



Market Trends

February

2024

with Chief Economist
David Bassanese



Overview

- Market Overview – February 2024
- Cash returns
- Floating rate bonds and hybrids
- Fixed-rate Australian bonds
- Australian equities
- Australian equity themes
- Global equities
- Global equity themes
- Considerations when investing



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Market overview – February 2024

Major Asset Class Performance

	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Defensive Assets	-0.4%	0.0%	2.2%	0.0%	2.2%	3.7%
Cash	0.3%	0.4%	1.1%	1.0%	2.1%	4.1%
Aust. Bonds	-0.3%	0.2%	2.6%	-0.5%	2.1%	3.5%
Global Bonds	-0.8%	-0.3%	1.9%	0.5%	2.3%	3.9%
Gold	0.2%	-1.1%	0.4%	5.0%	5.4%	11.9%
Growth Assets	4.0%	2.8%	11.4%	-1.3%	9.9%	21.0%
A-REITs	4.8%	1.2%	18.1%	-4.5%	12.8%	15.1%
Aust. Equities	0.8%	1.2%	9.4%	-1.8%	7.4%	10.6%
Global Equities-\$A	5.9%	3.8%	12.0%	-0.8%	11.1%	27.5%
Balanced Portfolio	1.8%	1.4%	6.8%	-0.7%	6.0%	12.3%
MSCI ACWI - LC	4.7%	1.2%	10.2%	1.4%	11.8%	23.3%
World vs \$A	1.2%	2.6%	1.5%	-2.2%	-0.7%	3.4%

Source: Bloomberg. Past performance is not indicative of future performance. Defensive, Growth and Balanced Portfolio returns are based on asset weights for the Betashares strategic balanced managed portfolio

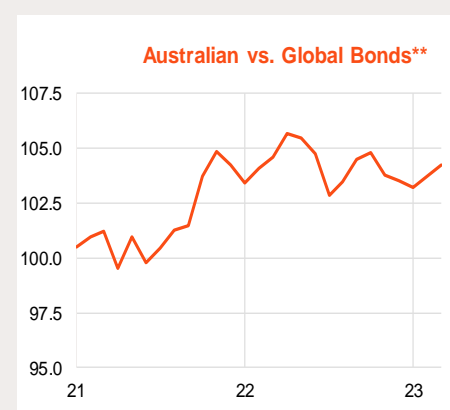
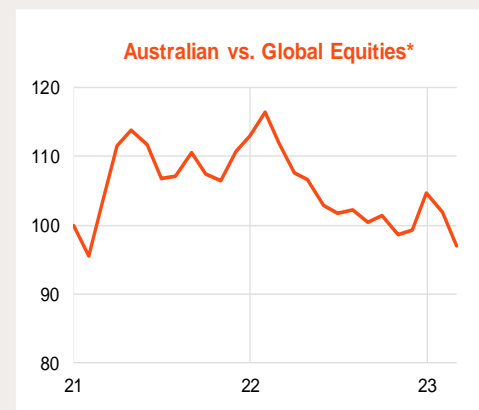
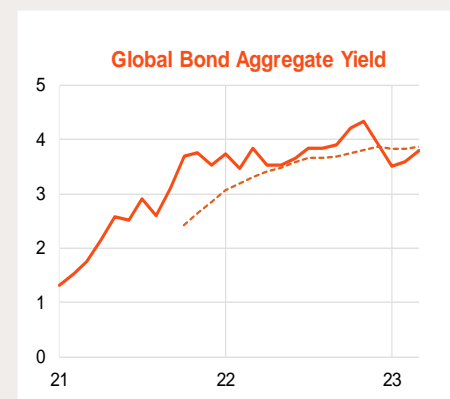
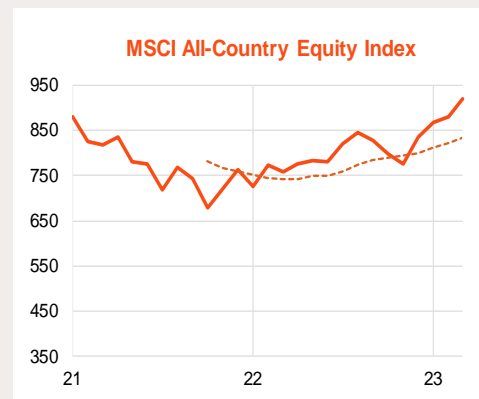
Our hypothetical balanced portfolio returned 1.8% in February, reflecting gains in growth assets more than offsetting a small decline in defensive asset returns.

Defensive asset returns were down 0.4%, reflecting weaker fixed-rate bond returns. In turn this reflected a rise in local and global bond yields as resilient economic data and an upside surprise to US inflation caused markets to push out the timing of expected central bank rate cuts.

Growth assets returned 4.0%, with global equities in unhedged AUD terms rising 5.9%. The trend in global equities has been upward since bottoming in late 2022.

Despite higher bond yields, local listed property returned a solid 4.8%, while Australian equities returned a more modest 0.8%. The trend in the relative performance of Australian equities has remained downward since early 2023. Relative returns for Australian versus global bonds have been choppy over the past year.

