Strategy & Outlook

MARKET UPDATE

NOVEMBER 2022

October saw a bounce in global equities (+5%), even as bond yields continued to drift higher, 20 basis points added to 2- and 10-year US yields, and almost 20 basis points added to 2-year German yields. European and US equities performed strongly, rising by more than 6%, but emerging market equities were 4% lower, China's ongoing Covid restrictions and the re-election and consolidation of power by Xi Jinping in China weighing on the region. And we have yet another UK Prime Minister!

Earnings season is well underway, with circa 70% of US companies beating consensus earnings estimates (similar to the 75% seen last quarter), and 60% of European companies beating on earnings (again similar to last quarter). Results to date point to an easing of inflation and supply chain pressures (albeit lingering in certain niches), FX headwinds (a source of upside for the coming quarter should the dollar have peaked), consumer resilience – while shifting spending patterns (more holidays and services, less household appliances, strength in non-res/commercial construction, excess inventory in retail, soft consumer electronics, longer deal cycles in tech, weaker online advertising spending, and difficult Covid comparisons (which turns a tailwind once we get past Q4). Capex meanwhile has held up well, tracking +20% YoY, the strong momentum should continue due to supply chain reshoring and a tight labour market - historically, high wage inflation has led to increased labour productivity (i.e., automation) on a lagged basis.

There have of course been some high-profile misses, with outsized reaction to the downside, driven in part by a slowdown in digital advertising but more so due to disappointment on the cost side as we are reminded that given the scale of operations it will take time to see evidence of cost saving initiatives in the numbers for Big Tech.

As we move through earnings season, the market and ourselves shift focus to what the world will look like in 2023. There is a strong case to be made for 2023 to be a mirror image to what we have experienced in 2022, as the consumer comes under pressure after a strong 2022 while markets recover. The market is well aware of a weakening consumer and slowing earnings, reflected in valuations and positioning, and a reversal in rates/policy pivot as inflation falls likely trumps earnings, but aside from this there are catalysts that will continue to drive earnings absent consumer spending. The 2 most powerful global trends playing out over the coming years– the energy transition (after years of underinvestment in energy and nearly every commodity) and re/near-shoring – require high levels of real asset investment, are highly capital and commodity intensive and will play out regardless of whether the 10 year is at 2% or 5%. Companies that are beneficiaries of policy driven capex (decarbonisation and deglobalisation) and secular trends (digitalisation, automation) will see solid earnings growth regardless of how the consumer holds up.

Continued on next page

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.

Strategy & Outlook *Continued*

Positioning

We remain at the top end of our asset allocation range. However, the mix of growth assets we own has changed a lot over the last few months to reflect our evolving views and asset market pricing.

Inflation is clearly peaking but Central Banks reaction functions are a lot different to what we thought, leaving us with a higher investment threshold therefore for holding high multiple stocks.

Rates are peaking but they're peaking from a higher level so will therefore settle at a higher level than we thought, so the longer-term profitability picture for banks is better (we're now overweight banks).

Growth is slowing mildly overall but faster in some areas then we would have thought, for example housing and autos, and we have therefore reduced consumer exposed areas that are seeing weakness.

The consumer has withstood everything thrown at them so far but there is more to come in 2023 as mortgage rates rise. We have reduced consumer exposure yet to see weakness such as luxury goods and apparel.

Commodities have collapsed circa 50% but are now stable and the risk reward is higher (we're now overweight commodity equities).

Oil has collapsed circa 50% but is now stable and the risk reward higher (we're now overweight energy).

The impact of rates rises this year has all been felt by asset markets and not the consumer or economy. From here though that could change with consumer/economy slowing but markets having already priced that in now see a peak in rates and offer the best value in over a decade (bonds and equities).

Note we haven't rotated into say defensive equities which have already outperformed. A lot of the equities we rotated into had outperformed in q1 but under performed in q2 and early q3 but they're starting to outperform over the last 2 months as we have scaled into them. (Banks, Energy, Miners) In terms of exposure, we continue to have a lot of focus on our big themes (Digitalisation, Decarbonisation).

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.

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