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INVESTMENT MANAGERS

CANTOR Fitzgerald

Strategy & Outlook MARKET UPDATE

May 2021

Equities continued their bullish trends in April, rising by a further 2.0% in euro terms, the strength of the euro (+2.5% vs the US dollar) disguising even more impressive gains, driven by US equities (+5.4%), in turn driven by communication services (+7.6%), with US technology rising by +5.3%. Global Equities now stand +10.9% year-to-date. The market has begun to pay attention to quality growth again with heavyweights such as Facebook, Microsoft and Google making new highs during the month, and despite continued strong economic data prints over the month, US yields have failed to push higher after the Q1 sell-off, 10-year and 30-year yields ending the month some 11 basis points lower.

Market breadth is very supportive with 80% of US stocks and 71% of Euro area stocks above respective 50 day moving averages. At the same time, very few names are overbought with only 8% of stocks globally showing an RSI reading over 70 which indicates there is ample room for equity markets to grind higher.

During the month there were some tensions regarding Russian troops close to the Ukranian border, though a number of units have now been ordered back to their bases. Noise around a potential Scottish Independence Referendum continues, though recent polls suggest support for independence is slipping ahead of the elections in early May. At the Federal Reserve meeting dovishness remained the key theme, Chair Powell stating that “It is not time yet” to even talk about tapering and repeating his previous comment that “it is likely to take some time for substantial further progress to be achieved” on the economy. The ECB meeting was uneventful, the statement largely unchanged since last month, ECB President Lagarde remaining cautious on the recovery, saying the economy remaining “on crutches” and in need of significant support, both monetary and fiscal. President Biden plans to double the capital gains tax for high earners, which would bring the taxes on investment gains to a higher rate than those for labour, a reversal of a long-standing provision in the US tax code.

Earnings season has begun, and with more than 40% of companies reporting in Europe and the US, more than 70% of companies have beaten on both revenue and earnings, with significant beats and positive outlooks from long-term winners like ASML, Alphabet, Visa, AMD and Intuitive Surgical, and high-quality companies Coca-Cola and Heineken.

Covid refuses to go away, with India recording more than 300,000 cases in a single day and concerns rising in Japan ahead of the Olympics, though the market impact so far is muted.

The main news of the month was the ambitious climate targets set by US President Biden, whose pledge to cut carbon emissions to half their 2005 levels by 2030 drove significant gains for equities in the renewable energy space.

Positioning and Outlook

As we said last month, the value or cyclical part of the market has now fully priced in the V-shaped recovery. With the vaccine rollout across Europe and emerging markets disappointing (although the former has accelerated significantly over the last month) and inflation pressures building due to global supply chain shortages the short-term risk reward across cyclical sectors is the poorest it has been for the whole of this rally. However, there are abundant growth opportunities and these more than offset the cyclical risks, and the extremely positive medium to long term outlook remains unchanged.

The MMA funds performed strongly over the month, the secular winners in technology and renewable energy, where we have increased exposure in the last number of weeks, performing strongly. We are currently positioned above the mid-point of our asset allocation range for growth assets, with a bias towards structural growth (and away from cyclical or value exposure). 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. The merits of investing in our actively managed multi asset funds with a proven investment process continue to be evident.

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