

# Lonsec Client Newsletter - February 2024



## Lonsec

### Market developments during January 2024 included:

#### **Australian Equities**

In January, the ASX 200 achieved a record high, ending the month 1.2% up. Most sectors (eight out of 11) closed the month positively. Lower-than-expected inflation for the December 2023 quarter buoyed investors. Energy (+5.2%), Financials (+5.0%), and Health Care (+4.3%) were the top performers, while Materials (-4.8%) and Utilities (-1.5%) lagged.

Energy stocks, especially Boss Energy (ASX: BOE) and Paladin Energy (ASX: PDN), benefited from positive uranium market news. BOE shares were also boosted by the positive drilling results at its Honeymoon mine in South Australia. The Financials sector was lifted by the "Big 4" banks, despite mixed outlooks for their upcoming earnings.

Conversely, Materials stocks suffered due to falling iron ore and lithium prices. Lithium miners had a tough January as supply outstripped demand, attributed to slower electric vehicle uptake. Sayona Mining (ASX: SYA) and Liontown Resources (ASX: LTR) shares were particularly impacted by the lithium outlook, and BHP (ASX: BHP) also took a hit in January.

As we approach February's reporting season, the robust market of the past two months could face a downturn if earnings disappoint.

#### **Global Equities**

Global equity markets continued to gain despite US Federal Reserve Chairman Jerome Powell noting rate cuts were unlikely in March. The S&P500 rose 1.7% (in local currency terms) while similarly the Nasdaq 100 rose 1.9% (in local currency terms) despite a disappointing start to the Q4 earnings results season.

Similarly European markets posted minor gains, the DAX 30 Index finishing up 0.9% (in local currency terms) even as the European Central Bank holds off on rate cuts and holds interest rates at a record high level. Chinese markets crashed to a 5-year low as manufacturing activity shrank for the fourth straight month, the CSI 300 and Hang Seng Index dropping 6.29% and 9.16% (in local currency terms) spurred further by the liquidation of property giant 'Evergrande' by a Hong Kong court.

#### **Fixed Interest**

Amidst global economic uncertainty, Australian bond markets have moved cautiously in January, with investors awaiting the RBA's February decision. The focus remains on monitoring the evolving economic conditions, particularly the interplay between a robust labour market and tempered household spending. Bond yields mirrored this cautious optimism, with the 2-Year decreasing marginally by 2bps and the 10-Year Australian Bond yields experiencing a slight increase by

6bps, as investors seek clarity on future monetary policy directions.

Globally, the fixed income landscape remained resilient. U.S. Treasury yields saw marginal movement, with the 2-Year decreasing by 5bps and the 10-Year yields increasing by 3bps, as markets adjust to the Federal Reserve's latest guidance on interest rates amidst a stabilized inflation outlook. Meanwhile, UK Gilts rebounded with a modest increase in yields, with the 2- and 10-Year Gilt yields increasing by 25bps and 26bps respectively, reflecting a recalibration of market expectations following the Bank of England's rate decisions.

Investors are navigating the early 2024 bond markets with an eye on central banks' commitment to inflation targets and the potential impact of global economic shifts.

#### **REITs (listed property securities)**

The S&P/ASX 200 A-REIT Accumulation index started the year positively in January, with the index finishing the month 1.3% higher. Conversely, global real estate equities (represented by the FTSE EPR/NAREIT Developed Ex Australia Index (AUD Hedged)) regressed, returning -3.6% for the month. Australian infrastructure started the year negatively, with the S&P/ASX Infrastructure Index TR returning -1.8%.

January was relatively muted on the M&A front across the A-REIT sector. Some activity included BWP Trust (ASX: BWP) announcing a proposed merger with Newmark Property REIT (ASX: NPR) where NPR security holders will receive 0.4 BWP units for every 1 NPR security Held. Abacus Group (ASX: ABG) announced a divestment of two non-core assets for \$107mn, with the proceeds being used to reduce debt. In broader news Ingenia Communities Group (ASX: INA) announced new CEO John Carfi with former CEO Simon Owen stepping back from day-to-day in February.

The Australian residential property market experienced an increase by +0.4% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+1.6%), followed by Adelaide (+1.1%) and Brisbane (+0.9%). In contrast, Melbourne (-0.1%) was the only city to deliver negative returns in January.

#### **Alternatives**

Preliminary estimates for January indicate that the index increased by 2.3 per cent (on a monthly average basis) in SDR terms, after increasing by 3.2 per cent in December (revised). The non-rural, rural, and base metals sub-indices all increased in the past month. In Australian dollar terms, the index increased by 2.9 per cent in January.

Over the past year, the index has decreased by 10.4 per cent in SDR terms, led by lower thermal coal and

liquified natural gas prices. The index has decreased by 7.1 per cent in Australian dollar terms.

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