Global & Australia Major Asset Class Performance



Source: Bloomberg. Past performance is not an indicator of future performance. *Australian equities: S&P/ASX 200 vs Global MSCI ACWI in unhedged \$A terms. **Bonds: Bloomberg Australian Composite Bond Index vs. Bloomberg Global Aggregate Bond Index hedged \$A terms

Global bonds

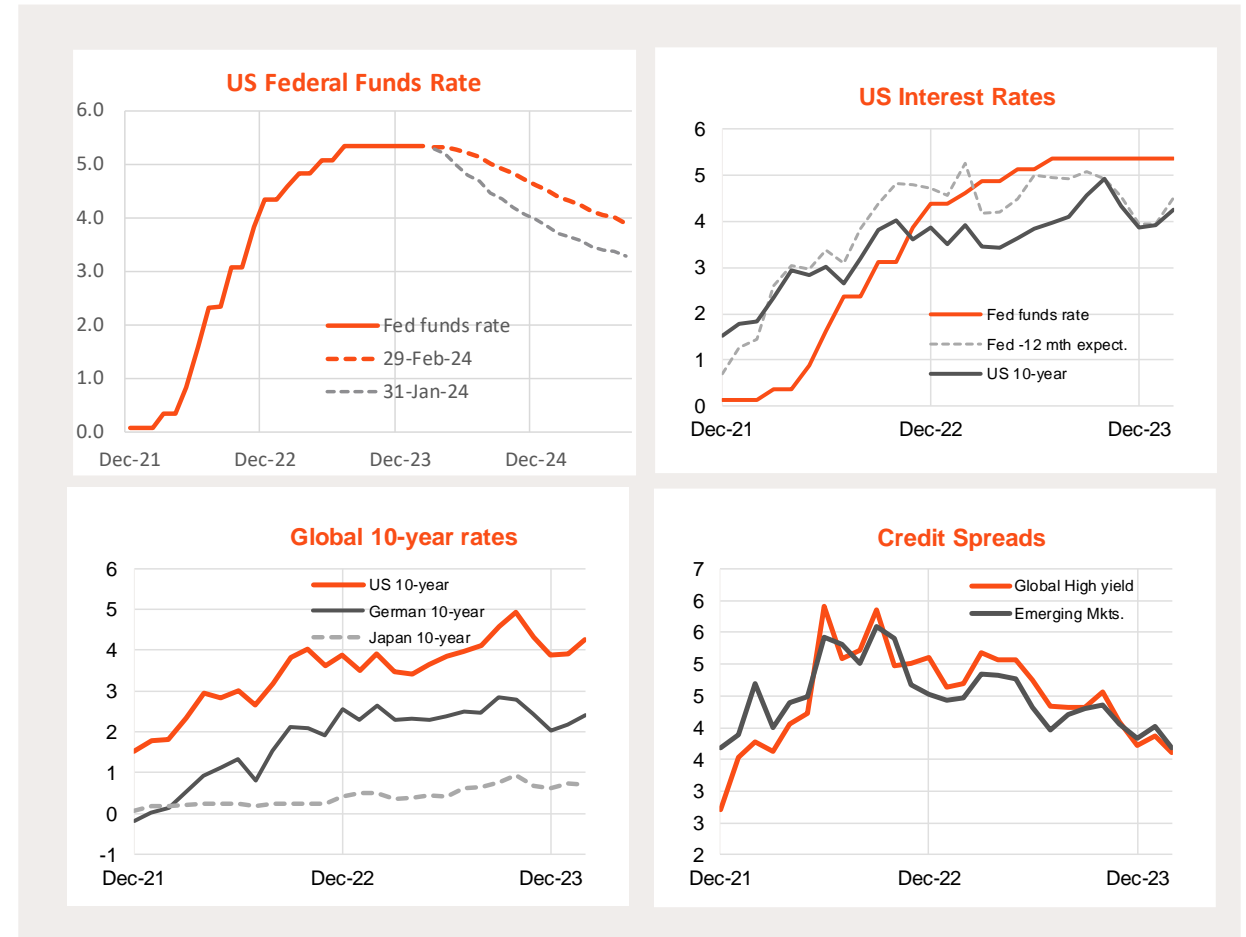
The Bloomberg Global Aggregate Bond Index (\$A hedged) lost 0.8% in February, reflecting a lift in global bond yields as a higher-than-expected US January CPI result pushed out market timing for the first US official interest rate cut. Over the past year, the index has returned 3.9%

The core US CPI rose 0.4% in January, a touch higher than the 0.3% market expectation. Together with a higher-than-expected producer price index (PPI) and still-solid US activity data, markets effectively halved the number of expected 0.25% US rate cuts this year from six to three. US 10-year bond yields rose 0.34% to 4.25%.

Outside of the US, German 10-year yields also moved higher while Japanese yields were steady. High yield bond spreads narrowed after an uptick in January. All up, the yield-to-maturity on the Bloomberg Global Aggregate Index lifted 0.22% to 3.8%.

Global Bonds	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
US Fed Funds	5.38	0.00	0.00	0.00	0.00	0.00	0.75
Fed F 12-mth exp. ³	4.51	0.55	0.01	-0.04	-0.39	-0.43	-0.77
US 10-yr yield	4.25	0.34	0.03	-0.08	0.22	0.14	0.33
German 10-yr	2.41	0.25	0.14	-0.03	-0.02	-0.05	-0.24
Japan 10-yr	0.71	-0.02	0.12	0.04	0.02	0.06	0.20
High yield spread	3.61	-0.25	0.15	-0.48	-0.22	-0.70	-1.09
Global Bond yield	3.80	0.22	0.07	-0.13	0.02	-0.11	-0.04
Global Bonds-\$US H	556	-0.7%	-0.2%	2.3%	0.9%	3.2%	5.5%
Hedging cost		-0.1%	-0.1%	-0.4%	-0.5%	-0.9%	-1.6%
Global Bonds-\$A H	1,000	-0.8%	-0.3%	1.9%	0.5%	2.3%	3.9%

Select Global Interest Rates



Source: Bloomberg, Refinitiv, Betashares. Past performance is not indicative of future performance.

