Wealthpoint

# Market Update to 28 February 2025

March 2025

# What happened in February

## Australia/New Zealand

- February provided relief to the NZ economy, with signals indicating a potential economic recovery. The RBNZ cut the Official Cash Rate from 4.25% to 3.75%, which should reduce borrowing costs and increase disposable income. However, unemployment reached a four-year high of 5.1%, and it may take time for businesses to feel the benefits. The NZD weakened against major currencies, with concerns over imported inflation due to continued demand for overseas goods.
- Consumers in Australia showed improved confidence, with better expectations for inflation and interest rates. The RBA reduced the cash rate by 25 basis points to 4.1%, but cautioned that inflation remains a challenge, which may influence future interest rate decisions and temper growth expectations for the rest of the year.

## China

- Positive sentiment in China has lifted equity markets throughout the month, as attractive valuations have been met with stronger-than-expected earnings and investor enthusiasm for AI adoption across industries.
- The Chinese Communist Party (CCP) is expected to introduce long-term growth measures to counter the sharp decline in prices. However, a key challenge remains on the trade front, with retaliatory tariffs against the US in place. The full impact of these measures is yet to be fully realised.

## U.S.A

- US exceptionalism faces headwinds from Trump’s uncertain policy tactics, especially concerning tariffs. Equity markets reacted negatively to tariff threats, with some delayed or idle, while others were explicit, as Trump used tariffs in negotiations. Declaring a "national emergency" over immigration and drugs from Canada and Mexico, he warned of 25% tariffs unless these countries address the issues, later giving a 30-day reprieve. Meanwhile, China faced a full 10% tariff on all imports, with a potential 10% increase on Chinese imports in early March. New Zealand is likely to face a 15% tariff starting April 1st.
- Amid these policy shifts, the US economy showed mixed signals—business and consumer confidence dropped sharply, inflation surprisingly decreased, and unemployment improved. The impact on equity markets was largely sentiment-driven, based on tariff expectations.
- In foreign policy, February saw a dramatic moment when Trump and Zelensky discussed US support for Ukraine in exchange for mining rights, but the deal collapsed after a public spat at a press conference, with Trump accusing Zelensky of "gambling with World War III." The deal was not signed, leaving peace negotiations further off.

## Europe

- Political tensions dominated headlines in the Eurozone, particularly after the highly anticipated US-brokered ceasefire deal between Russia and Ukraine collapsed. The negotiations notably excluded any Eurozone leaders, sparking criticism and prompting UK and French leaders to visit the US president to discuss diplomatic relations.

# Asset class performance to 28 February 2025

| | NZ Fixed Income | Global Fixed Income | NZ Shares | Australian Shares | Global Shares | Global Property |
|---|---|---|---|---|---|---|
| **Month** | -0.69% | 1.18% | -1.72% | -3.79% | -0.79% | 1.95% |
| **3 months** | 1.12% | 0.66% | -2.16% | -2.56% | 0.80% | -2.87% |
| **One year** | 6.99% | 5.61% | 6.69% | 9.94% | 16.24% | 12.14% |

*Source: MorningStar*

## Equities

February brought a noticeable shift in global markets, with uncertainty weighing on equity returns and investors seeking safer assets. The rally that had been driving US stocks took a step back, leading to a rotation from high-growth stocks to value-focused investments.

In the US, markets struggled, with the tech-heavy S&P 500 falling 1.3% over the month. Investors moved funds toward more stable sectors, creating a divide in market performance.

Meanwhile, European markets saw strong capital inflows, particularly into value-oriented stocks. The MSCI Europe ex-UK index rose 3.4%, with financial and defense companies leading the charge.

China was one of the standout performers in February, with mainland equities surging 11.7% (in USD terms). Investor confidence was boosted by renewed economic growth efforts, an improved regulatory environment, and expectations of increased government spending.

Closer to home, February was peak earnings season in New Zealand, and it was a bumpy month for local stocks. The NZX 50 fell 1.72% as mixed corporate earnings and economic data created uncertainty about the market’s outlook.

