CANTOR FITZGERALD ASSET MANAGEMENT

Market Update

APRIL 2025

A difficult and ultimately disappointing start to our funds for 2025. Entering the year we had reduced our exposure overall to growth assets significantly in the belief that waning monetary and fiscal policy support would leave the market vulnerable towards any unorthodox approach towards trade that the new US administration would embark on. Unfortunately, that wasn't enough to protect against just how unorthodox both that approach and the market's reaction to it is proving to be. The initial focus from Trump was expected to be on his usual gripes around European and Chinese trade deficits. Instead, he chose to shoot the US economy in the foot and begin a trade war with Canada over that electric electoral issue of fighting Drug Cartels in Quebec. Whilst the US embarked on this 3D chess move Europe and China embarked on pro-business, pro-growth policies (the exact Trump promised for America). Given the valuation and positioning discrepancies between the US and the rest of the world, this policy shift saw European assets outperform US assets by the most ever in a quarter. An illustration of this is the spread of out performance of the Dax over the Nasdaq at one stage reaching over 25% year to date. Not only was the US out of favour as region (the $ had one of its worst weeks ever versus the Euro) the mix within US assets was unexpected too. The stocks, sectors and themes which have led the markets higher for the last number of years are the ones which have underperformed the most. At a high level this speaks to a dramatic overall de risking by market participants due to the economic uncertainty the trade war is bringing. At a sectoral level however, it was driven by the extended volatility brought about by the "Deep seek" moment when a Chinese LLM incorrectly claimed it could do the work of its US counterparts at 1% of the cost. The ensuing volatility was seen not just in the semiconductor space but in areas such as utilities, energy companies and anything that had been seen to be a beneficiary of the AI capex cycle.

The underperformance year to date has been driven by two specific areas in the portfolio, the holdings of technology stocks and the alternatives fund. Despite being underweight technology to start the year, the holdings we maintained lagged. Software names got caught up in fears over the impact DOGE would have on their government contracts whilst semiconductors were hit over concerns on the sustainability of Hyperscaler Capex and the overall state of the economy. Curiously nearly all the funds underperformance was concentrated in the last 3 days of the quarter which saw quite a dramatic de risking for markets. Away from technology the fund had some winners, most notably EU and UK banks, as well as consumer internet and subscription services. The alternatives fund was especially hit by the historic regional rotation as a lot of the hedges in place were European focused which as a region has not only not suffered from the looming trade war but has materially performed. It suffered too from an overweight in Dollars, again a misguided attempt to hedge against a US led trade war. Our overall asset allocation, being underweight risk assets helped cushion some of the blow, as did our tactical trading around EU fixed income. Having been underweight duration for the start of the year, the record decline in German long bonds after their fiscal stimulus measures allowed us to reduce that underweight at very attractive yield levels. Our overweight in copper was very successful too.

The seeds of long-term outperformance are sown in the short-term winds of volatility. This unprecedented factor rotation year to date in markets has allowed us to add to some of the best companies in the world across different sectors at valuations that are 20-30% lower than at the start of the year. We have increased our overweight in technology, with particular focus on AI exposed names. From a zero position in Nvidia at the start of the year it is now the largest single stock position we have as it trades at its lowest multiple in nearly a decade. Whilst noise levels reach fever pitch, the underlying trends are accelerating as the race for compute power continues apace. Some of the highest quality consumer goods names are trading at deep discounts to recent valuations. Stocks like Louis Vuitton, Nike and Ferrari are proving too good an opportunity to turn down.

Continued on next page

Some of the highest quality US defence stocks now trade at valuation discounts to their European peers as fears around DOGE are overstated and the potential for them to win business from their Nato allies under appreciated. Economic uncertainty is driving down longer-term interest rates making US homebuilders an interesting place to be invested again. The reindustrialisation of the US continues apace but industrials such as Ashtead's valuation no longer reflect that. Power demand to fuel this reindustrialisation will be increasingly Gas fuelled. With gas no longer seen as just a transition fuel we have added to stocks across the supply chain.

Overall, we enter Q2 close to the top end of our growth asset allocation range with a particular overweight in both the US and growth stocks in particular. Reports of the end of US exceptionalism are premature. It has an energy and technology dominance that is the envy of the world. The current administration's short-term policies can't jeopardise that and should ultimately complement and enhance it. It would be remiss of active managers such as ourselves not to exploit the opportunities that our investment process, which has guided us successfully over many years, leads us to believe are being presented right here right now.

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.

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