TRAMONDO
INVESTMENT PARTNERS

NAVIGATOR 2024

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TRANSITIONING TO A NEW NORMAL

INTRODUCTION

2023 proved to be another year of profound and often unanticipated changes in the world economy, politics and financial markets. Central banks carried on from where they left off in 2022 raising policy rates to ease inflation pressure. With that, even the most seasoned economists believed that global growth momentum would take a serious setback in 2023, with private individuals and corporates expected to buckle under record-high interest rates.

However, to everyone's surprise, the much-anticipated global recession (so far) failed to materialize. While growth has been anaemic in Europe, it has been remarkably robust in the US, with GDP growth data for Q3 2023 at their highest level since 2021. In that context, healthy consumer spending and supportive fiscal policy proved to be the backbone of the world's largest economy. Furthermore, as the year draws to a close, there is also growing evidence that central banks' fight against inflation finally comes to an end. In the US and the Eurozone, consumer prices have decreased significantly since Q3 2022, reaching levels of 3.2% and 2.9%, respectively. With that, central bankers are no longer pressured to raise policy rates to cool down the real economy.

Looking ahead to 2024, these inflation and growth dynamics may already have raised investor hopes of a "Goldilocks" scenario characterized by moderate price pressure and robust economic growth. As we enter the final trading days of this year, Wall Street expects S&P 500 companies to post an earnings growth rate of roughly 11% in 2024. Hence, equity analysts do not foresee any deceleration in operational momentum, which is remarkable since consumer sentiment and corporate refunding continue to be seriously challenged by interest rates that have stood at their highest level since 2001.

We believe these expectations of a so-called "no landing" environment – in which the world economy does not experience any growth setback – are rather optimistic, to say the least. Indeed, we acknowledge that some of this year's market tailwinds may also leave their traces in 2024, most notably (expansionary) fiscal policy, albeit with a diminishing contribution. As such, we think the market consensus is due for a recalibration in later 2024, which will significantly impact financial markets. Regarding fixed income, we expect bond yields to have completed their top-building process this autumn and think that high-quality fixed income paper will stand out in 2024 due to its attractive risk-return combination. Equity markets, on the other hand, may have some further room to run in early 2024. However, they will face a more challenging period as investors start to adapt their expectations to (deteriorating) fundamentals.

In this publication, we focus on addressing five key questions we have most often heard from investors and clients recently. As usual, we do not intend to provide forecasts and strongly advocate for an adaptive and flexible asset allocation. However, we would like to offer some food for thought on a few key topics, which we believe will have a lasting impact on next year's market roadmap. With that, we hope the following pages can provide good waypoints for navigating the various market challenges in 2024.

We wish you and your family only the very best for the upcoming festive season. Furthermore, we hope you will find some time to recharge your energy reserves for 2024, a year that certainly will have a few surprises in store again.

Raphael Müller, CEO

Andreas Schranz, CIO

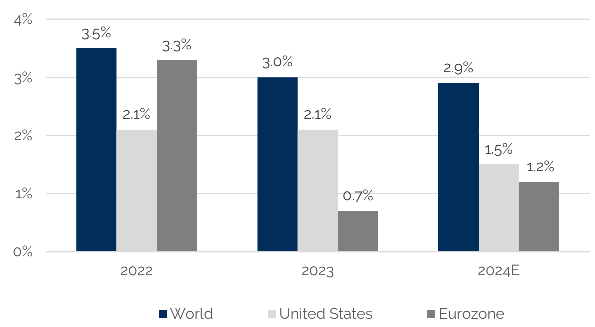
MARKET COMPASS FOR 2024

KEY QUESTION NO. 1

WHERE DO YOU SEE THE GLOBAL ECONOMY HEADING IN 2024?