## Fixed income

Equity market volatility has driven a flight to safety, boosting fixed income returns across major markets, with US Treasuries leading the gains, up 2.2% for the month. Concerns over US policy and a weaker USD has provided a tailwind for emerging market debt. In New Zealand, the government bond market saw a slight decline, as the widely anticipated RBNZ rate cut and a weaker NZD against major currency pairs weighed on performance.

- The US 10-year bond yield closed the month at 4.2% down 0.32%.
- The NZ 10-year bond yield closed the month at 4.51%, up 0.01%.

# New Zealand Dollar to 28 February 2025

| | NZD/USD | NZD/EUR | NZD/JPY | NZD/AUD |
|---|---|---|---|---|
| **Month** | 0.92% | -3.80% | -1.34% | 0.42% |
| **3 months** | -2.04% | -4.49% | -3.41% | -0.70% |
| **One year** | -7.56% | -6.66% | -6.97% | -2.80% |
| **Closing Price** | 0.56 | 0.54 | 84 | 0.90 |

*Source: Bloomberg*

## Overview

Economic data filtered into currency markets, with weaker U.S. rates and reduced demand for the USD weighing on the dollar. The DXY index, which measures the USD against six major currencies, declined 0.7% for the month. The NZD experienced volatility, driven largely by tariff threats, and saw a sharp decline toward the month's end as tariffs became more certain. A further drop in the Chinese yuan added additional downward pressure on the NZD.

## Outlook

Looking ahead, the New Zealand dollar (NZD) remains subject to ongoing uncertainty driven by tariff announcements. Should additional tariffs be implemented, the NZD could face further depreciation. However, in comparison to New Zealand's major trading partners, there may be some upward pressure on the NZD. Many of these partners are more exposed to the proposed tariffs, which could weigh on their currencies. This dynamic may create a mixed impact: while demand for the NZD could be reduced, its relative strength might increase as other currencies weaken.

# Looking ahead

## New Zealand/Australia

- The NZ economy is recovering from recent challenges, with supportive monetary policy potentially providing a tailwind as rates move toward 3%. The weaker NZD is benefiting exporters and could boost tourism if it remains low. While business confidence has improved, the short-term outlook remains uncertain. Tariff implications could act as a headwind, but with exports to the US accounting for only 1/8th of total exports, a 15% tariff would likely impact GDP by less than 0.3%.
- Australia's economy is at a turning point with the RBA beginning its rate-cutting cycle, boosting growth prospects for 2025. Consumer and business confidence are rising, and disposable income is showing signs of improvement. However, proposed tariffs could temper the positive outlook, posing potential risks to trade and supply chains. Despite these uncertainties, inflation is expected to ease, supporting continued growth and optimism for the year ahead.

## China

- China’s economy is expected to slow, with GDP growth forecasted at 4.0% in 2025 and 3.0% in 2026, partly due to ongoing US tariffs on Chinese exports. These tariffs, which have already impacted trade, are likely to intensify moving forward. In response, China is expected to introduce more policy support, including fiscal spending and interest rate cuts, to boost domestic demand. While these measures aim to stabilise the property market and support infrastructure, inflation is expected to remain weak. China’s policies should help stabilise the economy over time, with property markets projected to recover by mid-2026.

## United States

- The US economy began the year with strong momentum, but increasing uncertainty surrounding trade, fiscal, and regulatory policies is raising concerns. Recent tariff announcements signal a shift towards a more protectionist stance, which could lead to higher inflation and slower growth. This uncertainty may also drive market volatility, with businesses and consumers adopting a wait-and-see approach.
- The labour market is showing signs of cooling, with job growth slowing and companies managing hiring more cautiously. Consumer spending, while still healthy, is expected to moderate as households adjust to higher living costs and elevated interest rates. Retail sales have already shown a pullback after the holiday season, and inflation anxiety is weighing on consumer morale.
- While inflation has been gradually easing, risks remain, particularly with the ongoing trade tensions and tighter immigration policies. The Federal Reserve is expected to take a cautious approach, potentially pausing rate hikes or implementing limited cuts depending on inflation trends and economic conditions.

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