TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

APRIL 2024

MARKET REVIEW

EASTER RALLY IN EQUITY MARKETS

Early Easter present from the SNB – The Swiss National Bank (SNB) has once again surprised investors. On the back of favorable inflation dynamics – inflation in Switzerland is only 1.2% – SNB President Jordan was able to lower the key interest rate by 0.25% to 1.50% last month. Managers of export-oriented companies in Switzerland are likely to have reacted with relief to this monetary easing, as the rate-related weakening of the domestic currency should give these companies some tailwind in international competition. The 10-year rates in Switzerland ended the month 12 bps lower, enabling the domestic equity market to rise by 3.9% in March. Companies such as Rieter (+39.0% in March), Autoneum (+25.3%) and EMS-Chemie (+12.3%), all of which generate a significant proportion of their revenue in foreign currencies, were able to significantly outperform the broad equity market in the month under review.

Market breadth gains momentum – After investors primarily focused on large-cap technology companies in the first two months of 2024, the recent equity market rally was increasingly driven by other sectors as well. The banking, energy and materials sectors in particular experienced a veritable boom in March as investors began to price in a growth acceleration. Early-cycle indicators in the Eurozone and China pointed to a (tentative) recovery in recent weeks, which catapulted cyclical sectors back onto investors' shopping lists. In March, companies such as BNP Paribas (+18.9% in March), Glencore (+16.0%) and ExxonMobil (+11.2%) even managed to outperform the MSCI World Information Technology index (+1.7%), this year's high-flyer sector so far. Tech heavyweights such as Adobe (-9.9%), Apple (-5.1%) and Meta Platforms (-0.9%) had a particularly difficult time in the past month. Overall, the S&P 500 advanced by around 3.1% in March, with cyclical equity markets in the Eurozone, particularly the EuroStoxx 50 (+4.2%) and the DAX (+4.6%), outperforming Wall Street.

Regime change in Japan – The Bank of Japan (BoJ) ended its negative interest rate policy, which was introduced in 2016 in response to many years of anemic growth and inflation. In view of the supportive economic momentum – inflation recently climbed to around 2.6% – the central bank raised the key interest rate to 0.1%. However, market participants were hardly impressed by this almost historic policy change: both the Japanese Yen and bond yields closed slightly lower on the day of the BoJ's decision. This somewhat surprising market reaction is probably due to the fact that this move had already been well "telegraphed" in advance and the rhetoric of BoJ Chairman Ueda was generally rather moderate.

TACTICAL POSITIONING

Cash:	●	○	○	○	○
Bonds:	○	○	○	●	○
Equities:	○	○	○	●	○
Alt. Investments:	○	○	●	○	○

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

SPOTTED

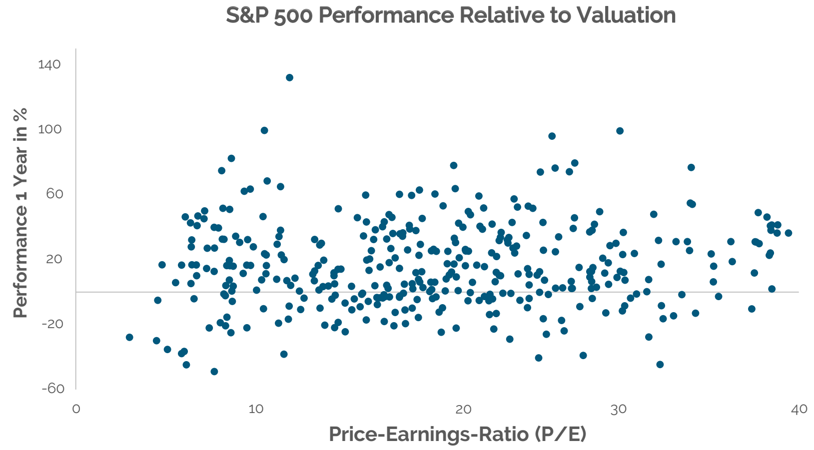
Trump Media & Technology Group – The media group controlled by US presidential candidate Donald Trump made its debut on equity markets in March. The shares sold like hot cakes on its first day on Wall Street (+35.3%), with his political supporters likely to have bought the shares. The media group generates almost no revenue, is highly loss-making and is currently valued at a market capitalization of just under USD 6.6 billion – certainly no bargain.