The world economy's resilience was one of the major surprises of the current investment year. In its most recent growth forecast, published in October, the International Monetary Fund (IMF) projected the world economy to grow by 3.0% in 2023, compared to 3.5% in 2022. Once again, the US stood its ground, and the world's biggest economy is expected to maintain last year's (real) growth rate of 2.1%. Undoubtedly an outstanding achievement given the numerous fundamental headwinds accompanied by record-high interest rates. In contrast, the Eurozone lost considerable momentum in 2023, with economic growth expected to experience a serious setback from 3.3% (2022) to 0.7% (2023). In that context, Germany, the former monetary union flagship, appears already amid a recession, as its underlying GDP is predicted to contract by 0.5% this year.

GDP GROWTH FORECASTS



SOURCE: INTERNATIONAL MONETARY FUND (IMF), OCTOBER 2023

For 2024, the IMF forecasts the global economy to expand by 2.9%. In other words, the monetary institution does not foresee any deceleration in global growth. At Tramondo, we believe that this forecast may ignore some of the critical challenges the world economy is facing in 2024, at least partially. While we think that the world's most important growth engine, the US, will continue to enjoy positive economic momentum in early 2024, fundamentals may face stiffer headwinds towards the year's second half.

First, consumer spending, a key component of better-than-expected growth in 2023, is prone to a breather in 2024. During COVID-19, private households in the US accumulated excess savings of roughly USD 2'150 billion. In the meantime, especially after COVID-19 lockdown measures were lifted in 2021, this surplus liquidity has gradually found its way back into the real economy. We expect these excess savings to be exhausted by the end of 2023, indicating that consumption will revert to trend-growth. Furthermore, to make matters worse, private individuals have been required to resume their student loan repayment duties since October, after the Biden administration had granted a grace period since the outbreak of COVID-19. Statistical data suggest that 45 million American households will spend an average of USD 300 monthly to repay their student loans. We expect these two consumption-dampening factors to weaken US GDP growth by at least 0.5% - 1.0% in 2024.

Second, we believe that the lagged effects of higher interest rates and tighter bank lending standards will only really unfold in 2024, with significant ramifications for the real economy and underlying growth. While record-high interest rates already brought some first victims to light in 2023, particularly in the banking industry, empirical models indicate that more economic pain is coming our way in the quarters ahead. A Federal Reserve Bank of Chicago study estimates that increased policy rates will reduce US GDP growth by 3.0% in 2024 and 2025. In other words, growth will contract by roughly 1.5% annually due to the lagged effects of monetary policy normalization.

WE BELIEVE THE US ECONOMY WILL ENJOY SOME DECENT GROWTH IN Q1 AND Q2 2024, WHILE ECONOMIC MOMENTUM IS EXPECTED TO FINALLY ROLL OVER DURING THE SUMMER MONTHS.

Summing up, we believe the US economy will enjoy some decent growth in Q1 and Q2 2024, while economic momentum is expected to finally roll over during the summer months. Cooling consumer sentiment in combination with the lagged effects of higher interest rates may reduce US GDP growth by 2.0% – 2.5% in 2024.

Moving away from the US, we believe that the Eurozone and China, the world's other important economic powerhouses, will be unable to bail out global growth in 2024. Early-cyclical indicators in the Eurozone indicate that the economic situation will probably worsen before the region resumes its growth trajectory in 2025. Turning east, we think that China's economic potential will be tied back in 2024 as underlying structural challenges – among others, overcapacity in the real estate sector and a shrinking working-age population – prevent a more dynamic development of the region. With that, the world's second-biggest economy may (once again) face some kind of a transition year.

Overall, we think underlying projections for economic growth in 2024 are due for a recalibration as the so-called "no landing" scenario seems quite unlikely given the current fundamental backdrop.

Investment conclusion: Given the lagged effects of higher rates on the real economy, the current market narrative of a so-called "no landing" scenario looks rather unlikely. In our base case, we believe the world economy cannot avoid a soft landing or even a mild recession as underlying fundamental headwinds may prove too strong, especially towards the second half of 2024.