Australian Cash & Bonds

The Bloomberg Australian Bond Composite Index lost 0.3% in February, reflecting a lift in local bonds yields. Cash returns, according to the Bloomberg Bank Bill Index, lifted 0.3%.

The gain in bond yields reflected both higher global rates plus a push back in the timing of local official rate cuts. The market is pricing just under two rate cuts over the next 12-months, from almost three rate cuts expected at end-January.

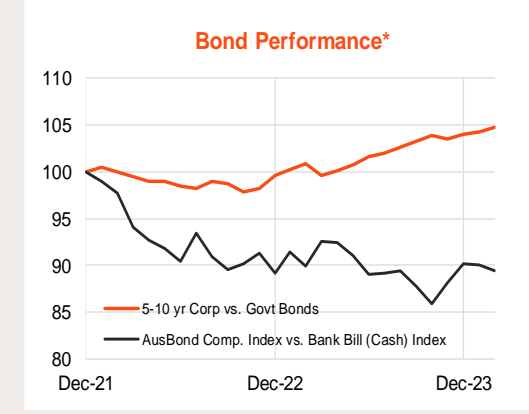
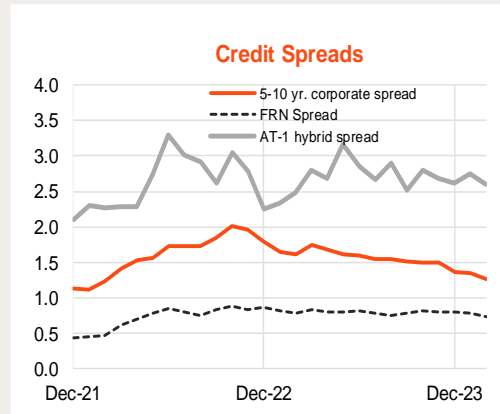
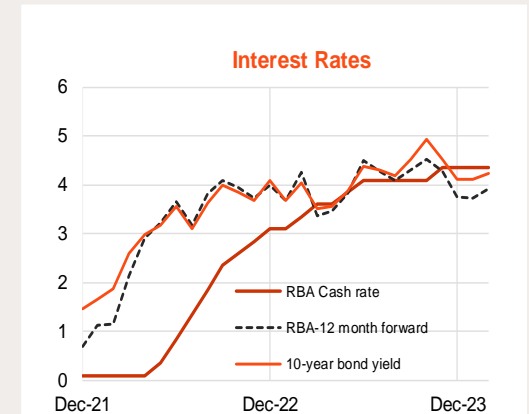
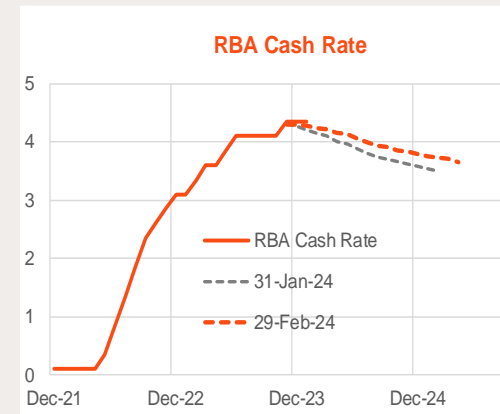
Bond have outperformed cash since the peak in bond yields in October last year, though there has been a modest setback in this trend in the past two months.

Corporate credit spreads, meanwhile, continue to narrow, which is supportive of corporate bond outperformance over government bonds.

Australian Bonds	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
RBA Cash Rate (%)	4.35	0.00	0.00	0.00	0.25	0.25	1.00
RBA 12-mth exp. ³	3.93	0.19	-0.02	-0.36	0.18	-0.17	-0.33
US 10-yr yield	4.251	0.34	0.03	-0.08	0.22	0.14	0.33
Aust. 10-yr yield	4.14	0.12	0.06	-0.28	0.39	0.11	0.28
FRN spread ¹ (%)	0.73	-0.06	0.00	-0.07	0.05	-0.02	-0.05
Hybrid Spread ² (%)	2.60	-0.15	0.13	-0.08	-0.22	-0.30	0.12
5-10yr spread ⁴	1.26	-0.10	-0.01	-0.23	-0.05	-0.29	-0.35
AusBond Comp. yield	4.24	0.12	0.01	-0.28	0.33	0.05	0.19
AusBond Comp. Return Index		-0.3%	0.2%	2.6%	-0.5%	2.1%	3.5%
B/Bg Bank Bill Return Index		0.3%	0.4%	1.1%	1.0%	2.1%	4.1%

Source: Bloomberg, Refinitiv, Betashares. *Bloomberg AusBond Composite Index, Bloomberg Bank Bill Index, Bloomberg 5–10-year Australian Government and Corporate Bond Indices. Past performance is not indicative of future performance.

Select Australian Interest Rates



Source: Bloomberg, Refinitiv, Betashares. Past performance is not indicative of future performance.

