth and a pro-growth Trump policy agenda has not eventuated, at least in early 2025.

AUSTRALIAN SHARES

The Australian share market declined 3.8% in February, continuing its underperformance of global equities. Weaker US economic data, tariff concerns and rising uncertainty saw Australian shares slide.

KEY SECTOR TAKEAWAYS

EMERGING MARKETS

Emerging markets rose 0.8% over the month, underperforming developed markets as the prospect of tariffs imposed by the US continued to cause uncertainty. Chinese shares surged in February, driving emerging market gains as sentiment improved on AI developments, policy support, and expectations of further fiscal stimulus despite new US tariffs.

PROPERTY AND INFRASTRUCTURE

Australian listed property declined 6.4%, while global listed property rose 1.9% assisted by the decline in real bond yields and a more diverse index composition. Global listed infrastructure increased by 1.8% over the month.

GLOBAL FIXED INTEREST

Global bonds returned 1.2% in January on the back of weaker US economic data and rising policy uncertainty.

KEY SECTOR TAKEAWAYS

AUSTRALIAN FIXED INTEREST

Australian bonds returned 0.9% in February after the RBA lowered the cash rate target from 4.35% to 4.1%, marking the first cut in over four years.

COMMODITIES

The price of gold continued to push higher over the month. Rising geopolitical risk, the prospect of a trade war, higher inflation and increased EM central bank purchases have been cited as drivers of the rising gold price. The price of Brent crude oil dropped as the end of the Ukraine-Russian war came into view following the meeting between the US and Russia in Saudi Arabia.

CURRENCIES

The AUD rose above 64 cents to the USD, assisted by a narrowing interest rate differential, before easing back towards 62 cents by month-end as risk appetite diminished in the face of weaker US economic data and global uncertainty.

ECONOMIC HIGHLIGHTS

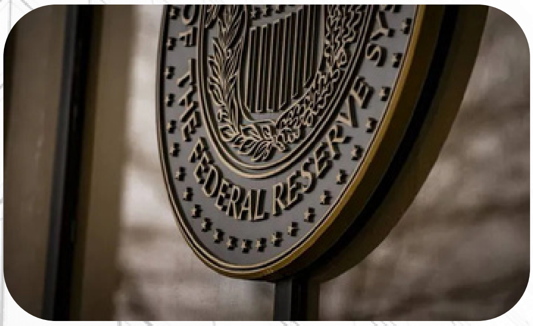
TRUMP AND TARIFFS

Trump 2.0 tariffs began in February, with a 25% tariff on Canada and Mexico and a 10% levy on Chinese imports. The measure on China was immediate, while the increase on Canada and Mexico was delayed until March. The US also threatened 25% tariffs on the EU and reciprocal tariffs on all trading partners. This shift has led to growing concerns about trade wars and softer economic data, overshadowing earlier optimism driven by macro conditions, tax cuts, and deregulation.

US ECONOMY

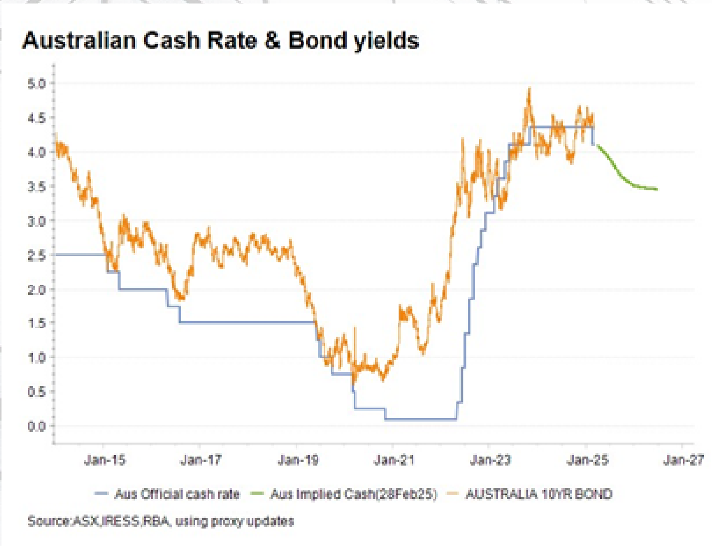
US inflation has exceeded expectations, but recent growth data has been disappointing, with declines in consumer confidence, housing, retail sales, and corporate earnings. Current quarter GDP growth is projected to drop to -2.8%. Weaker data and rising policy uncertainty have led to risk-off sentiment, pushing the US 10-year bond yield down to 4.2%. While a soft landing remains the base case, concerns about stagflation have increased due to tariff uncertainty.

ECONOMIC HIGHLIGHTS



US FED FUNDS PROJECTIONS

The Fed funds rate remained at 4.25-4.5%, with all indications suggesting the Fed is on hold in the near term. Nevertheless, by month-end the weaker economic data had markets projecting another three rate cuts to around 3.5-3.75% over the next 12 months.



RBA PROJECTIONS

The RBA cut rates for the first time since November 2020, reducing the official cash rate by 25 basis points to 4.1%. In what was described as a “hawkish” rate cut, as RBA projections showed a labour market remaining tight and core inflation remaining at 2.7% over the forecast period, above the mid-point of the target band. Markets expect the cash rate to reach 3.5% in 12 months, which signals approximately 2-3 more rate cuts.

