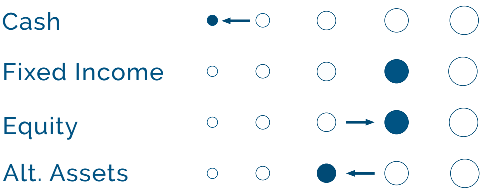

# MARKET COMPASS

A MONTHLY BRIEFING ON THE STATE OF THE FINANCIAL MARKETS AND OUR TACTICAL POSITIONING.

**01/2024**

## TACTICAL POSITIONING




We are happy to explain our detailed tactical positioning to you in a conversation. Please contact us.

## SPOTTED

**First SPAC on the Swiss Stock Exchange –** SPACs (Special Purpose Acquisition Companies) are investment companies that have become increasingly popular, particularly in Silicon Valley, following the COVID-19 crisis. In a climate of record-low interest rates, many investors have been willing to acquire high-growth start-ups through these investment vehicles. The Swiss VT5 recently completed the first such capital market transaction on the Swiss trading floor by taking over the transformer manufacturer R&S Group. The IPO of R&S Group was successful, with shares trading up approximately 13% on the first day.

## MARKET REVIEW

### FALLING BOND YIELDS MAKE FOR AN EUPHORIC END TO THE YEAR

**Fed Chairman Powell surprises with change of direction –** At its most recent meeting in 2023, the US Federal Reserve confirmed the current key interest rate level, which was in line with market expectations. The official interest rate forecast, known as the 'Fed Dot Plot', indicated the possibility of three interest rate cuts for 2024, which could potentially lead to surprises. Fed Chairman Powell seems to be preparing for a change in monetary policy, at least in his rhetoric. However, it is worth noting that just a few weeks ago, Powell stated that it was too early to speculate on the timing of interest rate cuts. This sudden 'guidance' may come as a surprise to investors, leading to a considerable shift in their expectations for future interest rate developments. Although the market consensus at the start of November was for three interest rate cuts in 2024, there is now an expectation of a significant 'easing cycle'. Bond market valuations currently suggest that the Fed will cut key interest rates six times in 2024. This is undoubtedly an optimistic stance taken by investors, but it also carries the potential for disappointment.

**Equity and bond markets with a strong final spurt –** Considering Fed Chairman Powell's unexpected shift in stance, bond yields continued to decline during the reviewed period. In December, yields on 10-year US government bonds fell by 45 bps, while their European counterparts fell by 42 bps (Germany) and 18 bps (Switzerland). The Bloomberg Global Aggregate Total Return Index, which measures the global bond market, achieved a record return in the supportive investment environment. In November and December 2023, the index recorded an unprecedented 2-month return of +9.2%. The equity markets have also experienced strong euphoria recently. The combination of falling bond yields and robust fundamental data meant that individual equity indices, particularly the S&P 500, ended the year close to their all-time highs. The S&P 500 ended the month with a substantial gain of +4.4%, while the European equity market also performed well with gains of +3.2% (EuroStoxx 50) and +2.6% (SMI).

**EUR at record low –** In December, the euro reached a new record low against the Swiss franc. The currency pair had been moving sideways between 0.94 and 1.00 for a long time, but towards the end of the year, it fell to 0.92. Although trading volumes are typically thin during the holidays, which can lead to corresponding price swings, recent geopolitical tensions in the important trade route of the 'Strait of Hormuz' have also contributed to this dynamic. It will be intriguing to observe how long the

## SOON IN FOCUS

**Presidential election in Taiwan –** The small island state in the east of China will hold its eagerly awaited presidential elections on 13 January 2024. In recent years, Taiwan has repeatedly been a central geopolitical pawn in the West-East conflict, as China harbors territorial claims against the island state as part of its "One China Policy". The West favors the current ruling party DPP, but strong resistance is currently forming from opposition parties close to China. It will therefore be interesting to see the outcome in the middle of January.

Swiss National Bank (SNB) will remain passive and observe this decline of the common currency. Any subjective evaluations will be excluded unless clearly marked as such.

