MARKET UPDATE

Q3

Global equities Global equities finished the quarter virtually unchanged in euro terms (-0.3%), a rally in July and a 3% fall in the euro over the quarter flattering what was quite a negative period for financial assets. In local currency terms, US, European and emerging market equities were all lower by 3-4%. Both the Federal Reserve and the ECB have continued to push back against the market narrative that rate cuts will be on the agenda any time soon, and the message is getting through - despite good news on inflation over the last few months, longer dated yields in both the US and Europe marched higher over the course of the quarter, by 50 basis points in Europe and 75 in the US. Although the news on the inflation front has been positive, strength in US economic data and a resurgence in the oil price have served to support the "higher-for-longer" mantra of central banks, despite very weak economic data in Europe. Indeed, energy was the only sector to deliver a positive return of any significance over the quarter, rising by 13% in euro terms.

The evolution of economic data and economic forecasts this year have been strange, to say the least. We have experienced the fastest interest-rate hiking cycle in history, yet neither western stock markets nor economies are thus far showing the weakness that was expected. A near total belief in impending recession towards the end of last year has been replaced with a near total belief in a soft-landing scenario, for the US at any rate. The jury is still out on Europe, where economic data has been particularly weak. Inflation has generally been falling, although the easy "wins" are behind us. Where it goes from here is unclear. The recent rise in energy prices, ongoing strength in labour markets, continued above-trend growth in the US, the re-emergence of union bargaining power and base effects suggest that inflation could begin to creep upwards again, whilst lags in monetary policy, fiscal tightening, Chinese economic weakness, the erosion of pandemic era consumer savings, the resumption of student loan repayments in the US, and the on-going threat of a US government shutdown suggest inflation (and growth) should continue to moderate. But inflation rates remain more than twice central bank target levels, hence the "higher-for-longer" message.

Markets are finally accepting this message, as witnessed by the large rise in longer dated US and European yields over the quarter. Equities markets, which are priced for a very rosy scenario of moderating growth, immaculate disinflation, double-digit earnings growth and easing of monetary policy are faced with a US equity risk premium at a 20-year low compared to the highest risk-free alternative in 15 years. Over the course of the quarter, the sector rotation suggests markets are becoming concerned about the headwinds facing the US consumer, consumer discretionary stocks underperforming.

Continued on next page

Cantor Fitzgerald Asset Management Europe Limited (trading as Cantor Fitzgerald Asset Management) is regulated by the Central Bank of Ireland.
Cantor Fitzgerald Ireland Ltd is regulated by the Central Bank of Ireland and is a member of Euronext Dublin and The London Stock Exchange.

All of the above means the bar to adding risk in the short term remains quite high, although the longer-term structural opportunities around digitalisation, decarbonisation and deglobalisation cannot be ignored. Most importantly, the returns available on cash are attractive whilst waiting to find out how conflicting and contrasting forces play out in the short-term. The positioning of our funds reflects this, being at the lower end of the range for growth assets, and defensive assets invested in safety with a yield of more than 3.6%.

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

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

© 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 **Want to talk to us about investments?**

T: +353 1 670 2500 | **e:** CFAMEinfo@cantor.com | **www.cantorfitzgerald.ie** | Cantor Fitzgerald House, 23 St Stephen's Green, Dublin 2.

Cantor Fitzgerald Asset Management Europe Limited (trading as Cantor Fitzgerald Asset Management) is regulated by the Central Bank of Ireland.
Cantor Fitzgerald Ireland Ltd is regulated by the Central Bank of Ireland and is a member of Euronext Dublin and The London Stock Exchange.