Cantor Fitzgerald

Cantor Fitzgerald Strategy & Outlook

MARKET UPDATE

Positioning

As we enter March, we remain very optimistic on the potential for growth assets for 2024 as a strong economy, falling inflation and a favourable interest rate environment act as a potent combination for earnings growth. We reduced our tech exposure quite materially in mid to late February after 18 months of exceptional performance – this is the one area of the market where we would have some tactical reservations. Given the positive macroeconomic backdrop, we think the number of stocks that will drive the market higher will broaden away from tech in particular - hence why we were still able to outperform in February whilst not being at the top end of the asset allocation range. For example, tactical positioning in the Multi-Asset 70 fund was alternating between 70%-75% with an allocation range of 60-80%. During the month, we had also added stocks with appealing valuations and whose end markets are improving.

Outlook

Global equities continued to climb throughout February, gaining just over 4.8% in euro terms during what is historically one of the poorer performing months of the year for the equity market. Bond yields in the U.S. dropped initially before climbing again to close out the month at a high not seen since mid-December, due in part to the release of hotter than anticipated economic data. The euro slid against the dollar in the first half of the month before gradually climbing again to close out February roughly where it had started whilst the dollar, on the other hand, jumped during the initial days as stronger January data caused the market to recalibrate expectations for rate cuts early this year.

The US stock market saw yet another solid month of performance in February, seeing the S&P 500 index close above 5000 for the first time ever, with all other major indices also making new 52-week highs. Despite this, the market still saw a hawkish shift in terms of Fed rate cut expectations, with consensus now pushing the first rate cut back a few months, from March to June (expectations for a June cut are now at approximately 90%). The sudden hawkish sentiment from the market was brought about largely in part due to the release of hotter than expected economic data. January's CPI figures rose by 0.3% and 0.4% respectively, exceeding expectations on both a headline and core basis - the Y/Y headline figures were also unable to break past the 3% figure, instead coming in at 3.1% vs an expected 2.9%. One or two hot data points will of course not be decisive in altering the Fed's course of action, but when taken in conjunction with strong payroll figures, a still low unemployment rate (3.7%) and a Core MoM PCE figure that had its largest monthly increase in over a year (0.4% compared with 0.2% in December), it is clear that there will likely be little urgency for the Fed to cut rates as soon as possible. It is important to note though, that despite the surprising January data, the broader economy remains strong, and disinflation is still underway – PCE, the Fed's preferred gauge of inflation, continues to decline towards the 2% target despite its jump in January.

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MARKET UPDATE

Moving to the Eurozone, the STOXX 600 index followed its US counterpart in breaking all-time highs, despite a rather duller growth outlook for European economies. Annual inflation in the Euro Area was 2.8% in January and is expected to be 2.6% in February, according to Eurostat - a figure still higher than what was originally expected. Excluding more volatile elements like food and energy, annual Core inflation slowed to 3.1% from 3.3% in January, though was still slightly above estimates of 2.9%. Business activity in the Eurozone had a good month, with the dominant services industry breaking out of a six-month long streak of contraction, offsetting a decline in manufacturing – where Germany in particular saw a sharp reduction. That being said, the bloc's economy may find it difficult to gain traction this year – with lacklustre German performance in particular weighing it down. Contrary to Germany's position, French business activity improved considerably in February, with business confidence in Europe's second largest economy reaching a seven-month high - a positive sign that sentiment indicators may well be bottoming out. The labour market has also remained resilient, with the unemployment rate falling back to its record low of 6.4% in January, a slight decrease from 6.5% in December – despite this, the near-term economic outlook for the bloc remains weak. With sentiment indicators improving, inflation declining gradually and record low unemployment, the ECB will remain hesitant to cut too soon and will likely mirror their counterparts in the US in holding off till the latter half of the year, despite the more morose economic conditions the Eurozone faces.

In China, markets reopened after the Lunar New Year holidays in less of a positive position than had initially been expected, suggesting that decent spending and travel data alone failed to instigate a rally and dispel anxiety over the state of the broader economy. Interestingly, China's securities watchdog has also now banned major institutional investors from reducing equity holdings at the open and close of each trading day as part of a series of heavy-handed attempts by the CCP to prop up the country's ailing stock market. The continued poor performance of the market further emphasises the need for Beijing to do more to revive confidence in the economy as it struggles with a property crisis and persistent deflation.

In summary, given the health of the broader economy, easing inflation and a positive interest rate environment, the outlook for equity markets in 2024 remains strong.

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

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

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