CANTOR FITZGERALD ASSET MANAGEMENT

Market Update

AUGUST 2024

Fund Commentary

A failed assination attempt on a former president who was stone cold favourite to become the next president despite the fact that he is awaiting sentencing for 34 felonies has somehow contrived to see a new candidate in Kamala Harris who wasn’t running when the shots were fired to now become the favourite for the White House. All in the space of two weeks. Political uncertainty is a terrible euphemism used in financial markets but I think it’s an appropriate and even mild characterisation of what is happening stateside currently. It was one of the reasons we de risked the funds at the end of June. The implications of drastically different policies in the White house towards everything from renewables to global trade was one of the reasons cross asset volatility has picked up. It also exacerbated one of the largest ever rotations within the equity market between winners and losers within different subsectors of the market. In market parlance “Momentum Stocks”, ie those that had been outperforming for the last year suffered a large underperformance for the month.

The impact on central bank Policy of all of this cant be underestimated as the Fed are a little less free to do what they need to do, which is drastically cut rates, so close to a fraught election. Whilst Policy and politics clash, the US economy which was slowing slowly is perhaps slowing a little quicker now. Earnings seasons just gone has highlighted pricing and demand pressures in most consumer facing industries from airlines to consumer goods. Industrial and Automotive green shoots form earlier in the year haven’t progressed. As Labour in the UK have just found out, as the French our finding out and whoever gets into the White House is about to find out the fiscal support of the last few years has run its course and fiscal austerity may even be back on the agenda. The trump era tax cuts look likely to expire now, leaving mark to market downgrades for the S&P500 as the least worst outcome before economic consequences are felt. Leading economic and Labour market indicators which had been stabilising in the hope of multiple rate cuts this year are now pointing towards further economic weakness. The Fed will eventually cut to kick start an economic recovery, but it is unlikely they will do so early enough to stave off a bout of volatility in the market as concerns around whether a slowdown morphs into a recession continue to rise.

The funds are in a strong position to weather this little storms. Having derisked ahead of Julys volatility they managed to outperform their benchmarks. We continue to sit at the lowest range possible of the asset allocation framework and have replaced cyclical and year to date winners with higher quality defensive holdings in HealthCare and Utilities. Our alternative fund had a strong month in July as it is complements the overall portfolio during these bouts of volatility given its ability to use index protection and other market neutral strategies. We look for long term opportunities to invest during this short term riskier period, particularly cognisant of the fact that when mire of the election is out of the way in early Q4 we should be at the beginning of an aggressive rate cutting cycle from Central banks which will ultimately drive strong long terms returns for our funds.

July Market Summary

Global Equities rose by 0.7% in euro terms during July, a volatile month marked with a series of notable political and economic developments. In the US, a weaker then expected CPI print in addition to softer US labour market data reassured the bond market that the Fed should begin cutting rates soon, leading to a sharp drop in US treasury yields during the month. The dollar fell against a basket of other global currencies while the euro generally exhibited a mixed performance, attributed primarily due to a mix of economic data.

Earnings season in the US continued with investors overall appearing underwhelmed by many of the results – with the technology sector in particular seeing a significant sell off, with some popular names like Nvidia dropping well over 20% before staging a short-lived rally towards the end of the month. Many of the rate sensitive small-cap equities that have performed only modestly so far this year saw a noteworthy catch up in mid-July, with the Russell 2000 small cap Index rising by over 10% on the back of the dovish CPI and labour market data. The following shift out of the tech sector and into the areas of the market that would benefit more so from interest rate cuts in the US led to the largest one-month outperformance of the Russell 2000 versus the Nasdaq 100 in over 20 years.

In Europe, stocks again lagged their US counterparts, with underwhelming performance likely attributed to anxiety around the French election at the beginning of the month and some disappointing economic data, with the Purchasing Managers' Index (PMI) print in particular hinting at slightly weaker eurozone growth over the summer months. In Asia, the Japanese Yen hit a multi-year low against the US dollar before strengthening significantly after the Bank of Japan hiked its policy rate to around 0.25% from a range of 0%-0.1% whilst simultaneously signalling a reduction in its bond purchasing program. Finally, the price of oil began to decline throughout July due to continued deceleration in global demand, driven in part by a weaker China, and a rise in supply before recovering modestly on the back of renewed tension in the Middle East.

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