CANTOR FITZGERALD ASSET MANAGEMENT

Market Update

FEBRUARY 2025

The Global equity market started the year strongly finishing up 3% with notable dispersion across regional and sector performance. Notably Europe outperformed the United States with the MSCI Europe returning +6.4% versus the MSCI US returning +2.33% (euro terms). UK equities also returned nearly 5% in Euro terms.

The Information technology sector was the weakest sector in January (-1.1%) driven by notable underperformance in CFAM underweights such as Apple and Nvidia which contributed to the strong relative performance for our funds in January. Communications services was the strongest sector in January (+7.75%) with the funds overweight in Meta contributing to the outperformance.

Banks were a core source of outperformance in January, with deposit taking franchises benefitting from higher rate cycle and structural hedges and the investments banks noting a pick-up in IPO and M&A activity as well as stronger IB trading activity. Net interest income came in higher than expected too.

Despite the strong start to the year, we enter February which is seasonally a weak month during the first year of the presidential cycle with some concerns.

Investor positioning seems quite complacent with CTA long positioning in Europe close to max long with the Bank of America fund manager survey showing Fund manager cash is at lowest level since June 2021. Both Hedge funds and retail are aggressively buying single stock call options and just as Trump has heightened global trade war fears, US equities had seen a weekly inflow of $8bn which was the largest weekly inflow in 2 years.

The direction of bond yields remains a concern for us and despite pulling back off recent highs upside risk remains from stronger US economic data and sticky inflation with some economists now forecasting US rate hikes in H2 and the ever rising US fiscal deficit lurking in the background. Japanese bond yields also continue to trend higher as further evidence of rising wage inflation likely spurs the BOJ to hike faster than anticipated. Recent Japanese wage inflation data showed the fastest y-o-y growth since 1997.

Volatility has recently picked up and this heightened volatility often precedes broader market corrections as Investors are forced to reduce exposure.

Firstly, we had the Deepseek news, which saw AI infrastructure and AI Power baskets experiencing 12 and 9 standard deviation moves lower.

Then later in the week, Trump announced 25% tariffs on both Mexico and Canada on the last day of January before reversing course the following Monday delaying implementation for a month which saw the initial market decline reverse.

The 10% tariff he placed on China remains and it is likely that tensions between the US and China remain over the coming months. Trump has also hinted at Tariff's with the EU with this threat likely to be put a lid on European equity returns after the strong start to the year. Its important to note that the pace at which actions have been taken is much faster than expected compared to 2018-19 and for context actions were taken against one trading partner (China) and that too in a phased manner.

There is also a German election to contend with on February 23rd to add to the political uncertainty.

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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. Alphabet and Metas recent 2025 Capex announcements should provide some comfort for the ASIC exposed semiconductor names and Power providers post the recent Deepseek induced volatility.

Currently we remain at the lower end of our asset allocation range. The fund was relatively inactive over the month but used the Deepseek driven sharp pullback to add to AI and Power exposed names at attractive entry points. These buys were funded from selling underperforming names where conviction had weakened. Within the defensive assets we have chosen the safety of cash in a flat and rising yield curve world.

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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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