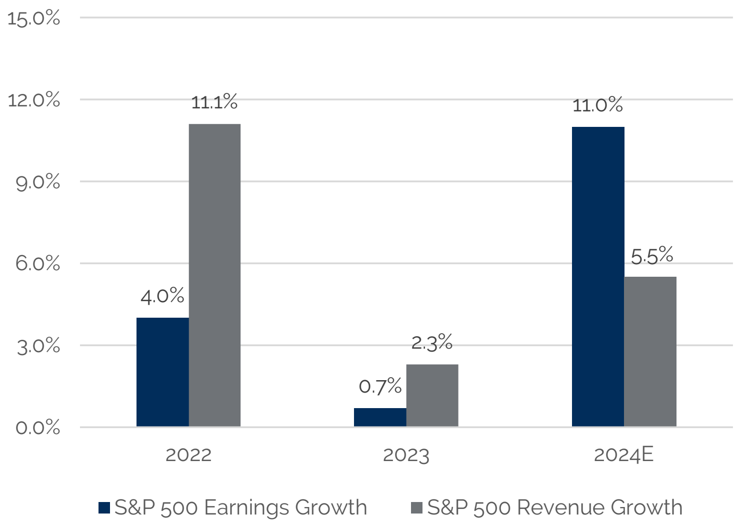
KEY QUESTION NO. 2

BASED ON YOUR MACRO EXPECTATIONS, WHAT ARE THE IMPLICATIONS FOR THE EQUITY MARKET POSITIONING?

After a challenging period since late summer, equity markets most recently set off a strong comeback rally on solid fundamentals, decreasing inflation and investor hopes of a sooner-than-later change in monetary policy. Looking to Q1 and Q2 2024, we would not rule out that equity markets may offer further upside potential as a "Goldilocks" environment – characterized by easing price pressure and solid economic growth – may lead investors to increase exposure towards equities. However, we expect equities to face a more challenging period when market participants start to adapt their expectations to (deteriorating) fundamentals.

While the world economy has mostly surprised market participants to the upside this year, thanks to strong consumer spending and supportive fiscal policy, we foresee tighter financial conditions and declining savings to weaken growth later in 2024. Furthermore, we expect corporate margins to be increasingly impacted by higher financing costs. As such, the outlook for equity markets comes with a series of uncertainties and challenges that we think are not reflected adequately in underlying asset prices.

S&P 500 REVENUE AND EARNINGS GROWTH



SOURCE: FACTSET, DECEMBER 2023

For 2024, equity analysts still expect S&P 500 companies to grow earnings at around 11%. This strong earnings comeback on Wall Street would be consistent with a "no landing" scenario and implies a sharp growth reacceleration relative to current readings. While this (optimistic) scenario is possible, we believe it is unlikely, given the fundamental outlook. At Tramondo, we stick to our base scenario that a soft landing or a mild recession is unavoidable, indicating that earnings expectations are due for a (significant) downward revision later in 2024.

WE ADVISE EQUITY INVESTORS NOT TO COMPROMISE ON QUALITY, PAYING CLOSE ATTENTION TO THE VISIBILITY AND RESILIENCE OF UNDERLYING EARNINGS.

Given these fundamental challenges, we advise equity investors not to compromise on quality, paying close attention to the visibility and resilience of underlying earnings. The outlined economic backdrop should support equities with high profitability, strong balance sheet quality, resilient earnings growth and a management team with a proven track record. Typically, the technology and communication service sectors – which we prefer heading into 2024 – feature most of these quality attributes.

Given the short-term tactical roadmap, outlining some decent upside potential for equity markets, we also see exciting opportunities in more cyclical sectors such as industrials. However, the sector may be downgraded later in the year when we see early signs of weakening growth. Last but not least, we see the defensive sectors of healthcare and consumer staples as comeback candidates for 2024, as their earnings resilience may prove valuable in an environment of softer economic activity.

From a tactical point of view, we currently have a constructive positioning towards equities as financial markets may enjoy some further upside potential in early 2024. Furthermore, observations indicate that equity markets peak on average six months before the onset of a recession. Thus, investors should remain exposed to equity markets as asset prices still have room to grow. However, we plan to trim equity risk exposure as soon as we see reliable evidence for the (anticipated) economic slowdown. We may even decrease the equity allocation to underweight as corresponding recalibration efforts by market participants may have painful consequences for Wall Street. This recalibration, however, may open up an attractive opportunity for investors to revisit equity markets later in 2024 once deteriorating fundamentals are fully reflected in underlying valuations. In that context, investors should never forget that financial markets usually bottom out before the end of a recession, which is why investors should build up their equity exposure before economic growth accelerates again.

