

RESEARCH UPDATE

MARKET watch

FEBRUARY 2025



Global equity markets mostly advanced in the new year. The S&P 500 Index and the Nasdaq Composite Index rose 2.7% and 1.6% respectively as the Federal Reserve maintained its target cash rate at 4.25–4.50%. The Nasdaq's underperformance was due to its higher exposure to technology shares, which sold off after the emergence of DeepSeek, a Chinese artificial intelligence (AI) chatbot that is thought to challenge the US AI industry. The Hang Seng Index returned 0.8% ahead of impending tariffs by the US while the Nikkei 225 fell -0.8% as the Bank of Japan raised its cash rate to a 17-year high of 0.5%. The S&P/ASX 200 outperformed other international indices, up 4.6% on rising expectations of a rate cut in February by the Reserve Bank of Australia.

S&P/ASX 200 Sector Performance

Consumer Discretionary was the best-performing sector, rising 7.1% over the month on strong retail trade data. A lower inflation reading and the expectation of a rate cut in February may ease pressure on households and lead to an increase in discretionary spending. Corporate Travel Management Limited led gains, up 16.2%, with its ongoing on-market buybacks supporting the share price. Its peers also performed well, with Web Travel Group Limited and Flight Centre Travel Group Limited gaining 11.3% and 7.1% respectively. Aristocrat Leisure Limited rallied 11.3% while completing its own on-market share buyback of \$1.85 billion. Furniture retailers Harvey Norman Holdings Limited and Temple & Webster Group Limited

also had a strong month, returning 11.4% and 9.6% respectively.

The Financials sector rallied 6.1% in January. Insignia Financial Limited jumped 24.8% as CC Capital increased its takeover proposal price to \$4.60 per share, which was then matched by Bain Capital. Both investment firms have been granted limited due diligence. Insignia Financial Limited also provided a second quarter update, revealing a 2.2% increase in funds under management and administration to \$326.8 billion, driven by \$2.3 billion in net inflows. Hub24 Limited climbed 15.9% after reporting \$5.5 billion in net inflows, a 23% increase on the prior corresponding period (PCP). Its total funds under administration as of 31 December 2024

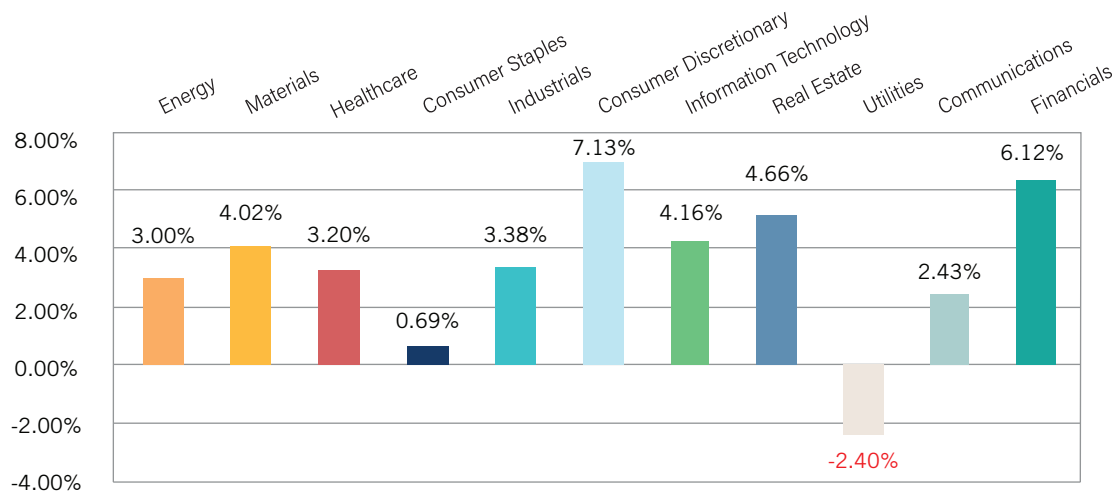
was \$120.9 billion, a 33% increase on the PCP. Other strong performers in the sector were BSP Financial Group Limited (13.1%), AMP Limited (12.6%) and Pinnacle Investment Management Group Limited (12.0%).

The next best-performing sector was Real Estate at 4.7%, buoyed by the improving expectation of near-term rate cuts. Residential community developer and operator Ingenia Communities Group and Lifestyle Communities Limited advanced 25.6% and 15.2% respectively. Ingenia Communities Group upgraded its financial year 2025 (FY25) earnings before interest and tax guidance of \$148–155 million to \$162–165 million

and increased its earnings per share target of 24.4–25.6 cents per share to 29.0–3.0 cents per share. Charter Hall Group, Dexus, Stockland and Scentre Group also rallied, returning 9.6%, 9.0%, 7.7% and 7.6% respectively.

Utilities was the only laggard, falling -2.4% over January. Origin Energy Limited weighed on the sector, down -4.1% on a disappointing quarterly update. The company reported below expectation benefits from well optimisation and downgraded its FY25 liquified natural gas production guidance from 685–710 petajoules to 670–690 petajoules.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 February 2025.

