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INVESTMENT MANAGERS

CANTOR Fitzgerald

Strategy & Outlook MARKET UPDATE

December 2020

An extraordinary month for global equities, rallying by almost 10% as the US election (eventually) made it clear we would have a Biden White House and a Republican Senate, though the possibility of a Democratic Senate remains with the Georgian run off in January. This means we are unlikely to see a reversal of the 2017 corporates tax reform which would have taken about 10% off S&P earnings. There is also unlikely to be wholesale revolution in the regulation of Technology or Healthcare stocks, nor a continuation let alone an escalation of the trade war and tariff policies of the previous administration. With excessive de risking and an over hedged market ahead of the election the market rally was not surprising, being led by those who benefit from these outcomes (technology healthcare and China). Although the lack of a "blue wave" reduces the chances of large-scale stimulus, it is clear fiscal stimulus is still wanted by all sides, it just might take longer. The announcement of former Fed chair Janet Yellen as Treasury Secretary is very positive news given her vast experience and excellent track record.

The biggest news of the month was on vaccines. Pfizer's update of its vaccine trial was no less than astonishing, with a 90% efficacy rate – the 'flu vaccine for example typically has 40% efficacy. 94 patients out of 43,358 contracted Covid-19; of those 94, eight had received the vaccine and 86 had received a placebo.

The market reaction was swift and extreme, momentum baskets in US and EU having their worst days ever. For the statisticians, "momentum" experienced a 15.5 standard deviation event (down) whilst value experienced a 12.75 standard deviation event (up). The combination of moves meant a 50/50 portfolio in value/momentum had a -9.3 standard deviation day. In other words, a colossal rotation out of technology into financials, energy and travel and leisure names. This was a painful rotation for many, Goldman Sachs reporting that systematic long/short funds lost almost all their year-to-date alpha, driven by losses in the Volatility factor, as well as continued pressure on crowded longs and crowded shorts.

The second positive vaccine announcement came from Moderna, but the impact of this announcement was more muted, the market focus changing from shorter-term re-closing to longer-term re-opening and back again, the internal market leadership changing on a daily basis.

In corporate news flow, the most significant event was PNC's purchase of BBVA's US business, the deal being by far one of the largest deals in European financials for some time, broadening the potential scope, scale and probability of future M&A in the sector. Despite the low rate, low return environment, BBVA has sold 10% of its earnings for 50% of its market cap, at the very least underpinning valuations in the sector.

On the macro font, the world's largest regional free trade deal was signed. The RCEP involved 15 Asian countries, encompasses nearly 30% of global GDP, 40% of global trade volume, and 2/3 of global growth. The departure of Dominic Cummings in the UK bodes well for a more amicable Brexit outcome. Economic data showed continued expansion in manufacturing according to PMI surveys, although renewed lockdowns in Europe led to a drop in the services PMIs. Revised GDP data for Q3 showed how strong the rebound had been before the resurgence of the virus.

Positioning and Outlook

The market technically remains very constructive and market breadth has expanded over the past week with many important resistance levels broken to the upside. US market breadth is now the strongest since 2013, with over 90% of stocks above their 200-day moving average. There has been a lot of commentary regarding the high AAII Bull/Bear ratio, but when we have seen these readings in November or December, historically market strength has persisted through year-end.

MIM funds performed very strongly over the month. A combination of election results and vaccine news spurred the market higher benefiting our overweight equity allocation. Within equities, we are overweight structural growth themes but also have exposure to Covid recovery / cyclical value opportunities. The strength in growth names over the election week followed by the strength in value names the next week meant that this barbell approach has reaped dividends.

We enter the last month of the year with the MMA70 up by almost 19%, the lower risk fund returns ranging from +11% to +14.5%, and our ethically screened version up by more than 18%. Positioning remains broadly unchanged with our focus currently on shorter term hedges in the alternative funds and finding opportunities for a consumer recovery in 2021 to complement our other holdings.

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