Investment conclusion: We forecast 2024 to be another challenging year for equity investors. While equity markets may enjoy a solid start into the new year, softening growth and (too) optimistic earnings expectations will drag on equity markets as the year advances. An active investment approach is warranted, and we recommend staying selective with a disciplined focus on quality companies.

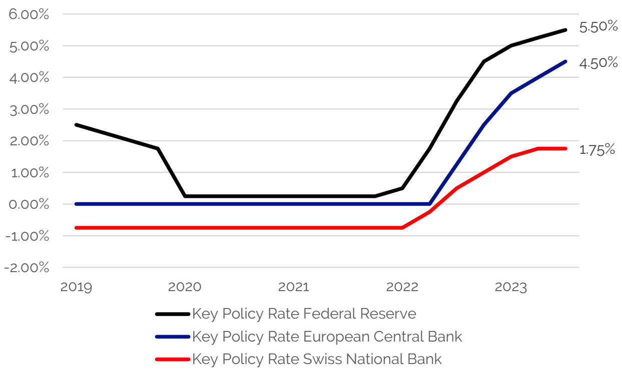
KEY QUESTION NO. 3

AFTER TWO RATHER DIFFICULT YEARS, WHAT IS YOUR TAKE ON FIXED INCOME?

In the aftermath of global central banks delivering a historic rate hike blast to combat record-high inflation, we see reasonable evidence that policymakers are done raising rates. In the US and the Eurozone, consumer prices have declined sharply since Q3 2022, with the latest readings coming in at 3.2% and 2.4%, respectively. In the past, central banks usually stopped increasing rates when inflation had fallen below short-term policy rates. At the time of writing, central bank key benchmark rates are 230 bps (US) and 210 bps (Eurozone) above their respective consumer price indices. With that, we believe that the Federal Reserve (Fed) and the European Central Bank (ECB) will remain in a wait-and-see mode until changing fundamentals require further policy action.

On the back of our economic roadmap for 2024 – which outlines a distinctive softening of global growth, especially in the second half of the year – high-quality fixed income investments may offer a compelling risk-reward combination. On the one hand, while we cannot completely rule out further rate hikes, due to an overheating economy and/or a second inflation wave, we see the odds of such an outcome as fairly low. With that, the upside potential for global bond yields looks somewhat capped. On the other hand, we expect inflation to continue its moderation path, albeit at a slower pace compared to 2023. Combined with a weakening of global economic activity, we see decent downside risks for government bond yields in the quarters ahead.

KEY POLICY RATES AT MAJOR CENTRAL BANKS



SOURCES: BLOOMBERG, DECEMBER 2023

From a regional perspective, we expect the ECB to be the first mover with regard to rate reductions, as leading indicators for the Eurozone suggest that the macroeconomic environment continues to deteriorate. As such, central bankers in Europe will have no choice but to reduce rates again in Q2/Q3 2024 to circumnavigate a deeper recession. In the US, the lagged effects of tightening monetary policy will gradually surface in 2024, resulting in a noticeable economic slowdown and prompting the Fed to change course later in the year.

PAPER OF HIGH-QUALITY ISSUERS OFFER AN OUTSTANDING COMBINATION OF ATTRACTIVE CASH FLOW AND INTERESTING PRICE POTENTIAL.

In such an economic landscape, paper of high-quality issuers offer an outstanding combination of attractive cash flow (due to record-high coupons) and interesting price potential (due to decreasing yields). Furthermore, the asset class stands out due to its favourable valuation, especially on a relative basis: While the earnings yield of the equity index S&P 500 stands at 5.4% (based on a price/earnings ratio of 18.6x), high-quality corporate bonds in the US currently yield 5.8%, albeit with a significantly lower risk profile. With that, prudent investors face an (almost) historical opportunity to lock in attractive real yields for the coming investment cycle, independent of the prevailing economic performance.