Global equities

Despite the rise in global bond yields, the MSCI All-Country World Index returned 4.7% in February on an unhedged (local currency) basis, following a more modest 1.2% gain in January. Forward earnings rose 1.1%, helped by still-solid earnings growth expectations and a good US earnings reporting season. But the major driver of returns was a further narrowing in the equity-risk premium to a relatively tight 1.5%. This saw the PE ratio rise 3.4% to 17.5x.

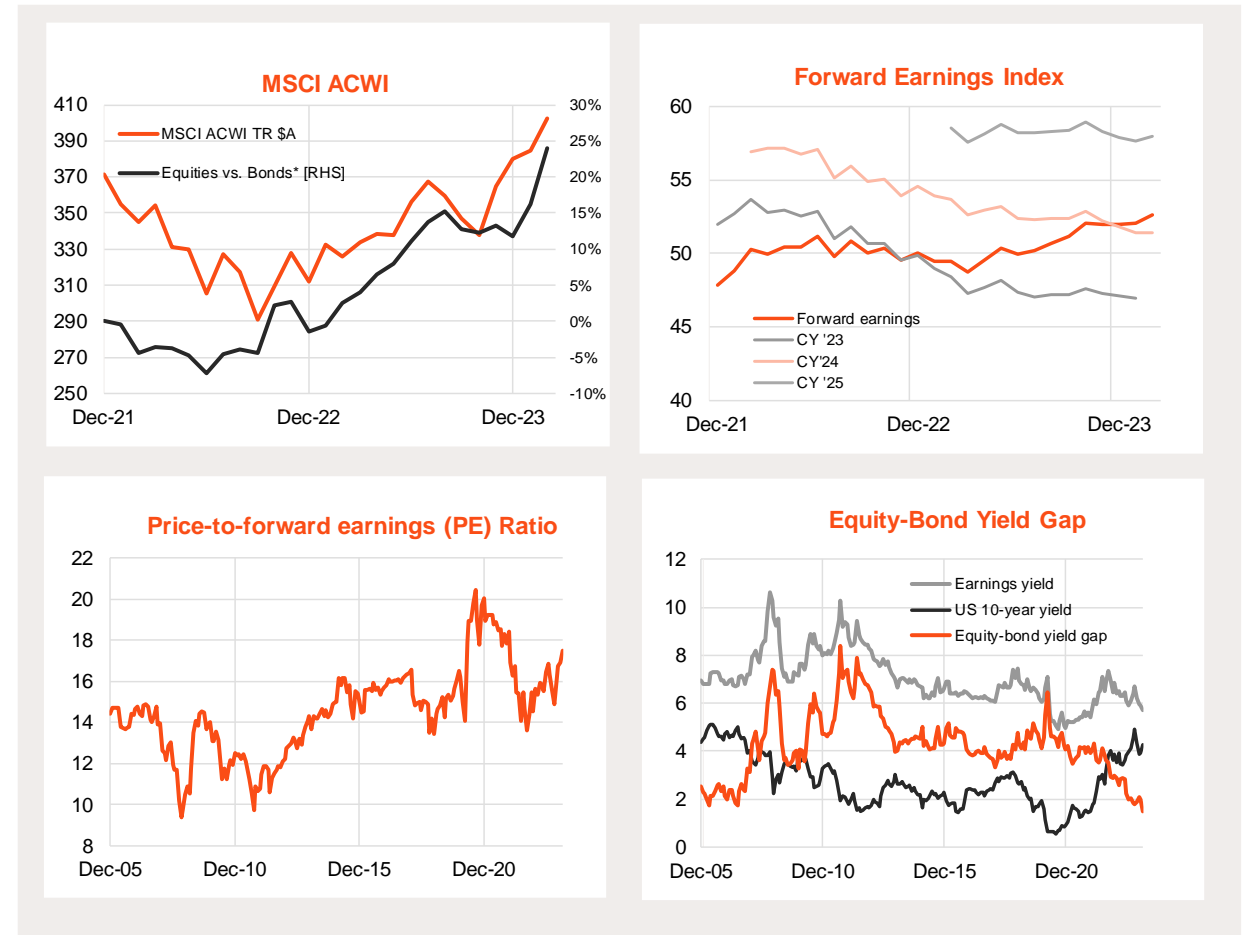
In unhedged \$A terms, global equities returned a stronger 5.9%, thanks to strength in global currencies versus the \$A. On an unhedged basis, global equities have returned 27.5% over the past year.

Easing fears of a global recession remains the major global market theme, with the US Federal Reserve signalling the next move in rates is likely down. The only near-term debate is how quickly the Fed will cut, with markets potentially at risk in the short term if the Fed delays until later this year or even early 2025.

That said, at 17.5x and 1.5% respectively, the PE ratio and equity risk premium appear a little stretched by recent historic standards, suggesting further equity gains may require a decent further decline in bond yields or a lift in forward earnings.