Highlights

Australia: The Australian Bureau of Statistics published the Australian Labour Force data for December 2024. The unemployment rate remained flat from November at 4.0%, while the participation rate reached a record high of 67.1%. Also, 56,300 Australians found jobs in December, ahead of expectations of 15,000. Most jobs came from the education, healthcare

and public service sectors. The underemployment rate fell to 6.0%, the lowest since February 2023.

Sigma Healthcare shareholders have voted to proceed with the merger with Chemist Warehouse. Post-merger, the united entity will be a full-service wholesaler, distributor and retail pharmacy franchisor with a market capitalisation of around \$30 billion.

US: The US trade deficit increased 18.0% to reach US\$1.2 trillion. Imports rose US\$10.8 billion to \$289.6 billion in December as companies front-loaded imports ahead of impending tariffs promised by President Trump. Meanwhile, exports declined from US\$7.8 billion to US\$167.5 billion. The trade deficit is likely to weigh on the US Gross Domestic Product reading for the fourth quarter.

President Trump announced a \$500 billion joint venture named Stargate. The joint venture is between artificial intelligence organisation OpenAI, computer technology company Oracle, and Japanese investment company SoftBank and it will construct a network of data centres in the US.

UK: The Office for National Statistics has revealed that the UK population is forecast to reach 72.5 million in 2032, driven by net migration. Despite the projections depicting the number of births being offset by the number of deaths in the ten-year testing period, net migration is expected to bring in 4.9 million people.

Germany: A parliamentary proposal by the Conservative CDU party advocating for tougher border and asylum rules to restrict migration has been passed, with support from the far-right Alternative for Germany (AfD) party. The move has broken taboo, with mainstream parties having previously avoided dealing with the AfD party.

Spain: To address the housing crisis, Spain is proposing a 100% property tax on non-European Union (EU) residents. The Spanish Prime Minister Pedro Sanchez noted that 27,000

houses and flats in Spain were purchased by non-EU residents in just 2023 while the country has seen increasing homelessness. Currently, 45% of Spain's population is renting and at risk of poverty. Other proposals include increasing social housing and increasing regulation of seasonal rentals.

Austria: Austrian Chancellor Karl Nehammer has resigned after being unable to form a coalition government following the election in September 2024. Talks between the more centrist parties were unable to agree on economic and public finance policies. This has provided an opportunity for the far-right Freedom Party who won the most votes at the general election, to form a government, having been excluded from prior coalition talks.

Japan: The Bank of Japan raised rates by 0.25%, bringing its short-term policy rate to 0.5%. This is the highest the rate has been since 2008. The move was widely expected, coming on the back of rising inflation and rising wages.

China: China has met its economic growth target of 'around 5%' after recording 5.4% growth in the December quarter and bringing annual growth to exactly 5%. Growth was driven by stimulus packages and strong export growth, particularly as companies tried to get ahead of potential tariffs by the United States.

Chinese artificial intelligence (AI) company DeepSeek released an AI chatbot with performance that rivals those developed by US AI companies such as ChatGPT. However, DeepSeek is much more cost effective, using cheaper chips, requiring less data and less energy to run.

What to watch out for

There are growing concerns that a global trade war has begun. US President Donald Trump imposed trade tariffs on Canada, Mexico and China. Canada has already implemented retaliatory tariffs, while Mexico is preparing both

tariff and non-tariff measures. China intends to appeal the tariffs with the World Trade Organization. Trump has also threatened to place tariffs on the European Union.

Conclusion



Markets were higher in January despite momentary hiccups, including the arrival of DeepSeek, and the confirmation of tariffs to be imposed by the US. Global central banks moved in line with expectations in the first meeting of the new year. Geopolitical tensions across the world remain elevated but have so far had little impact on markets.

During periods of uncertainty, clients should:

- Stick to the plan and focus on your long-term goals. Our investment approach is focused on the long term and designed so that your portfolio can ride out any downturns – including this one. Staying the course, despite how uncomfortable it may feel right now, will prove to be the better option when looking back five years from now.

Investors who stayed on the course while equity markets declined in the depths of the COVID-19 pandemic in early 2020 have benefitted from one of the fastest market turnarounds with equity markets. Investors who sold equities during the downturn and waited until economies started to show recovery before buying back into the market missed a large part of the recovery.

- Maintain a buffer of safety. Holding a buffer of cash and term deposits has been a key strategy to provide a cushion against market downturns and to protect capital.
- Take advantage of the weakness. Market downturns provide buying opportunities to invest in long-term, quality investments.
- Focus on quality investments. Invest in companies that generate stable cash flows to support distributions, which are not connected to the movements in asset prices, and partner with fund managers who share the same investment philosophy and objectives.
- Diversify across asset classes, industries, sectors and geographies.
- Regularly rebalance the portfolio back to your risk profile to ensure that the portfolio is not exposed to unwanted risks and to also lock in profits.
- Remain calm, and speak to your Apt adviser. It is important that you speak to your Apt adviser before making any financial moves. Your adviser understands your long- and short-term goals and will have been planning for these types of scenarios already, so they are best placed to explain any impact and discuss the best options and opportunities for you personally.

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