MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

Strategy & Outlook MARKET UPDATE

August 2020

Global equities were largely unchanged in euro term in July (+0.4%). The strength of the euro, which rose by 4.8% against the US dollar, certainly alters the perception of equity market returns for the European investor who cannot hedge FX exposure. The US market was just +0.9% higher on the month in euro terms, but +5.8% in local currency terms. European equities fell by -0.8%, the UK by -4.7% and Japan by -3.6%. Emerging markets were strong, rising by 3.4% in euro terms.

Equities remained supported despite Covid-19 cases and hospitalisations continuing to rise in the US. There have been some positive results however from the private sector's efforts to develop vaccines or treatments to lessen the impact of the disease, with several studies showing promise. Economic data continues to show a strong rebound in economic activity. Employment numbers in the US for June showed another strong month as companies, particularly in the leisure and hospitality sector rehired workers. The US Non-Manufacturing ISM also suggested a significant rebound was underway. The UK announced further stimulus measures to boost the economy including cutting the VAT to 5% for the hospitality sector. Although the data is strong, it is important to note that this official data is from early June and therefore before the latest spike is US cases. More leading data such as restaurant bookings and travel/mobility data suggest that after the initial bounce, activity has been slowing since mid-June. Weekly unemployment claims have also remained stubbornly high, and are even starting to tick higher, indicating that the reversing of re-openings is damaging the economy further. By far the most positive event of the month was the European Union's agreement on its multi-year budget, taking on board most of the earlier proposals from Germany and France. In what has been described as Europe's Hamiltonian moment, part of the agreement is that the extra spending will not be covered by member state contributions but by EU debt, with 390bln euro of the 750bln euro total package coming in the form of grants rather than loans.

We continue to have a very positive outlook for growth assets and equities in particular over the medium term as a zero-rate world and co-ordinated global fiscal expansion will drive investment into the industries that will dominate the next decade. However, after such a strong rally coupled with the murkier short-term outlook that the surge in virus cases brings, the conditions exist for a volatile summer which will provide better opportunities to exploit our more medium-term view. The continued benefit of our active approach, driven by a strong coherent and well-tested investment process should be evident over the course the 3rd and 4th quarter of this year. Our short-term risk indicators are still suggesting some caution in the near term, given the resurgence of the virus, weakening lead indicators of economic momentum, what appear to be stalled Brexit negotiations and a soured relationship between the US and China. We increased exposure to alternatives in the two lower-risk multi asset funds during the month. With interest rate now zero or negative in so many parts of the world, and with little prospect of a return to positive rates in Europe on any reasonable time frame, traditional low-risk returns will remain low. Alternatives, with the ability to generate strong returns whilst exhibiting very low correlations with other asset classes improve the return profile of the funds and will further reduce volatility of the funds.

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