Global Equities	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
US 10-yr yield	4.25	0.34	0.03	-0.08	0.22	0.14	0.33
Equity-risk premium ⁵	1.48	-0.53	-0.09	-0.41	-0.13	-0.54	-1.12
Earnings yield ⁶	5.73	-0.19	-0.06	-0.49	0.08	-0.40	-0.79
PE ratio ⁷	17.5	3.4%	1.0%	8.5%	-1.4%	7.0%	13.8%
Forward Earnings ⁸		1.1%	0.2%	1.3%	2.5%	3.9%	6.5%
MSCI ACWI Price Index		4.5%	1.2%	9.9%	1.1%	11.1%	21.2%
Dividend		0.1%	0.1%	0.3%	0.4%	0.7%	2.1%
Total Return-hedged		4.7%	1.2%	10.2%	1.4%	11.8%	23.3%
World vs \$A		1.2%	2.6%	1.5%	-2.2%	-0.7%	3.4%
Total return-\$A basis⁹		5.9%	3.8%	12.0%	-0.8%	11.1%	27.5%

MSCI All-Country World Equity Index



Source: Bloomberg, Refinitiv, Betashares. Past performance is not indicative of future performance.

Global sector/factor trends

Despite rising bond yields, technology and quality were again among the best performing equity themes in February, with HNDQ's index returning 5.4%, while HQLT's index returned 5.9%. Strength in US technology earnings – and continued enthusiasm for artificial intelligence companies – are supporting both exposures.

Resources and energy exposures continue to underperform, along with health care. Financials (BNKS) are broadly tracking global performance.

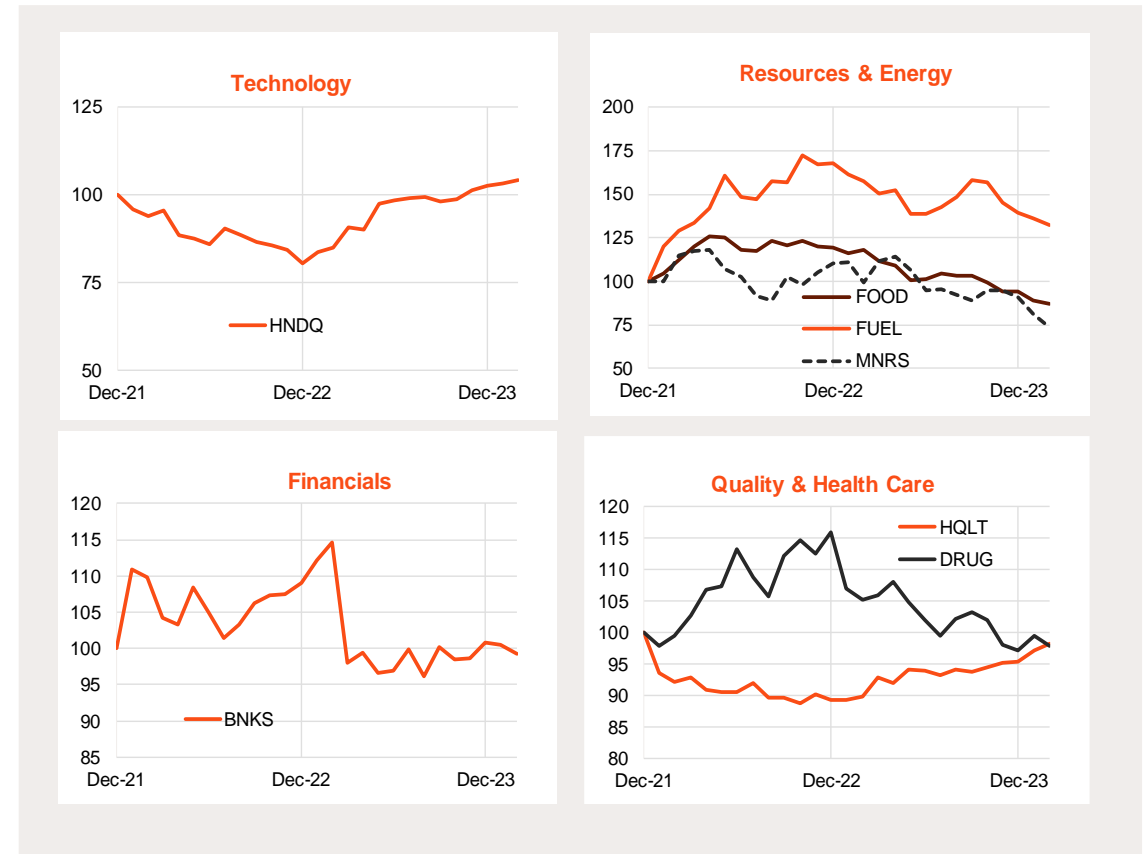
Selected Betashares Global Equity Indices – February Performance

Global Equity Returns ⁹	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
MSCI ACWI	4.7%	1.2%	10.2%	1.4%	11.8%	23.3%
HNDQ	5.4%	1.9%	13.3%	3.0%	16.7%	50.7%
HQLT	5.9%	3.2%	13.9%	2.6%	16.9%	35.0%
FUEL	1.8%	-1.2%	0.5%	-0.8%	-0.3%	3.6%
BNKS	3.3%	0.9%	10.8%	4.1%	15.3%	6.7%
DRUG	3.0%	3.7%	10.1%	-2.7%	7.2%	14.8%
FOOD	1.9%	-4.0%	1.6%	-7.4%	-5.9%	-9.4%
MNRS	-5.9%	-9.0%	-14.8%	4.0%	-11.4%	-9.2%

Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

Selected Betashares Global Equity Index Exposures

Relative Performance Indices



Source: Bloomberg, Betashares. International ETF indices vs. MSCI ACWI. Index performance is used to show longer term performance of the exposure. Chart shows performance of the index which the relevant ETF aims to track, not the actual past performance of the ETF. Index performance does not take into account ETF fees and costs. You cannot invest directly in an index. ETF may not have been in existence for entire period specified in the chart. Past performance is not an indicator of future performance.