However, as in equities, we advise clients to employ an up-in-quality approach in security selection as we see considerable downside risks for global growth consensus. As such, we would advise against (low-quality) high-yield paper on current levels as underlying valuations do not adequately compensate for late-cycle credit risks.

Regarding duration, we strongly believe that market participants should capitalize on a so-called barbell strategy, i.e. taking positions in both the short- and long-end of the yield curve. Regarding short-dated bonds, fixed-income investors benefit from central banks' historical rate hiking campaign over the last quarters while bearing almost no duration (interest rate) risk – truly an extraordinary risk-return profile that hasn't occurred in financial markets for quite a while. On the long-end of the yield curve, investors could hedge an adverse economic scenario, namely a recession, as long-dated yields are prone to decrease significantly in such an environment. In other words, holders of long-maturity bonds enjoy attractive price gains in case of an economic slowdown, which provides valuable diversification benefits for a multi-asset portfolio.

Investment conclusion: While equity markets may offer additional upside potential as we enter the next investment year, the real star of 2024 could be fixed income. In next year's market environment, high-quality bonds offer an attractive risk-reward combination on both the short- and long-end of the yield curve. However, we highly recommend that investors consider a disciplined bond selection process as softening economic growth may have some pitfalls for low-quality bonds (i.e., high yield).

KEY QUESTION NO. 4

WHAT ARE YOUR FAVOURITE INVESTMENT THEMES FOR THE NEXT YEAR?

With the historical rate hiking cycle we have witnessed for the last 18 months, we think the ultra-expansionary monetary policy era has finally ended. As such, we firmly believe that this regime change will open up attractive opportunities for new market leaders to emerge. We recommend that investors start identifying future leaders arising from this changing landscape. In this paper, we would like to highlight three promising investment themes (regions) which we believe offer investors attractive return potential.

Introducing our first investment theme, we think that a long-forgotten star may enjoy a stellar comeback in 2024. Japan, the land of the rising sun, has long been stuck in a low-growth environment as fundamental and demographic factors have tied back its growth potential. However, looking ahead, we expect the Japanese equity market and its currency to be supported by several tailwinds.

Firstly, Japan's economy has been in a meandering state of deflationary stagnation since the Japanese speculation bubble burst in 1989. However, inflation finally made a well-appreciated comeback in 2023, with consumer prices rising 3.3% in October. With that, the country may be able to break out of its deflationary trend, allowing the Bank of Japan (BoJ) to partially scale back its rigid regime of ultra-low interest rates. While decision-makers from the BoJ have already taken some tentative steps to normalize monetary policy this year, we expect the central bank to double down on its policy efforts in 2024. With that, we see the Japanese Yen, one of the weakest currencies over the last two years (-32.5% vs CHF and -27.2% vs USD), as an outstanding comeback story in 2024.

Secondly, we expect Japan to exhibit robust growth momentum in 2024 as its economy could experience a veritable demand boom. Japanese households have been piling up excess liquidity during COVID-19, which we forecast will stimulate the domestic market in the quarters ahead. In this regard, it is crucial to note that Japanese employees most recently enjoyed the strongest wage growth in more than two decades, which should lift their disposable income (and consumer sentiment) going forward. Apart from that, an economic stabilization of China, the country's largest trading partner, would also bode well for the export-oriented country. Taking a more structural view, we strongly believe Japan offers competitive exposure to emerging megatrends, such as car electrification and robotics. Taken together, Japan is expected to outgrow other major economies in 2024 and beyond.

