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Economic & market commentary – February 2022

Defensive Assets (% return)	1mth	3mth	6mth	1yr	3yr pa	5yr pa	10yr pa
Bloomberg AusBond Bank Bill	0.01	0.01	0.02	0.03	0.51	1.05	1.87
Bloomberg AusBond Composite 0+ Years	-1.21	-2.13	-5.10	-1.09	1.57	2.73	3.93
Bloomberg AusBond Credit 0+ Years	-1.07	-1.44	-3.92	-1.65	2.46	3.33	4.59
Bloomberg Barclays Global Agg. Credit Hedge	-2.23	-4.88	-5.72	-3.67	2.92	2.93	4.71
Bloomberg Barclays Global Aggregate Hedge	-1.30	-3.34	-3.83	-2.33	2.15	2.43	4.12
Growth Assets (% return)	**1mth**	**3mth**	**6mth**	**1yr**	**3yr pa**	**5yr pa**	**10yr pa**
FTSE Developed Core Infrastr. 50/50 Hedge	-0.63	3.25	1.51	17.29	6.26	7.80	11.36
FTSE EPRA Nareit Global	-5.26	-3.97	-3.70	18.00	4.34	7.13	11.30
HFRI Fund Weighted Composite	n/a	-0.29	1.81	13.03	8.68	8.06	9.65
MSCI AC World ex Australia	-5.53	-5.88	-4.43	15.60	13.31	13.41	15.03
MSCI Emerging Markets	-5.80	-5.19	-9.04	-4.41	5.70	8.62	7.82
S&P ASX 200	2.14	-1.72	-4.15	10.19	8.42	8.48	9.56
S&P ASX 200 A-REIT (Sector)	1.42	-3.76	-1.20	23.93	6.85	7.67	12.03
S&P ASX Small Ordinaries	-0.01	-7.71	-9.14	5.02	7.74	9.35	5.50
Currency & Commodity moves (% change)	**1mth**	**3mth**	**6mth**	**1yr**	**3yr %Δ**	**5yr %Δ**	**10yr %Δ**
AUD vs USD	2.77	1.88	-0.72	-5.74	2.38	-5.15	-32.33
SPOT GOLD (USD)	6.25	7.62	5.25	10.09	45.41	53.66	12.65
Iron Ore (USD/MT)	-4.88	36.50	-12.78	-21.55	60.59	48.37	-4.55
NYMEX Light Crude Oil (USD)	8.59	44.64	39.74	67.34	67.20	77.26	-10.60
Bitcoin Futures (USD)	9.13	-27.31	-11.37	-10.64	1,008	n/a	n/a

Source: AUD total returns as at 28 February 2022. Defensive and Growth Assets data is sourced from Financial Express; currency and commodity data is sourced from IRESS.

While February is the shortest month of the year, it is by no means the least eventful. Concerns around inflation and war reached peak levels and market volatility remained elevated. Domestic shares finished in the black and outperformed global peers, where local investors lamented the strength of the Australian dollar. Value continued to outperform growth and the tech sector was especially volatile.

Emerging markets continued to disappoint and were among the few risk assets that failed to deliver positive returns over the preceding twelve months. Global infrastructure held up well and listed property was a mixed bag, with domestic exposures generally outperforming.

Meanwhile fixed interest investors wore further losses, with credit bearing the brunt of the hit. In early February, expectations for the number of interest rate hikes that would be delivered by the US Federal Reserve (Fed), the Bank of England (BOE) and the European Central Bank (ECB) ramped up quickly. The market now expects the Fed to deliver nearly six rate hikes by the end of the year, while the BOE commenced its policy tightening in December 2021.

Much of the focus was firmly on energy markets, where crude oil and natural gas continued to rally. As the probability of a Russian invasion of Ukraine grew, thermal coal, fertiliser and food prices also began to escalate. More broadly, commodities and precious metals displayed strong sentiment, while movements in crypto closely mirrored market sentiment.

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Market commentary

February was very much a tale of two halves. The first half focused on inflationary expectations and the speed of monetary policy tightening, while the second half saw investors turn their attention to President Putin and the crisis developing between Russia and Ukraine. Markets were particularly interested about how shares are affected by war.

The US S&P 500 was down 3.1% in February in local currency terms, while the Dow Jones Industrial Average lost 3.5% for the month. Of note, the S&P 500 traded nearly 15% below its all-time high that was reached in early January, before staging a relief rally. In addition, February posted no new S&P 500 closing highs, something not seen since October 2020, as momentum ground to a halt. This came despite a strong quarterly earnings season in the US.

Perhaps the lowlight for investors was the collapse in the stock price of Facebook parent, Meta. The company forecasted weaker-than-expected revenue growth in the March quarter and promptly lost more than a quarter of its market value. The collapse in Meta is the worst-ever share market hit by value and points. However, the February domestic interim company reporting season was better received by Australian investors, with exposure to resources delivering solid gains for the month.

Some investors will be familiar with the saying: "So goes January, so goes the year." While there is long way to go, unhedged domestic investors in global shares have felt the additional pain of the stronger Australian dollar. This is quite unusual in a risk-off environment, particularly when expected interest rate differentials are moving unfavourably for the Australian dollar. However, the renewed strength of energy and commodity prices have combined with relatively lower domestic inflation to give the Australian dollar a boost.

Economic commentary

On the domestic economic front, official interest rates remained unchanged, even as inflationary pressures continued to mount at home and abroad. Australia's labour market improved further, and wage pressures inched higher. The RBA Board recently noted that "the Australian economy remains resilient, and spending is picking up following the Omicron setback", while household and business balance sheets are in generally good shape. Retail sales rose strongly in January and were 14% higher than in January 2020, just prior to the pandemic.

Perhaps the defining economic moments for February were US annual CPI inflation printing at 7.5% and crude oil's return to US$100 a barrel (last seen in July 2014). Despite fears around inflation and the impact of the Russia-Ukraine conflict, US economic fundamentals remain strong. Unemployment continues to decline (even as more people return to the labour force), house prices continue to rise, while consumer spending continues in earnest. This has led many analysts to forecast near-double-digit growth in S&P 500 earnings for 2022 and 2023.

Elsewhere, some analysts expressed concerns that western sanctions on Russia could also lead to a surge in nickel and palladium prices, further fuelling inflation as these components are important in the manufacturing sector (autos) and in semi-conductors (palladium in particular).

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