Global regional trends

Outside of the United States and among selected major Betashares regional ETFs, Europe and Japan (HEUR and HJPN) enjoyed strong returns in February, up 6.0% and 7.0% respectively.

Broad trends over recent months continue to favour Japan, while Europe is tracking sideways in terms of relative global performance. Australia and the UK continue to generally underperform.

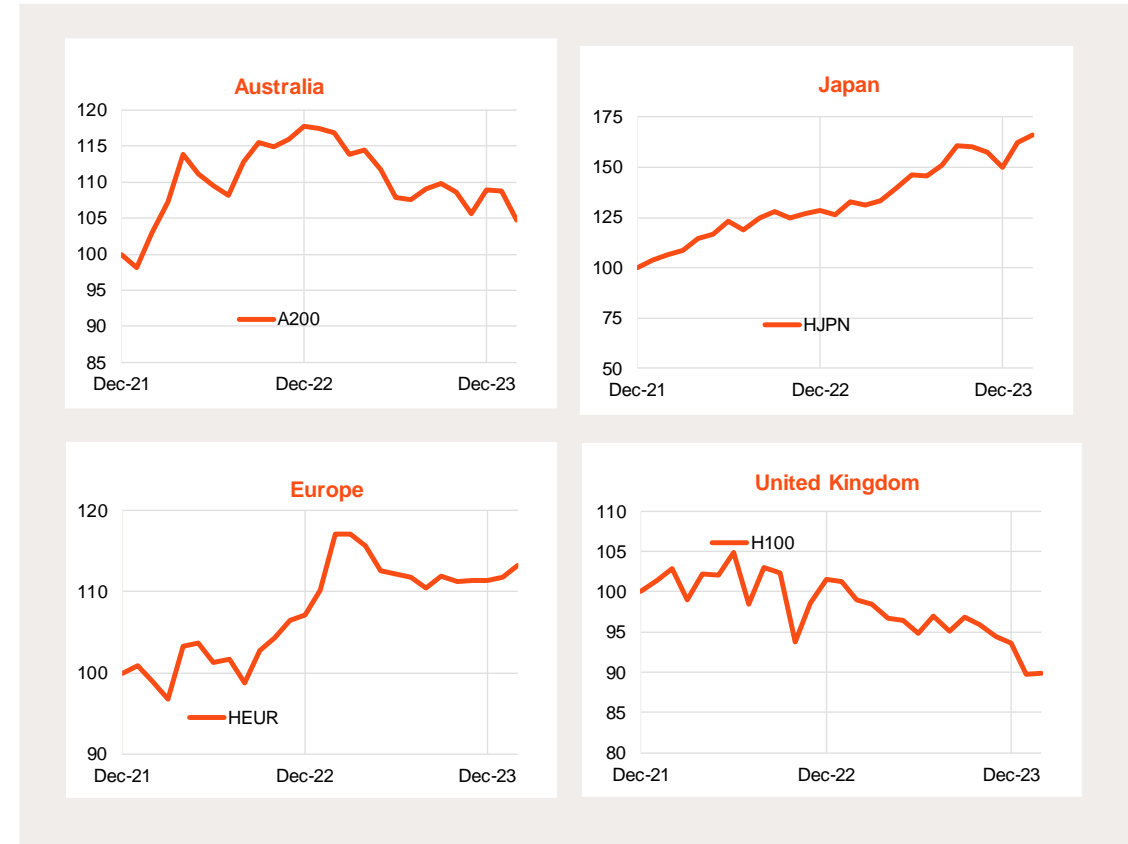
Selected Betashares Global Equity Indices – February Performance

Global Equity Returns ⁹	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
MSCI ACWI	4.7%	1.2%	10.2%	1.4%	11.8%	23.3%
A200	0.8%	1.3%	9.5%	-1.7%	7.6%	10.7%
HJPN	7.0%	9.6%	16.2%	5.6%	22.7%	53.9%
HEUR	6.0%	1.6%	12.0%	2.4%	14.7%	19.2%
F100	0.5%	-1.3%	3.0%	0.9%	3.9%	0.8%

Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

Selected Betashares Global Equity Index Exposures

Relative Performance Indices



Source: Bloomberg, Betashares. International ETF indices vs. MSCI ACWI. Index performance is used to show longer term performance of the exposure. Chart shows performance of the index which the relevant ETF aims to track, not the actual past performance of the ETF. Index performance does not take into account ETF fees and costs. You cannot invest directly in an index. ETF may not have been in existence for entire period specified in the chart. Past performance is not an indicator of future performance.

