MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

Strategy & Outlook MARKET UPDATE

February 2021

Global equities were virtually unchanged in euro terms in January (+0.3%), drifting back in the last week of the month after the very strong start to the year. A resurgence in virus cases over the Christmas period has led to increased restrictions on movement in Europe, though the market is looking through this short-term set-back in light of the increased roll-out of vaccines. The main political event of the month was the Georgia run-off election where the win by both Democrat candidates means a blue ripple sees them take control of the Senate. Control of the Congressional agenda means Democrats can achieve more of their goals that have some level of bipartisan support (fiscal stimulus, infrastructure spending) but the marginal majority means the more radical elements of their agenda are unlikely to pass. The certification of the US presidential election on January 6th saw riots in Washington, supported by the outgoing president, and led to calls for his immediate removal from office and a second impeachment.

From an economic perspective, the most important events of the month were President Biden's proposed $1.9 trillion fiscal plan and Jerome Powell doubling down on his uber dovish new policy framework. The former tries to push yields higher, the latter drags them lower. The winner is the equity market. In 2017, post the last US election, the S&P rallied 20% for the year with no more than a 3% pull back on a combination of the hope of stimulus, loose monetary conditions and the so called "global synchronised recovery". 2021 will have a significantly larger global fiscal stimulus, substantially easier financial conditions, and a global economic recovery dwarfing anything seen in recent times.

The last week of the month saw equities drift back a little from recent highs in Europe and all-time highs in the US. Retail investors pushing (previously) small-cap stocks received a lot of media attention, mainly because some large hedge funds had significant short positions in those stocks, but also because trading platforms acted to curb the excess in individual names, leading to cries of market manipulation from retail traders whose own manipulation was the root cause of the issue.

Apart from the diversion provided by this, economic data towards the end of the month showed a slightly weaker Ifo survey in Germany, but the broader European business confidence survey improved. In the US, consumer confidence also improved, core durable goods orders, a key indicator for capital investment, were stronger than expected, and jobless claims fell, the number of continuing claims now below 5mln for two weeks. Most importantly the Federal Reserve made it as clear as they could that tapering of asset purchases is very far from their minds, which should put paid to any residual doubts about the Fed's commitment.

Earnings season is underway in the US with results better than expected and although still early in the reporting season, more than 75% of S&P companies have beaten on revenue and an even higher percentage have beaten on earnings. Technology earnings have been particularly strong.

Positioning and Outlook

MIM positioning is largely unchanged over the month from an asset allocation perspective. We have however taken some profits in consumer recovery plays as it became apparent that the consumer recovery would be delayed by longer than anticipated lockdowns, rotating the proceeds into high quality companies that have lagged in recent months.

As we have been saying for some time, interest rates will remain at or near zero for a long time to come, and governments will be reluctant to curtail fiscal spending. Economic recovery is evident in the data, with very high excess savings amongst consumers and high cash levels on corporate balance sheets.

The merits of investing in our actively managed multi asset funds with a proven investment process continue to be evident. We will continue to actively manage our risk and our exposures using all available instruments, asset classes and derivative products available to us for everything from short term tactical trades to long term fundamental holdings.

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75 St Stephen's Green, Dublin 2. Tel: +353 1 670 2500.

email : info@merrion-investments.ie **web :** www.merrion-investments.ie / www.cantorfitzgerald.ie