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Cantor Fitzgerald Strategy & Outlook

MARKET UPDATE

October 2023:

Global equities fell by 3% in EUR terms in October, the third consecutive month of declines, due to concerns that interest rates in the U.S. would remain higher for longer given persistent inflation. U.S. bond yields also surged, with the yield on the US 10-year treasury briefly rising to just under 5% while the dollar strengthened against other major currencies like the Yen, which slid past ¥151 per dollar. The Euro pared some gains towards the end of the month after euro-area inflation rose by less than anticipated.

It was a busy month globally with Japanese bond yields increasing while the Yen fell on the back of an announcement by the Bank of Japan (BoJ) that it would consider its 1% cap on Japanese 10-Year government bond yields a reference point, rather than a hard limit. Chinese economic data also showed that factory orders had reduced while construction activity slowed. Inflation in the eurozone rose by less than expected to 2.9% year over year compared to an estimated 3.1%, while core CPI rose 4.2%. PMI's continue to suggest a contractionary outlook in both the eurozone (46.5) and UK (48.6), with manufacturing activity still subdued in October. Similarly in the U.S., survey data remained contractionary with headline ISM Manufacturing PMI (46.7) dipping again in October – despite this, the U.S. economy continued to expand, with GDP increasing at an annual rate of 4.9% in the third quarter of 2023. Geopolitical events were again front and centre at the beginning of the month after the tragic events in Israel on October 7th and the proceeding war in Gaza, but market volatility otherwise remained subdued, while oil prices closed out the month on a low.

In other news, earnings season began and generally went better than anticipated, with well over two thirds of companies beating analyst recommendations. Positive earnings surprises were reported by companies in a number of sectors such as Communication Services, Consumer Discretionary and Information Technology, while Healthcare, Materials and Energy all reported year over year declines. On perhaps a more contractionary note though, the Industrial giant Caterpillar, generally considered a bellwether for the health of the global industrial sector, reported a fall in its order backlog, suggesting a weakening economic outlook coming into 2024.

Although not a total endorsement in the idea that rate rises have halted for good, Jerome Powell, Chair of the U.S. Federal Reserve, did state in October that he believed the rise in bond yields was helping to further tighten financial conditions and may well lessen the need for additional rate increases. With rate cuts anticipated in the U.S. and Eurozone area in 2024, we believe valuations in certain cyclical stocks will begin to improve and have adjusted the positioning of our funds accordingly.

As a result, we have increased our exposure in areas such as technology, aircraft manufacturing and housebuilding whilst reducing our overall exposure in energy and healthcare stocks. This alteration to our position has put us at the higher end of our range for growth assets.

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