Australian equities

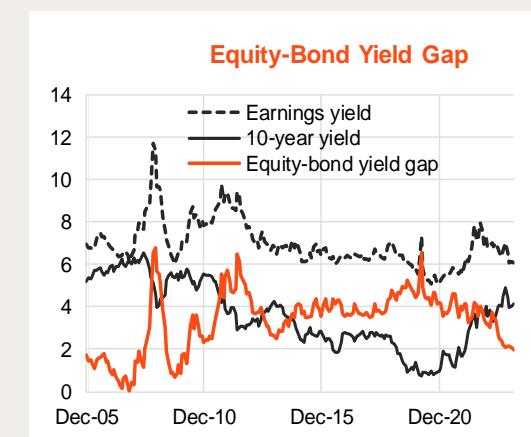
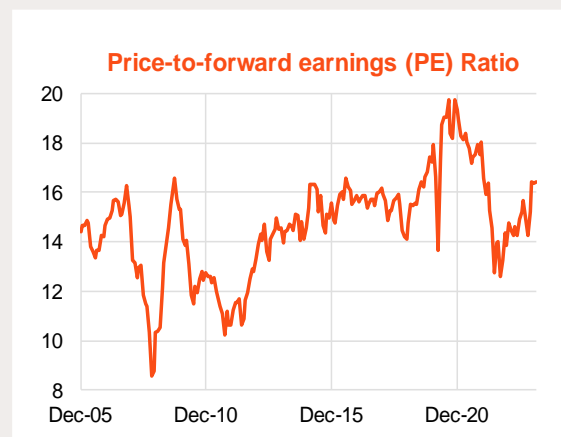
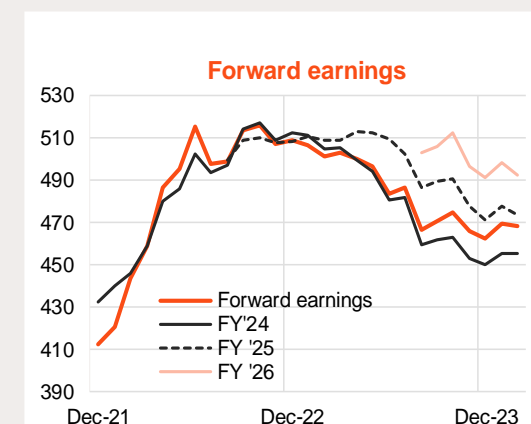
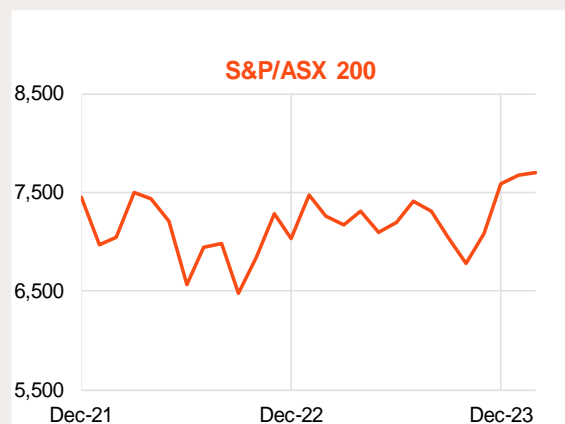
Despite the rise in bond yields, the S&P/ASX 200 Index returned 0.8% in February after a 1.2% gain in January. Forward earnings declined after rising in January, while the gain in equity prices reflected a further decline in the equity-risk premium to 1.9% - hence the modest lift in the PE ratio to 16.4x.

After enduring a choppy sideways range over the past two years (with a recovery in PE valuations offset by declining forward earnings) the market has recently broken through this range to new highs. As with global markets, PE valuations are getting a little stretched and the equity-risk premium is low. Sustained further gains seem to require a decent decline in bond yields (without a recession!) or a further gain in forward earnings.

With a local and global economic soft landing now appearing more achievable, the outlook for earnings is encouraging – albeit expected growth over the coming year appears somewhat more subdued than for the global market overall.

Australian Equities	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Aust. 10-yr yield	4.14	0.12	0.06	-0.28	0.39	0.11	0.28
Equity-risk premium ⁵	1.94	-0.16	-0.03	-0.22	-0.20	-0.42	-1.11
Earnings yield ⁶	6.08	-0.04	0.02	-0.50	0.19	-0.31	-0.83
PE ratio ⁷	16.4	0.6%	-0.4%	8.2%	-2.8%	5.1%	13.6%
Forward Earnings ⁸		-0.4%	1.5%	0.4%	-0.1%	0.3%	-6.6%
S&P/ASX 200 Price Index		0.2%	1.2%	8.6%	-3.0%	5.4%	6.1%
Dividend		0.6%	0.0%	0.8%	1.2%	2.0%	4.6%
Total Return		0.8%	1.2%	9.4%	-1.8%	7.4%	10.6%

S&P/ASX 200 Equity Index



Source: Bloomberg, Refinitiv, Betashares. Past performance is not indicative of future performance.

Australian equity themes

Local technology stocks had a good February, with ATEC's index returning 13.0%. ATEC's index is up 40.4% over the past 12 months.

By contrast, resources stocks fell in February while quality (AQLT) and financials (QFN) posted solid gains of 3.5% each.

