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Cantor Fitzgerald Strategy & Outlook

MARKET UPDATE

January Commentary

Global equities continued to climb into the new year, albeit at a slower pace than in the final months of 2023, gaining just over 2.5% in euro terms in January. Bond yields in the U.S. rose temporarily before closing out the month almost unchanged from where they began due in part to a shift in the likelihood of interest rate cuts in early 2024. The Euro slid steadily during the month while the Dollar rallied strongly in the latter half of January, gaining around 1.1% as stronger-than-expected economic data and a pushback from central bankers caused the market to reduce expectations for rapid rate cuts this year.

After the first week of the new-year saw the S&P 500 index down by just over 1.5%, a result brought about largely due to repositioning and profit taking by investors – it managed to make up the losses in the latter half of the month, closing out January just below an all-time high. The US economy continued to throw up surprises - hotter than expected CPI figures were followed by cooler than anticipated PPI's. The unemployment rate was also lower than expected, coming in at 3.7% while the Fed's preferred inflation gauge, the month-over-month PCE rate, came in at 2.6%, broadly in line with expectations. Due in large part to this economic data, the expectations of a Fed interest rate cut in March slid throughout the month, from 75% at the beginning of January to approximately 35% towards the end – pushing the first expected rate cut further into 2024.

Compared to the US, the economic outlook in the EU is not as rosy. The Eurozone managed to avoid a recession in the fourth quarter of 2023, helped by positive GDP growth figures coming out of Italy and Spain where output expanded by 0.2% and 0.6% respectively. France's GDP remained flat but still fared better than the German economy, which shrank by 0.3% over the course of last year, hampered by a combination of persistent inflation, high energy prices and weak foreign demand. Following in the Fed's footsteps, the ECB's 3 key interests rates remained unchanged as the downtrend in underlying inflation continued.

Regardless of the economic outlook for Europe, China has found itself in a far gloomier situation. The CSI 300 continued its several-month-long downward spiral whilst the Hang Seng index, where most large Chinese firms are listed, had reached a low not seen since 2008. In an attempt to stabilise the situation, the People's Bank of China announced it will cut the reserve requirement ratio for banks within the next few weeks and suggested that implementation of more support measures may be expected soon. The unusually early disclosure of these measures suggests mounting urgency across Xi Jinping's government to shore up the economy and put a stop to a \$6 trillion stock-market rout. On a separate note, a combination of a slump in U.S. crude output, Chinese economic stimulus, the continuation of the conflict in Gaza and Houthi attacks on international shipping had contributed to an increase in the price of oil which closed out the first month of the year at \$76 per barrel, up nearly 6% from January 1st.

As the rally in equities continues into 2024 and cyclicals remain poised to rise in an environment of rate cuts and improving economic conditions, we remain positioned towards the higher end of the range for growth assets. Throughout January, we added further exposure to cyclical industries such as industrials and consumer discretionary to take advantage of the favourable environment whilst correspondingly reducing our holdings in consumer staples and healthcare.

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Want to talk to us about investments?

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