MERRION INVESTMENT MANAGERS | CANTOR Fitzgerald

Strategy & Outlook

MARKET UPDATE

JANUARY 2022

December: Global equities finished the year with a +3.3% gain on the month to stand 27.3% higher for the year.

The year finished with a flurry of increased volatility as the Federal Reserve pivoted its policy towards faster tapering of asset purchases and sooner-rather-than-later interest rate increases, the ECB took its first steps towards the exit of its extraordinary pandemic response and the Bank of England raised interest rates. This tightening of monetary policy in the west came amid the Omicron wave of Covid which raised fears of fresh lockdowns and curtailment of economic activity. An additional blow for economic growth expectations came as President Biden's signature Build Back Better programme hit a significant snag in as Senator Joe Manchin appeared to oppose it.

The Federal Reserve has made it very clear that bond purchases are to end in the Spring and rate hikes will begin very soon after. This was a difficult message to deliver, and at first glance they appear to have managed to convey it without delivering a 2013-style taper tantrum – there was little discernible impact on equity index levels in general (they've gone violently sideways), and the long end of the bond market initially rallied (i.e. interest rates fell). However, the two-month build up to this policy pivot did cause untold damage to the equity mix below the surface. The equity market has essentially tried to front run the bond market's expected reaction to this policy pivot by selling in a Pavlovian manner the perceived losers from rising rates and buying the historical winners. By some measures there has been a record disposal of technology exposure, with a capitulation akin to Spring 2020. The only issue is that long dated bond yields initially moved lower, and although they have risen since mid-December, they remain well below the levels from earlier in the year.

That long dated bond yields have barely moved from their very low levels when the Federal Reserve (and other western central banks) are moving towards tighter monetary policy might seem strange and somewhat worrisome, indicating that the bond market, at least, fears a policy mistake. However, with vast amounts of liquidity in the financial system and bond yields (and interest rates) globally close to zero, demand for bonds remains very strong. Adding to that demand, very strong equity returns have lifted many pension schemes into surplus for the first time in many years, enabling them to "de-risk" into bonds.

Another factor is inflation – long term inflation expectations have stabilised, disruptions in global supply chains are generally expected to resolve quickly enough to prevent inflation expectations becoming embedded, and earlier action by central banks at least reduces the risk that they will need to take more aggressive action later.

Positioning

Having reduced exposure from late October, we continued to do so over the early part of November as risk-reward became less favourable, trimming positions that have performed very strongly and therefore reducing growth asset exposure towards the lower end of the range. Following the aggressive sell off in risk assets and growth equities in particular in mid-December (post-Fed and post quarterly option expiry), we began to add to equity exposure again, bringing the funds towards the upper end of the range for growth assets.

With global economic and earnings momentum peaking we are focusing on stocks and sectors that can provide their own top line and earnings momentum. That these are the sectors that have been most hard hit by an expectation of yields rising when they initially fell presented an opportunity. We have also added outright commodity longs in the Multi-Asset Funds, focusing where the long-term bottom-up supply/demand imbalance dwarves any shorter-term global growth issues.

WARNING: Past performance is not a reliable guide to future performance.

WARNING: The value of your investment may go down as well as up.

Merrion Capital Investment Managers Limited (trading as Merrion Investment Managers) is regulated by the Central Bank of Ireland and is regulated by the Central Bank of Ireland and is a Member Firm of Euronext Dublin and the London Stock Exchange.

© 2021 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

MERRION INVESTMENT MANAGERS | CANTOR Fitzgerald **Want to talk to us about investments? Contact us.**

T: +353 1 670 2500 | **e:** info@merrion-investments.ie | **www.cantorfitzgerald.ie** | Cantor Fitzgerald House 23 St Stephen's Green, Dublin 2.

Cantor Fitzgerald Ireland Ltd is regulated by the Central Bank of Ireland and is a member of Euronext Dublin and The London Stock Exchange.