CANTOR FITZGERALD ASSET MANAGEMENT

Market Update

SEPTEMBER 2024

Fund Commentary

A month of inconsistencies. Global equity markets were flat implying a quiet summer, yet the S&P 500 fell almost 10% on the month before rallying all the way back. The Nikkei did an even larger round trip. Equity markets are signalling the all clear from the growth scare that the worsening US employment figures gave at the start of the month. Yields, the yen and copper however are saying they're not so sure. Official economic data in the form of retail sales in the US highlighted a strong consumer yet numerous retail or consumer focused equities collapsed over the course of August on a worsening end market outlook. Ulta, Dollar General and Macy's all highlighted the precarious nature of consumer spending. One of the largest Chine retailers PDD holdings, the owner of online retailer Temu fell close to 40% on its worsening outlook for the Chinese consumer too.

Central banks are adding to this sense of inconsistency. The Fed is expected to begin cutting rates but thus far only signalling 25bps versus market expectations of closer to 50bps. The US economy that they claim to be the strongest in the world has more cuts priced into it's bond market than the European equivalent. Despite being on the verge of cutting, for the first time in 2 years the Federal Reserve seem the most convinced on a soft landing they have been. Yet one of the factors that thus far saved the US economy, Non-residential capex spending is starting to fray around the edges. Projects, especially related to those around EV's are being pushed out. Their faith in the low level of unemployment as a predictor of future US strength is also at odds with economic history as every recession is always preceded by a low unemployment rate, not a high one. Economic surprise indices continue to trend down, indicating economies that are worsening relative to expectations. The US election circus is only gathering steam. Harris's tax plan seems to have gone unnoticed for now but a rise from 21 to 28% in the corporate tax rate will manifest itself in close to 10% earnings downgrades for the market.

Despite record results from Nvidia in late August the AI theme has started to underperform the market. Lofty expectations have met the more mundane reality of rolling out a technology product cycle. AI at the edge, an exciting break through which should lead to an upgrade cycle in everything from PC's to smartphones isn't going to be significant until H2 2025. Trade restrictions around technology exports to China and a regulatory clash between the DoJ and google are also taking the shine off these year to date market leaders.

August Market Summary

Whisper it quietly but the recent relative outperformance of defensive equites versus cyclicals indicates a stock market that despite being close to all time highs is beginning to discount a slowing growth outlook ahead. That this is happening when we are trading on close to peak multiples at peak margins with pricing power of corporates and purchasing power of consumers waning gives us pause for thought. Hence we stick with our decision to reduce our asset allocation in early summer and we continue to rotate our risk assets away from cyclicals which have worked so well for us this year and into higher quality defensive equities. We currently sit at the lower end of our asset allocation range and are overweight high quality equities that benefit from lower rates.

Want to talk to us about investments? Contact us.

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