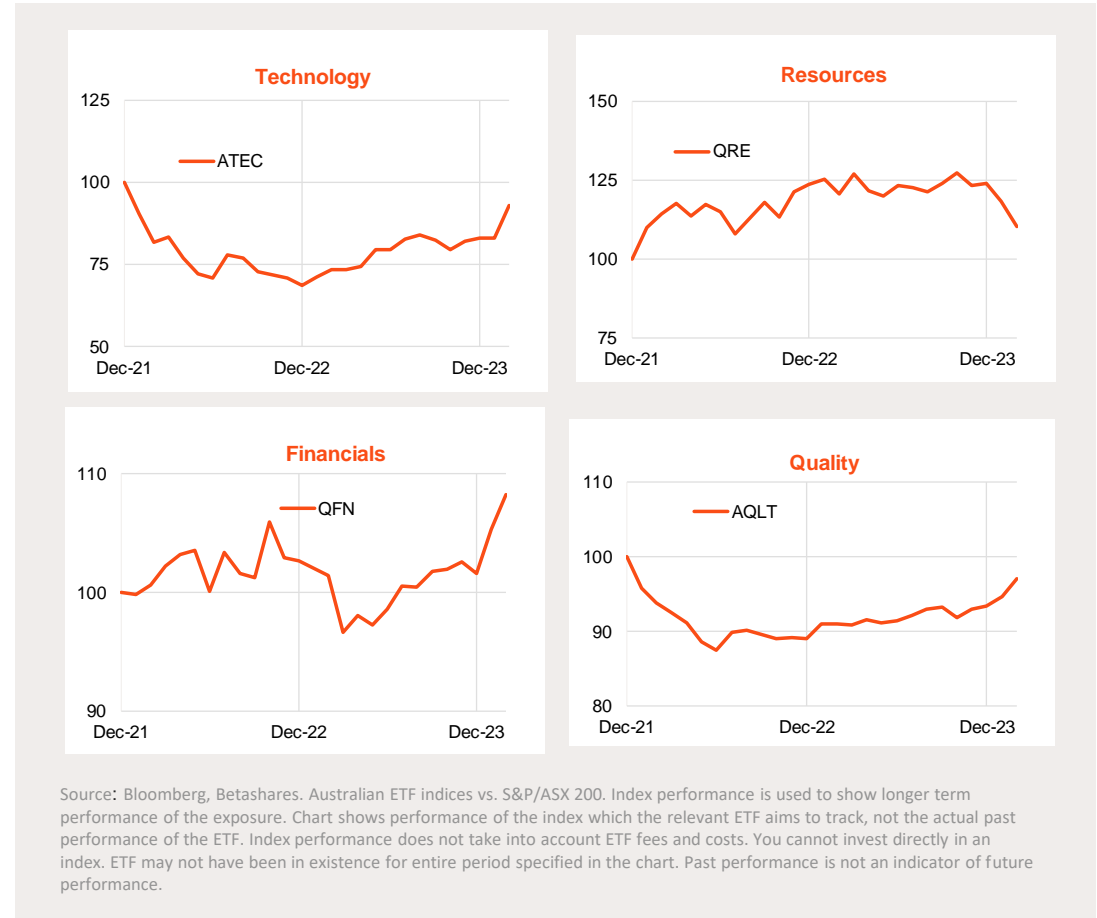
Over the past six to 12 months, three of the selected Australian equity theme indices - financials, technology and quality - have tended to outperform the broader market. After a very strong 2022, the relative performance of the resources sector has since pulled back.

Selected Betashares Australian Equity Indices – February Performance

Aust. Equity Returns ⁹	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
S&P/ASX 200	0.8%	1.2%	9.4%	-1.8%	7.4%	10.6%
ATEC	13.0%	1.2%	23.8%	-3.9%	19.0%	40.4%
QFN	3.5%	5.0%	15.4%	0.3%	15.7%	18.1%
QRE	-6.0%	-3.6%	-2.3%	-0.2%	-2.5%	1.0%
AQLT	3.5%	2.5%	14.2%	-1.7%	12.3%	18.2%

Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

Selected Betashares Australian Equity Index Exposures Relative Performance Indices



Additional information

1. FRN yield and return is based on that of the Bloomberg Floating Rate Bond Index. FRN spread is its yield difference to the 30-day bank bill rate.
2. Hybrid yield refers to average yield on 5-year to call AT1 hybrids. Hybrid spread is the difference in the hybrid yield and the 30-day bank bill rate. Hybrid returns are gross returns, which include franking credits. The actual after-tax hybrid return for investors will depend on their overall tax situation and ability to benefit from franking credits.
3. 12-month forward RBA/Fed expectation is the market implied expected change in the RBA/Fed cash rate over the coming 12 months, based on interest rate futures.
4. Yields and returns relating to 5–10-year government and credit exposures related to the Bloomberg 5-10 Year maturity Australian Government Bond Index and the 5-10 Year Bloomberg Australian Credit Index.
5. The equity-risk premium is defined as the difference between the equity market's forward-earnings yield (reciprocal of the forward PE ratio) and the 10-year government bond yield.
6. Forward earnings yield is the market's level of forward earnings divided by the equity price index.
7. The price to forward earnings (PE ratio) is the ratio of forward earnings to the equity price index.
8. Forward earnings are a time weighted pro-rata average of the expected level of earnings for the current and following financial year. The weight on next year's earnings in the calculation grows as the new year approaches.
9. Global equity total returns includes estimated reinvested dividends and are in local currency terms. Australian equity returns also include estimated reinvested dividends and are in Australian dollar terms.

Further information on the complete range of Betashares exchange traded products can be found [here](#).

Considerations when investing

Investment risk

The value of an investor's portfolio can go down as well as up. Risks include **for example:**

- Market risk with equities
- Currency risk with international investments
- Interest rate risk with cash and bonds.

No guarantees

Future outcomes are uncertain – desired return outcome may not be achieved.

General information only

Today's discussion does not take into account any person's individual circumstances and is not personal financial advice.

Professional advice

Investors should seek professional financial advice before investing.

Research

See relevant Product Disclosure Statement for more information about risks and other features of each fund and consider the relevant Target Market Determination which sets out the class of consumers that comprise the target market for the relevant fund.

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