VALUATION OF EQUITY MARKETS

SOURCE: BLOOMBERG, DECEMBER 2023

Thirdly, we think the Japanese equity market trades at a decent valuation. Despite supportive fundamentals, public companies currently trade with a price-to-book ratio of 1.3x, which is a significant discount to Europe (1.7x, discount of 23.6%) and the US (4.3x, discount of 69.8%). The illustrated valuation discount looks even more striking once we acknowledge that Japanese companies have rock-solid balance sheets with almost no debt. Nearly 50% of exchange-listed companies in Japan have net cash (cash minus debt) on their balance sheets – in the US, this figure stands at 21%, and in Europe, at 14%. Given a somewhat muted outlook for the world economy in 2024, we think that Japanese companies may be better equipped for an economic softening than most of their international peers. The country's equity market also reveals significant re-rating potential compared to other developed markets. With a price-earnings-ratio of 15.3x, the index looks attractive compared to both the US (18.7x, discount of 18.2%) and the Swiss equity market (17.8x, discount of 14.0%).

WE BELIEVE THAT JAPAN OFFERS COMPELLING UPSIDE POTENTIAL FOR BOTH THE EQUITY MARKET AND ITS CURRENCY.

Summing up, we believe that Japan offers compelling upside potential for both the equity market and its currency. However, we recommend investors not to engage in large-cap stocks with significant international revenue exposure as these investments typically underperform when the Japanese Yen is appreciating. With that, we strongly believe that small- and mid-sized companies with a strong focus on the domestic market are better equipped to capitalize on above-illustrated fundamentals.

As a second investment theme, we think that countries able to substitute China as an international manufacturing hub will continue to benefit from strong tailwinds in the future. In that regard, we believe that Vietnam, whose investment case we highlighted already in last year's edition, and India could be potential beneficiaries of these developments. In the last couple of years, Vietnam has become an increasingly important production site for international market leaders such as Apple, Nike, and Lego, who are looking to unwind their dependence on China, mainly due to geopolitical reasons. Further west, India launched its famous "Make in India" campaign almost ten years ago to raise its profile as a manufacturing partner for multinational companies. While India's infrastructure is not yet comparable to China's or Vietnam's, the world's most populated country has made considerable progress in attracting international partners such as Boeing, Samsung or Siemens. India's key asset is its rapidly growing and well-educated workforce with a median age of only 29 years (China: 38 years, USA: 39 years, Germany: 45 years). While its equity market already reflects many of these supportive fundamentals – the local stock market trades with a price-earnings multiple of 23.9x – we think that investors should still consider India an interesting satellite investment within a global equity portfolio.

Our third investment theme revolves around a structural healthcare trend that attracted much attention in 2023: obesity. With over 40% of the global population classified as overweight or obese, the World Health Organization (WHO) expects obesity rates to surpass 50% by 2035. With that, related healthcare costs will exceed USD 4 trillion annually by that time. Despite the severity of this (health and economic) issue, only 2% of affected individuals receive professional medical treatment. Looking at financial markets, we have identified several companies across the value chain that are ideally positioned to reduce healthcare issues associated with obesity. It is true that significant players in this industry already stood out in 2023 due to their outstanding performance. Still, we are sticking to a substantial allocation towards respective market leaders, and we believe that underlying growth dynamics are too attractive to take profit on the investment already.

Investment conclusion: We believe the ongoing regime change in financial markets will open up attractive opportunities for new market leaders to emerge. From a regional perspective, we think that Japan, Vietnam, and India offer attractive investment cases as we enter the new investment year. From a structural perspective, the megatrend obesity, while already having outperformed the market in 2023, still offers ample room to shine in 2024.

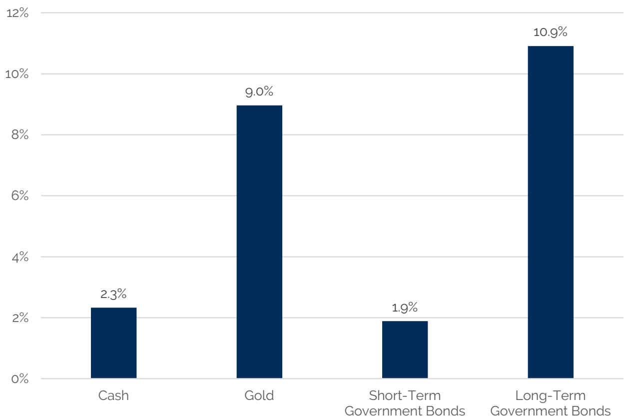
KEY QUESTION NO. 5

IN LIGHT OF THE CHALLENGING MARKET ENVIRONMENT, WHERE DO YOU SEE SAFE HAVENS IN FINANCIAL MARKETS?