Link Wealth Group
Financial Advice

ECONOMIC HIGHLIGHTS

EMPLOYMENT DATA

US Labour Market: US payrolls rose by 143,000, with the three-month average gain exceeding 200,000. The unemployment rate dropped to 4%, and job openings declined. Quit and hire rates returned to the 25-year average, indicating a normalization of the labour market, which should reduce upward pressure on services inflation.

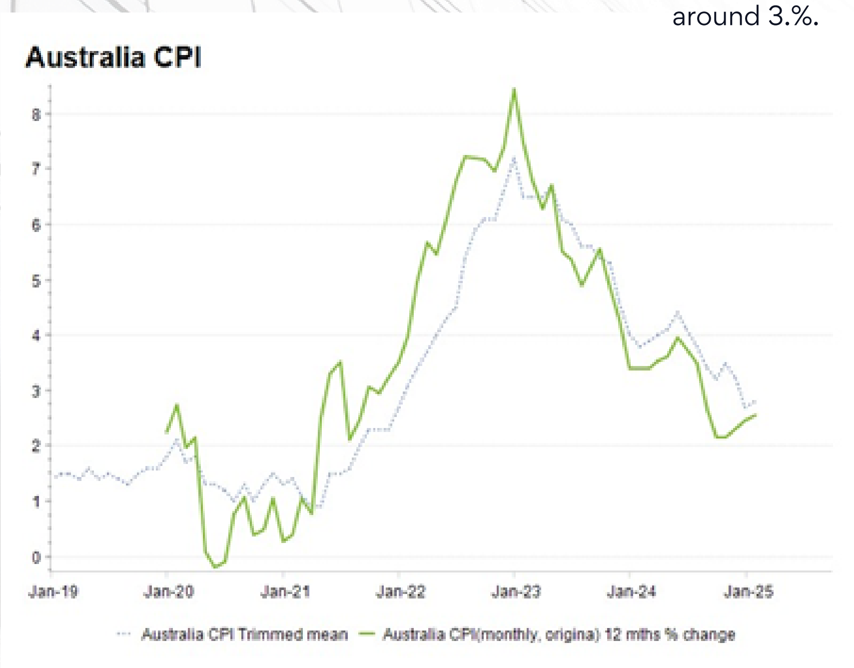
Australian Labour Market: The January labour force data showed a 44,000 increase in jobs taking annual growth in employment to 3.5% while the unemployment rate was 4.1%. According to the latest RBA forecasts, unemployment is expected to remain around 4.2% for the next 2 years, below the 4.5% that is considered by the RBA to be the "equilibrium" rate.

Link Wealth Group
Financial Advice

ECONOMIC HIGHLIGHTS

AUSTRALIAN INFLATION

Disinflationary Trends Continue: Despite the ongoing tightness in the labour market the RBA is projecting core inflation to drop to 2.7% the middle of this year, paving the way for market expectations of a shallow easing cycle, with no real need to take the cash rate below what is seen to be neutral, around 3.%.



ASSET CLASS RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Australian Cash	0.3	4.5	3.4	2.1
Australian Bonds	0.9	4.2	0.3	-0.6
Global Bonds (Hedged)	1.2	5.0	-0.4	-0.7
Australian Shares	-3.8	9.9	9.2	8.9
Global Shares (Unhedged)	-0.4	21.3	16.2	14.9
Global Shares (Hedged)	-0.9	16.1	10.1	13.1
Emerging Markets	0.8	15.3	5.8	5.0
Global Infrastructure (Hedged)	1.8	15.8	4.2	4.6
Australian Listed Property	-6.4	9.1	5.8	5.2
Global Listed Property (Hedged)	1.9	10.4	-1.9	0.7
AUD / USD	-0.2	-4.7	-4.7	-1.0

GLOBAL SECTOR RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Consumer Staples	4.9	11.8	4.1	7.7
Consumer Discretionary	-6.7	12.1	6.9	13.5
Energy	2.6	7.5	10.1	14.7
Financials	2.0	30.9	13.7	15.3
Health Care	1.1	3.6	5.0	9.6
Industrials	-0.3	11.8	11.2	12.8
Information Tech	-1.9	16.3	16.0	21.6
Materials	0.7	3.1	1.7	10.9
Telecom	-5.1	26.8	12.6	13.7
Utilities	2.1	23.4	5.5	5.9

Link Wealth Group
Financial Advice

AUSTRALIAN SECTOR RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Consumer Staples	1.4	1.7	0.7	2.3
Consumer Discretionary	-3.1	13.4	12.2	12.3
Energy	-5.6	-15.0	3.7	2.7
Financials	-4.4	24.7	16.5	12.5
Health Care	-7.6	1.6	4.3	1.1
Industrials	1.2	17.0	12.7	7.1
Information Tech	-12.3	10.7	13.8	13.6
Materials	-2.9	-3.9	1.9	11.2
Telecom	2.8	9.8	8.8	10.3
Utilities	3.2	19.9	14.4	8.6

CONCLUSION

- Markets were mixed in February, with European shares outperforming their US counterparts.
- Central bank policies, geopolitics, and inflation trends remain key drivers of market direction.
- Investors should remain adaptable, as shifting interest rate expectations and global economic conditions may impact asset performance.
- A diversified investment approach remains essential to navigating evolving financial markets.

DISCLAIMER & DISCLOSURE