Cantor Fitzgerald Asset Management

STRATEGY & OUTLOOK
Market Update

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November Pain

One of the defining themes for the month was another round of upward revisions to hyperscaler capex expectations. Consensus estimates for 2026 spend have now risen from $314bn at the start of the year to $458bn at the start of earnings season and now stand at a staggering $518bn. In isolation, such eye-wateringly high capex figures are not necessarily an issue. But when you take the rapidity and scale of these revisions in combination with current elevated market valuations, AI beneficiaries that are seeing speculative pricing driven by aggressive promises and spending commitments (particularly involving OpenAI), concerns on debt issuance from some of the hypers and a market whose breath has narrowed considerably in recent weeks/months, lead us to believe that the pragmatic approach for now is to maintain the current positioning of the funds towards the low end of the asset allocation range.

It is important to note that, short term concerns aside, the AI investment cycle will be a 20 yearlong structural trend and does not currently constitute that of a “bubble”, however, the trade will not be linear and not every company will be a winner. Although the likes of Nvidia remain structurally strong long-term, its leadership position and current weight in global indices makes near-term returns harder to justify. On the flip side, so called “AI losers” (high quality software companies for example) have seen their share prices hammered on AI concerns that, once the dust has settled, do not actually appear material and, in some cases, prove to be tailwinds going forward. The market has not yet fully caught up to this realisation, so we have used this opportunity to add well-run, high quality, successful companies at significantly discounted valuations.

On the macro side, the Federal Reserve delivered another rate cut at its October meeting, though notably the decision drew internal dissent, with two officials voting against it and several voicing concerns post-meeting that inflation remains too high – a concerning sign that consensus on the correct policy path has become quite fragmented. The scale and strength of the AI capex cycle have also arguably kept the US economy growing in recent quarters and will make the Feds job even harder. With the division in the Fed over the appropriate pace of policy easing, the U.S. government shut down and accompanying delay in the release of official economic data, market pricing for a December cut has become increasingly less certain. Despite the uncertainty at the Fed, earnings season continued unabated with approximately 75% of 3Q earnings now behind us. Major US indices have delivered a 6% beat, powered by Tech heavyweights like Alphabet and Amazon and reinforced by the strongest breadth of earnings beats since 2021. Positive earnings revisions and guidance trends have also held up well after improving substantially in 2Q: there were 1.9x more above- than below consensus EPS guides in October, well above the long-term average of 0.8x.

Our largest overweights are utilities, reflecting their defensive characteristics and leverage to rising power demand linked to AI infrastructure, and industrials, which continue to benefit from the long-term themes of digitalisation, decarbonisation and de-globalisation.

We remain significantly underweight the Mag7 as we wait and see if the concern we hold about a switch from hyper scaling to hyper spending materialises. We continue to believe the market is overestimating the growth whilst simultaneously underappreciating the political risks present in Europe, and conversely underestimating the growth in the US, as a result we continue to be overweight the US dollar. Overall, the conditions remain in place for markets to continue their strong performance over the next 5 years as they have the last. So too, however do those conditions still exist that caused consistent air pockets of volatility.

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