As outlined in this publication, our base scenario expects global growth momentum to wane later in 2024 as a series of fundamental headwinds will unfold their (full) adverse effects. With that, the medium-term outlook for financial markets looks anything than promising. In that context, we would like to remind investors of the valuable characteristics of well-proven safe havens serving as temporary anchorage during stormy markets. Based on our market outlook, we currently identify the following safe havens.

First, cash is always a safe haven in times of increased market stress. While cash is still not king, the asset class has undoubtedly regained some of its attractiveness, given that central banks have lifted short-term interest rates to levels not seen in decades. As of the end of 2023, real rates for cash are in positive territory in both the US and the Eurozone. Unfortunately, in Switzerland, real rates are still negative, defining a rather unappealing opportunity set, especially compared to respective (high-quality) bonds. However, we recommend investors to overweight cash only on a tactical basis, particularly during a recession and respective market breathers. From a medium- to long-term perspective, though, the asset class's relative attractiveness still does not look tempting, especially compared to real assets such as equities.

AVERAGE RETURNS OF "SAFE HAVENS" DURING RECESSIONS



RECESSIONS SINCE 1945; SOURCE: BLOOMBERG, DECEMBER 2023

Second, government bonds also stick out as a place to hide. During challenging periods, we believe both the short- and long-end of the yield curve offer attractive attributes for market participants. Regarding short-dated bonds, investors benefit from central banks' rate-hiking efforts over the last quarters, defining attractive real yields with almost no duration (interest rate) risk. Conversely, long-maturity bonds enable investors to actively hedge a recessionary scenario as respective yields are expected to head south in such a market environment. As a result, longer-dated government bonds offer attractive price potential in the event of an economic slowdown, thus providing valuable diversification benefits for a multi-asset portfolio.

WE ADVISE INVESTORS TO FOCUS ON SECTORS A) WITH RESILIENT DEMAND INDEPENDENT OF THE ECONOMIC ENVIRONMENT AND B) THAT BENEFIT FROM FALLING INTEREST RATES.

When it comes to equity markets, safe haven investments are somewhat more challenging to identify. Still, even on Wall Street, some sectors are prone to shine during volatile market periods. In that context, we advise investors to focus on sectors a) with resilient demand independent of the economic environment and b) that benefit from falling interest rates. We believe these characteristics could be found in consumer staples, healthcare, utilities and, at least to some extent, in the real estate sector. We think these sectors are poised to outperform the broader equity market in case a recession unfolds in 2024. However, also within defensive sectors, selectivity and discipline remain crucial success factors in navigating smoothly during turbulent market times. As such, investors should not compromise on quality, especially regarding balance sheet strength and earnings visibility.

Last but not least, a word about gold, the traditional safe haven of financial markets. Looking ahead to the coming year, we think the precious metal will continue to serve as a value-preserving portfolio component as geopolitical risks are expected to stay elevated. At the moment, the world has to cope with two different geopolitical conflicts simultaneously, both with a highly uncertain outcome. As such, assets that can hedge adverse geopolitical events could (once again) prove valuable for a multi-asset portfolio.

Investment conclusion: Whilst the 2024 market outlook comes with a series of fundamental headwinds, we think a few market segments help investors protect their assets. These so-called safe haven investments can be found in different asset classes while, as always during difficult market periods, a disciplined focus on quality remains a vital success factor.

