CANTOR FITZGERALD ASSET MANAGEMENT

Market Update

JANUARY 2025

“I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter.

But now I want to come back as the bond market. You can intimidate everybody.”

James Carville, Former Advisor to the Clinton Administration

A weak end to a strong year for global equity markets. With election uncertainty out of the way markets initially exhibited their well-established post-election seasonality rally in the first few days of November. Since then, it has begun to become a slightly more disconcerting ride for global investors who are met with a number of inconsistent and conflicting data points as they face into 2025. Although the bottom-up micro outlook for certain stocks and sectors looks as strong as ever, fuelled by generational trends such as Digitalisation, the geo-political, macro but most of all yield backdrop has darkened somewhat in the immediate term.

The new administration in the US has a solid political mandate but the potential controversial geo-political and economic policies are now coming to the fore. Multiple threats around tariffs, trade wars and redrawing borders and renaming oceans are being voiced more vociferously. Of most concern to us however is the direction of global yields. The magnitude of the benefits of cost saves under the D.O.G.E are unlikely to offset the need for further US borrowing. This extra borrowing will pressure an already strained bond market. We appear to be the end of the rate cutting cycle for now due to sticky inflation and a more solid employment picture than expected. Almost 18 months into the FED pivot to cut rates and long-term interest rates globally are all heading towards new highs, fuelling risks around the relative valuation of other asset classes and pressurising balance sheets or any leveraged entity. The Fed also seem not to be willing to look through potential inflationary impact of tariffs this time round. The ultimately mis-founded concerns in early 2023 around the impact of higher rates should now back on everyone’s radar.

The dollar is surging and previous growth engines of the world like India and Brazil are slowing, faced with the same overborrowing that the West has been guilty of since Covid. European political backdrop is unhelpful, with no effective government in France or Germany over Christmas. The Draghi report shows Europe a way to increase competitiveness, but the political will is lacking for now. Chinese authorities began what appeared to be a long-awaited stimulus and although it is helpful it is running out of steam. In the UK the Labour Government’s first Budget has exacerbated all the problems listed above.

Despite our tactical concerns we note quite worryingly how global investors, strategists and commentators enter 2025 with expectations that are sky high. Surveys indicate the highest percentage of investors on record expect markets higher 12 months out. Wall street strategists have just upgraded their collective price targets for indices at the largest and quickest pace in a generation after largely missing the rally of the last 2 years. Fund managers enter into 2025 with record low levels of cash, a curious time for this to happen as the valuation of the US market, which has been the global leader, is now elevated, whether versus bonds or its own long history.

Against a tricky macro and political backdrop being invested in leading companies will matter more than ever. We’re particularly interested in those whose end markets or products are immune to the macro and geo-political pressures of the day. Technology, and in particular AI investment spending continues to be a bright spark. The initial capex spend that centred on the data centre appears to be broadening as the AI theme encompasses more industries from Software to Warehouses. The back and middle office functions of large organisations are being transformed.

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Enterprise migration to the cloud continues apace. As these trends continue those companies who have invested in this cycle will begin to see margin improvements from already lofty levels. Ultimately efficiency and productivity across the economy will improve.

Bank earnings continue to impress, with deposit taking franchises benefiting from the higher rate cycle and the deal makers from the potential positives around the huge deregulation push in the US. This should free up excess bank capital and kick start a wave of M&A. Industrial capex exposed to the electrification of the grid globally is one of our most exciting and resilient exposures. The merits of LNG, from being a transition fuel in the path to net zero to being a geo-political security blanket are becoming more understood. A maturity around nuclear energy is also emerging, given its carbon free status. Global Aerospace and Defence spending should accelerate as warranted by the current geo-political pressures. Long term themes around obesity and med tech solutions for an aging population continue to offer a solid growth outlook. The global consumer is still hooked on subscription based streaming services whose pricing power is as resilient as ever.

We have decided to use the post-election strength to de risk the portfolio. Currently we are sitting back at the lower end of our asset allocation range. Regions Like Europe and China who will be at the cross hairs of trade frictions we have reduced exposure to substantially. We have switched into some large cap US financials who will see upgrades and multiple rerating from this higher rate, lower regulation world. We have also added to our LNG exposure, an industry that sits at the centre of the Trump administration's positive policies and that is coming more to the fore for Europe's energy security. Pragmatism slowly takes over in Brussels. Some renewable names were added to on weakness. Within the defensive assets we have chosen the safety of cash in a flat and rising yield curve world.

Phil Byrne
Chief Investment Officer

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

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

Equities Manager of the Year

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