

CANTOR FITZGERALD ASSET MANAGEMENT

Market Update

MARCH 2025

After a solid start to 2025, global equities fell by -0.5% in euro terms during February – another volatile month that saw European indices yet again outperform their US counterparts, even as the MSCI US hit all-time highs. US yields saw a sharp reversal downwards from the middle of the month onwards, with oil also declining on headlines of an end to the fighting in Ukraine, with Brent crude down -4.7% over the month to \$73.18/bbl. The SOX index was on track to recover much of its losses from DeepSeek during January, before sharply pulling back after Nvidia's earnings results and further tensions around tariffs.

There was no shortage of market moving events during the month; the continued threat of Canada/Mexico tariffs, talk of an end to the fighting in Ukraine, German elections, a rare earth mineral deal between the US and Ukraine and further interest around DeepSeek all contributed to further volatility. Despite the announcement of broad reciprocal tariffs set to come into force on April 2nd, in addition to 10% tariffs on China, and growing anxiety around US inflation led by a hotter than expected inflation print – the bond market focus was on weaker US sentiment data and the risks to economic growth, sending yields downward and reversing much of their post-election gains.

An end to the fighting in Ukraine, no matter how implausible this may seem, partly led to strong performance in European indices, with German equities continuing to rise at an almost record-breaking pace – notching up over 3.7% in EUR terms during the month. The continued momentum behind German equities is somewhat hard to explain though – peace in Ukraine does not seem as if it is around the corner, regardless of what headlines are saying, the European growth outlook (especially that of Germany's), is far from impressive, the German election yielded few surprises and the possibility or impact of substantial fiscal reform in the country is not yet fully clear. Although an enormous package has been proposed since the end of the month, the passage of this relies on the old parliament, not the new.

February saw both business and consumer sentiment deteriorate in the US, while consumer confidence registered its largest decline since August 2021. Delinquency rates on credit card and auto loans have also been steadily creeping higher. This concern might gain more traction as US budget negotiations move forward. The latest draft budget resolution from House Republicans includes major spending cuts, with \$1.5tln specified and a \$2tln goal, in order to have some offset for the \$4.5tln cost of other "tax cuts", which are predominantly the extension of the TCJA. It seems inevitable that these cuts will target Social Security and Medicaid, which would further stress already indebted consumers.

Despite a small bounce in Euro area PMI's – which, is worth noting, comes from very depressed levels, Europe's economic woes continue. The German economy hasn't grown since 2019, potential growth prospects are also falling, public investment as a percentage of GDP is at the bottom of the EU ladder, both households and corporations are saving, the only domestic sector not saving being the government – but even that may turn to contraction as the debt brake is about to be re-applied unless the new government can take action. The need and capacity for fiscal stimulus in Germany is clear, though the willingness to push through the necessary measures to improve their current situation remains unclear.

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Adding to this, the US is openly discussing the implementation of 25% tariffs on the bloc and appears to be reaching over the heads of Europeans to broker a peace between Ukraine and Russia – thus spurring a level of European defence investment not seen in decades, though should governments attempt to offset this higher defence spending with cuts elsewhere, the impact on growth would be quite negative as the economic multiplier for defence spending is quite low.

The funds underperformed in February after a strong January. Financials were a bright spot, with European banks in particular performing well due to structural hedges, strong NII, solid upgrades and good guidance. However, this was more than negated by the pull back in technology and the overall sector rotation that we witnessed towards the end of the month.

We ended February at the lower end of our asset allocation range due in part to the substantial uncertainty and volatility clouding the market outlook as outlined above. A pull back in the copper price during the latter half of the month in conjunction with a price disconnect between it and the more copper exposed miners provided a solid entry point into some of these names given the strong fundamental and long-term supply/demand dynamics of the metal. As some of the turbulence and anxiety post-DeepSeek continued to weigh on AI stocks well into February, in addition to tensions around tariffs, we took this opportunity to add to a number of beaten up secular winners. Within the defensive side of the portfolio, 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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