TRANSITIONING TO A NEW NORMAL

INVESTMENT CONCLUSION

After a decade of ultra-loose monetary policy, central banks involved in the most aggressive rate hiking cycle since the early 1980s have been shaking up financial markets and the real economy. While rate cuts are not imminent in early 2024, the next leg of this monetary cycle will likely be policy easing amidst softening global growth. However, we doubt that we will revisit a world of ultra-low interest rates and persistently subdued inflation anytime soon. We expect pricing pressure to remain a strategic rather than a tactical companion in the coming decade as structural forces may keep inflation heightened, albeit at a much lower level compared to the most recent past.

INVESTORS ARE COMPELLED TO ADAPT TO A NEW NORMAL IN WHICH INFLATION AND INTEREST RATES ARE PRONE TO REMAIN RELATIVELY ELEVATED.

Hence, investors are compelled to adapt to a new normal in which inflation and interest rates are prone to remain relatively elevated. We believe this changing investment landscape will enable fundamental analysis to reenter the foreground. After years of negative real rates that inflated asset prices and undermined the benefit of bottom-up research, we recommend that investors reconsider a quality-centered investment approach focused on underlying fundamentals. On the back of a robust and data-driven selection process, market participants should be able to navigate smoothly, even in times of stormy markets that may lie ahead of us.

From a tactical point of view, we think 2024 may still offer some upside potential for equity markets. In the first stage, market participants may continue to interpret “bad news as good news” as Wall Street eagerly longs for a change in central banks’ politics. Thus, rate-sensitive growth sectors such as information technology, communication services, and consumer discretionary should continue to perform well.

However, as the year advances, the world economy is expected to gradually experience the full effect of increased rates, resulting in a temporary (economic) breather later in 2024. With regard to market consensus, economic growth and company earnings forecasts do not reflect such an adverse scenario. Hence, we anticipate financial markets will to undergo a recalibration process during 2024 – with painful consequences for risky assets. During that second stage, market participants should trim their market exposure and may even install an underweighted position in global equities. Furthermore, it is time for recession-proven, defensive business models to shine again. In that context, we advise investors to focus on high-quality market leaders in the consumer staples, healthcare, and, at least partially, the information technology sector.

However, in the final stage, when weak fundamentals are fully priced in, investors will face an excellent opportunity to scale up equity risks again. Once these markets have bottomed out, we suggest overweighting early-cyclical sectors such as energy, materials and consumer discretionary, as respective companies typically perform well when risky assets start thriving again.

Looking at nominal assets, fixed income may be the secret star of the upcoming investment year. On the back of our economic roadmap for 2024, we firmly believe that high-quality bond investments stick out due to a historical risk-reward combination. At current levels, investment-grade bonds offer attractive real yields and interesting price potential in case an unfolding recession will push bond yields down. As such, while having upgraded the asset class during Q3 2023, we stick to an overweighted fixed-income position.

ON THE BACK OF OUR ECONOMIC ROADMAP FOR 2024, WE FIRMLY BELIEVE THAT HIGH-QUALITY BOND INVESTMENTS STICK OUT DUE TO A HISTORICAL RISK-REWARD COMBINATION.

Summing up, we believe that the markets in 2024 will offer both light and shadow. While the first months of the new investment year may promise further decent returns for equity and fixed income markets, the anticipated recalibration of investor expectations clearly favours nominal assets in the latter part of 2024. However, independent of the asset class, we advise investors to employ an up-in-quality approach regarding security selection, as a softening economy may have some pitfalls in store for low-quality assets. Furthermore, we see a proactive attitude towards risk management as a crucial success factor for market participants coping with next year's various challenges.

Finally, as already outlined in this publication, we think that several investment themes offer compelling growth potential and the ability to unlock attractive value. As such, even if some dark clouds overshadow the economic outlook for 2024, financial markets are poised to provide opportunities that may have never been that exciting in the last decade.

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Contact Information:

Tramondo Investment Partners AG
Unter Altstadt 10
CH-6302 Zug

Tel: +41 41 710 76 76
info@tramondo.ch
www.tramondo.ch

TRAMONDO INVESTMENT PARTNERS AG

UNTER ALTSTADT 10
CH-6302 ZUG
T +41 41 710 76 76
INFO@TRAMONDO.CH
WWW.TRAMONDO.CH