MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

Strategy & Outlook MARKET UPDATE

March 2021

A very strong month for equities, ending the month with a volatile week, but nevertheless up 2.8%, the rally being broad based across regions but certainly not across sectors. At a global level, performance of energy (+13.2%) and financials (+9.1%) far outpaced bond proxies such as utilities (-4.9%) and consumer staples (flat). Blame the bond market. US treasury yields rose by more than 30 basis points, with the yield curve steepening as faster economic growth gets priced in. Even Japanese and German government bond yields rose, by approximately 10 and 30 basis points respectively. The move in yields (US yields have been rising since August last year) was initially driven entirely by rising inflation expectations, real yields remaining anchored, but real yields have now also started to rise. This is good news – yields remain very low, and they are rising for good reasons (stronger growth) not bad (policy mistake of early taper). In fact, central bank speakers have been at pains to clarify and re-clarify their dovishness – interest rates will not be raised, and bond purchases will not be tapered until unemployment falls meaningfully and the pandemic is truly behind us. It is noteworthy that equities were so strong in the rising yield environment, although some of the more expensive and frothier parts of the market, especially in the so called new "emerging technology" are beginning to lag significantly.

In the midst of all the fuss about rising yields and what it means for markets, the world's largest companies reported and consistently managed to deliver ahead of expectations. YouTube advertising revenue grew over 40%. Amazon's overall revenue grew close to 50%. PayPal's new users are up 72% year-on-year. Infineon told us again that there aren't enough semi-conductors in the world. Volkswagen implored Europe to invest more in its semi production capabilities to compete globally. According to Refinitiv, since the start of earnings season, fourth quarter year-on-year earnings have improved by 11.9%. This is the fifth largest improvement on record. All of this coincides with buybacks kicking back in the US but before any of the $1.5trillion of excess consumer savings gets spent.

Economic data over the month showed the power of pent-up demand. US retail sales were exceptionally strong, rising by 5.3% on the month with 13/13 categories being positive vs 5 categories last month and 3 categories in November. Core retail sales (retail sales excluding autos, gas, and building materials), a key metric for most consumption tracking models, rose by 6.2%. The latest data largely reflects the December stimulus package which distributed $600 cheques per person/per child for individuals, with a phase out for higher earners. As the marginal propensity to consume is higher for lower income households, the Biden administration's efforts to target further stimulus to these lower income households should see further tailwinds for US consumption. US producer price inflation was also stronger than expected – and components that feed into consumer price inflation were stronger, indicating we are likely to see inflation continue to move higher. European PMIs showed a drop in services and a further expansion in manufacturing.

Positioning and Outlook

Mid-way through the month we reduced exposure from the very upper end of our asset allocation ranges for growth assets. This reduction is tactical, and we remain above neutral. Some of the moves in the previous three weeks were pronounced - global equities +6.8%, US +6%, Japan +10%, Europe +5.6%, whilst bond yields have moved sharply higher. In addition, some (though not all) of the positioning data which we monitor had moved from neutral levels to stretched in a matter of weeks. We also bought some option protection at an index level (in the alternative allocation).

As mentioned above, real yields had hardly moved. However, the 5year-5year forward real yield (where the market is pricing 5-year real yields 5 years hence) has been rising, and this prompted us to sell the gold we had in the MMA funds. In addition, gold appears to be breaking down from a technical perspective, and we have opened a short position in gold in the alternative allocation.

MIM funds had a very solid month, in both absolute terms and relative to competitors, having significantly added cyclical exposure and being underweight bonds.

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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