SOON IN FOCUS

Earnings Season Q1 2024 – From mid-April, listed companies will start reporting their earnings figures for the past quarter. Analysts currently expect earnings growth of 3.6% for the S&P 500 in Q1 2024, after 8.5% in Q4 2023.

DID YOU KNOW THAT...

...THE PRICE/EARNINGS RATIO (P/E RATIO) GIVES LITTLE INDICATION OF WHETHER EQUITIES WILL PERFORM WELL OR NOT?



SOURCE: TRAMONDO

The US equity index S&P 500 rose by more than 10% in the starting quarter of 2024, achieving its best first quarter since 2019. Valuations have also risen accordingly and are now more than one standard deviation above the historical average. However, if you look at the performance over a year, a low or high price/earnings ratio (P/E ratio) is not an indication of the future performance of a stock.

EMPIRICAL STUDIES SHOW THAT THERE IS NO CORRELATION BETWEEN THE PERFORMANCE AND VALUATION IN EQUITY MARKETS IN THE SHORT TERM.

The chart illustrates the historical price/earnings ratios (P/E ratios) and the returns achieved by the S&P 500 companies in the following investment year. The analysis indicates that there is no correlation between performance and valuation in equity markets in the short term. Therefore, investors should not base their investment decisions on valuation parameters alone in order to avoid drawing misleading conclusions about a stock's future potential.

At Tramondo, we follow a hybrid selection approach in which fundamental and chart-technical criteria are combined to analyze an investment case holistically. In the fundamental analysis, we analyze the business model, balance sheet quality, operating performance and the management's track record and compare these factors with the underlying valuation of the company. In a second step, a fundamentally attractive investment opportunity will be subject to a chart-technical due diligence. In this context, we evaluate the stock's price dynamics in order to verify whether positive fundamentals are also appreciated by market participants. This second step also serves us as an effective risk management tool, being able to send out early warning signals even before underlying fundamentals may reflect the change.

To summarize, we always aim to obtain a holistic understanding of the investment cases when taking selection decisions. This approach has been proven to significantly increase the success probability in financial markets.

MARKET OUTLOOK

WE EXPECT THE US EQUITY INDEX S&P 500 TO ROLL OVER TO A VOLATILE SIDEWAYS CONSOLIDATION.

Global equity markets (once again) reached new record highs last month despite hotter-than-expected inflation figures. The S&P 500 gained 10.2% in Q1 2024, EuroStoxx 50 added 12.4%, and SMI increased by 5.3%. Looking ahead to the coming weeks, we believe that equity markets' risk/return setup is now balanced. We expect the US equity index S&P 500 to roll over to a volatile sideways consolidation with tactical trading bandwidths of 5'000 (support) and 5'400 (resistance). With that, we plan to gradually reduce the equity allocation in April and realize initial gains, particularly in equity sectors that have posted above-average performance since the start of 2024 (e.g., semiconductor sector).

Regarding the real economy, there is still robust fundamental data coming out of the US, while economic momentum in the Eurozone and China is slowly picking up, albeit at a low level. However, this could hinder central banks' plans to abandon the high interest rate regime in the near future, as the current fundamental setting offers little room for manoeuvre, particularly in the US. Persistent inflation combined with a further recalibration of rate expectations may negatively impact sentiment in fixed income and equity markets in the coming months. Furthermore, given the current valuation level, there is little room for disappointment, especially in equity markets. Therefore, if the current market consensus does not materialize, the setback potential is likely to be more pronounced. The upcoming earnings season for Q1 2024, starting in mid-April, is expected to be a crucial benchmark for equity investors. Analysts expect the S&P 500 to deliver an earnings growth rate of 3.6% in Q1 2024, following a 8.5% growth in Q4 2023.

Global bond yields have risen by around 20-30 bps since the beginning of the year. In the short term, only the European Central Bank (ECB) and the Federal Reserve (Fed) may be able to reverse these market dynamics. Unlike the US, the ECB may cut interest rates in the Eurozone in the coming weeks or months, making European bonds relatively more attractive. Looking ahead to the upcoming quarters, we maintain an overweight allocation to corporate bonds even though a trend reversal in bond yields may take some time.

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.

CITYWIRE
TOP 50
IAMs 2024

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

ASV/ASWM
Allianz Schweizer Vermögensverwalter
Alliance of Swiss Wealth Managers

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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