MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

Strategy & Outlook MARKET UPDATE

September 2021

The global equity market finished the month 3% higher, to stand +20% year-to-date, driven again by growth (+3.1%) over value (+1.5%). Global bond yields moved higher over the month.

It wasn't all smooth sailing, however. Growth concerns stemming from the spread of the Delta variant, particularly in Asia, a fresh round of Chinese regulations setting out tougher rules for how companies handle user data, cuts in Chinese steel production and perceived hawkishness from the Fed regarding tapering combined with summer illiquidity to push markets lower mid-month, with the worst affected areas being commodities, EM and EM exposed sectors.

The spread of the Delta variant has led to an extension of the lockdowns in Sydney and a new lockdown in New Zealand, a poor vaccine rollout with only circa 20% of adult population vaccinated leaving these countries very exposed. Rising case numbers in Israel, the world's most vaccinated country, raised the prospect of booster shots being required, and indeed the US is planning to start booster shots to all vaccinated adults next month.

This month we saw some signs that the transitory nature of the recent inflation surge may be a little more prolonged, with supply chain disruptions continuing to have an impact globally. TSMC is raising its prices, this comes on the back of Microsoft raising prices last week. German IFO Economists noted that almost 75% of businesses complain about supply chain bottlenecks, and 67% of companies in both manufacturing and retail sought higher prices to cover rising costs. The supply shortages of semi-conductors is expected to continue for most of next year.

Whilst this may raise very short-term inflation concerns, we also saw two examples of the ongoing drive to invest for the future, which reinforces the disinflationary trends. Samsung will invest approximately $200bln in the next 3 years to expand its footprint in biopharmaceuticals, AI, semis and robotics, whilst Japan is expanding subsidies for the purchases of electric vehicles, plug-in hybrids and fuel-cell vehicles.

Positioning and outlook

Overall, there is a growing sense that a bottoming in global growth expectations has occurred. Record earnings, record beats, record margins, lower multiples, buoyant corporate commentary, China policy tightening on the regulatory side, but easing on the credit side, extraordinarily low inventory levels all help to frame a more positive investment backdrop than there has been since global growth expectations peaked in Q1 of this year and should mean continued support for equities. Delta concerns may lead to delays in reopening, but should not stall it, policy tweaks from Fed (standing repo) mean tapering and communication around same should not cause a 2013-like tantrum for a very well-heralded event, but despite that positive medium term back drop, sentiment and positioning has been relatively sanguine with a lot of our indicators at best neutral and no signs of the traditional euphoric activity that can sometimes mark the end of strong performances in equity markets.

With the above in mind, we have reversed some of the successful defensive measures we took in late spring when we reduced growth asset exposure and rotated into more defensive and high-quality holdings. Numerous concerns we had then have either played out, didn't materialise, or have become tailwinds, and in the last month we have been adding to growth asset exposure, bringing us back towards the upper end of the range. This was initially through equities exposed to commodities followed by quality industrials exposed to long term structural growth themes we like such as decarbonisation and precision agriculture that should benefit too from the impending pick-up in economic data that we should see we in early 2022. We also rotated some equity holdings out of defensive names and into those industrial cyclicals. In addition, we have further reduced our long-dated bond holdings to leave the funds significantly underweight duration relative to our peers/benchmark.

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