# DID YOU KNOW THAT..

## ..THE US EQUITY MARKETS PERFORM ABOVE AVERAGE DURING AN ELECTION YEAR?

| RESULTS FOR THE US PRESIDENTIAL ELECTION | | |
|---|---|---|
| **Election Year** | **Elected President** | **Return S&P 500** |
| 2016 | Trump | 12.0% |
| 2012 | Obama | 16.0% |
| 2008 | Obama | -37.0% |
| 2004 | Bush W. | 10.9% |
| 2000 | Bush W. | -9.1% |
| 1996 | Clinton | 23.1% |
| 1992 | Clinton | 7.7% |
| 1988 | Bush H.W. | 16.8% |
| 1984 | Reagan | 6.3% |
| 1980 | Reagan | 32.4% |
| 1976 | Carter | 23.8% |
| 1972 | Nixon | 19.0% |
| 1968 | Nixon | 11.1% |
| 1964 | Johnson | 16.5% |
| 1960 | Kennedy | 0.5% |

RESULTS FOR THE US PRESIDENTIAL ELECTION;
SOURCE: TRAMONDO

The US presidential elections, held every four years, can significantly impact financial markets in the short term. Uncertainty surrounding future economic policies, potential tax reforms, and regulatory changes can trigger major fluctuations in financial markets. Prior to significant elections, investors tend to exercise caution due to political uncertainty, which can dampen risky asset classes, such as equities, in the short term.

## US EQUITY MARKETS USUALLY PERFORM WELL IN AN ELECTION YEAR.

However, as the table above shows, the US equity markets usually perform well in an election year. Since 1960, the US Equity market, as measured by the S&P 500, has gained an average of around 10% in an election campaign year. The election years 2000 (-9.1%) and 2008 (-37.0%) stand out as negative outliers in this context, although this is less to do with the political constellation at the time and more to do with the bursting of the dotcom bubble (2000) and the financial crisis (2008). Accordingly, political disputes in the past only cast a brief shadow on the global financial markets, true to the well-known saying "political stock markets have short legs".

At Tramondo, we aim to include analyses of political cycles in our investment process. However, it is important to note that the relationship between financial markets and political events is dynamic, making it difficult to forecast market reactions. Various political scenarios and their corresponding consequences for the financial markets and underlying asset classes can only be derived by taking a differentiated view of the political and economic context.

## MARKET OUTLOOK

After our proprietary market indicators suggested that the equity and bond markets were significantly oversold towards the end of October 2023, we upgraded the equity allocation to "overweight" at the beginning of November, the first time this has happened since the 2021 investment year. As we expected, the bond markets - or rather interest rates - paved the way for a brilliant year-end rally in the equity markets. We currently believe that the recent market momentum may also find fertile ground in early 2024. Hopes of an imminent end to the high interest rate environment, combined with continued rather robust fundamental data, could even lead to the world's most important share index, the S&P 500, surpassing its previous all-time high in the near future.

Regarding investment tactics, we anticipate moderate upside potential for the equity markets in January. Therefore, we continue to favor interest rate-sensitive growth sectors, including information technology, communication services, and cyclical consumer goods.

WE BELIEVE THAT HIGH CREDIT QUALITY GOVERNMENT AND CORPORATE BONDS COULD BE THE HIDDEN STARS OF THE NEW INVESTMENT YEAR.

We maintain our overweight position in bonds as part of our asset allocation. We believe that high credit quality government and corporate bonds could be the hidden stars of the new investment year. Based on our economic outlook for 2024, we firmly believe that high credit quality bonds should stand out due to their attractive risk/return combination. Based on our macro scenario, we maintain a cautious position regarding credit risk and keep our exposure to higher credit risk ('high yield') borrowers correspondingly low.

Due to the more positive assessment of the global equity markets, we have reduced our positioning in alternative investments to 'neutral'. We are maintaining our gold allocation, but believe that the current price level already reflects significant hopes of an imminent turnaround in interest rates. Therefore, we advise our investors not to increase their exposure to the precious metal any further at present. In addition, we still employ market-neutral investment strategies as part of our portfolio construction. These strategies can help stabilize the portfolio in the event of increased market volatility.

## WHO WE ARE

Tramondo Investment Partners AG is a bank-independent Swiss asset manager based in Zug and licensed by the Swiss Financial Market Supervisory Authority (FINMA) to act as an asset manager of collective investment schemes. Tramondo is the investment arm of a multi-family office group that has been in existence for over 45 years.

For the third time, the company was named one of the 50 most influential independent asset managers in Switzerland and Liechtenstein by the renowned media company Citywire.

Tramondo is a member of the Alliance of Swiss Wealth Managers (ASV/ASWM), founded in 2016. The members of the Alliance currently represent more than 100 billion Swiss francs in client assets.

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