TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

MARCH 2024

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

AI instead of EV - According to media reports, technology company Apple has abandoned its plans for its own electric car ("project Titan"). For nearly a decade, Apple had been researching electric mobility, with nearly 2,000 employees involved. With the newly released resources, the Cupertino-based company intends to further exploit the potential of artificial intelligence (AI) in the future.

MARKET REVIEW

PERSISTENT INFLATION FAILS TO CRASH THE PARTY

Investors revising their rate expectations - In both the Eurozone and the United States, inflation rates remain significantly above the central banks' goal of 2.0%. In the Monetary Union, inflation is currently at 2.6%, while consumer prices in the United States rose more than expected in the month under review, reaching 3.1%. Towards the end of the month, the Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditures (PCE) index was reported in line with expectations. However, the path back to the central banks' official target is likely to take longer than the market consensus originally anticipated. Accordingly, investor expectations regarding interest rate cuts have undergone a significant recalibration in recent weeks. While market participants were expecting up to seven rate cuts by the Federal Reserve in 2024 at the beginning of the year, only three to four rate cuts are now priced in, as in the meantime, investors have been facing robust fundamental data and persistent inflation.

"Magnificent Six" exciting investors - During the recent earnings season, information technology companies from Silicon Valley once again demonstrated their dominance in terms of revenue and earnings dynamics relative to the remaining equity market. The "Magnificent Six" - Apple, Alphabet, Amazon, Microsoft, Nvidia, and Meta Platforms - made a significant contribution to a better-than-expected earnings season in February. The earnings growth rate of these "technology champions" was a staggering 117.7% in Q4 2023, while the earnings growth of the remaining 494 companies in the S&P 500 was negative. In total, the S&P 500 recorded a earnings growth of 10.2% for the past quarter, significantly exceeding analysts' expectations of around 3.0%. Consequently, it is not surprising that equity markets, buoyed by Silicon Valley, recently reached new all-time highs – from Japan to Germany to the United States. The S&P 500 rose by around 5.2% in the reporting month, led by surging Nvidia (+28.6% in February), Meta Platforms (+25.6%), and Amazon (+13.9%). European equity markets also benefited from the euphoric market sentiment, with the EuroStoxx 50 (+4.9%) and the German DAX (+4.6%) significantly outperforming the SMI index (+0.9%).

Nestlé in crisis mode - The most valuable company in Switzerland, the food giant Nestlé, missed the opportunity to win back investors with its quarterly results published in February. On the day of the results publication, the stock price plummeted by 4.9%. After two challenging years,

SOON IN FOCUS

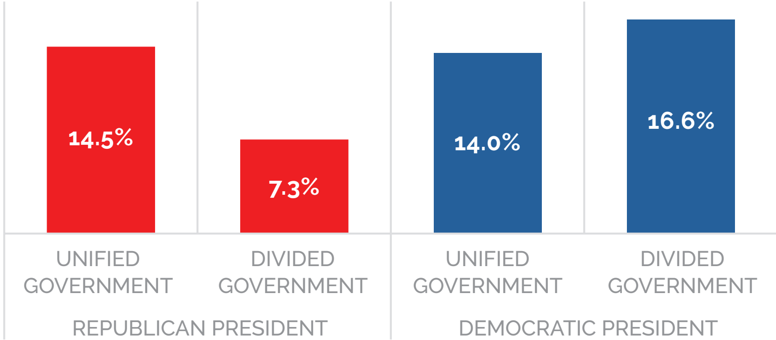
Annual session of the Chinese People's Congress - Investors will eagerly watch China in the first week of March. During the National People's Congress, politicians, especially Premier Li Qiang, will discuss measures to get the world's second-largest economy back on track - definitely no easy task.

CEO Schneider failed to convince shareholders with the revenue growth, especially as the outlook for 2024 was described as "challenging" given the continued difficult consumer environment. While the company is addressing this less-than-encouraging revenue dynamics with increased marketing spending, investors are (legitimately) skeptical about the possibility of a short-term reversal in trends.

DID YOU KNOW THAT...

...IN THE LONG RUN, IT HARDLY MATTERS FOR EQUITY MARKETS WHICH PARTY DOMINATES IN WASHINGTON?

ANNUAL RETURN OF THE S&P 500 DEPENDING ON THE US-GOVERNMENT CONSTELLATION



SOURCE: TRAMONDO

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From 1926 to 2023, there were 23 presidential elections in the USA. During this time, the average annual return of the US equity index S&P 500 was around 12.2%. During election years, the average return was 11.6%, compared to 12.4% in non-election years - it seems that presidential elections generally do not bode well for the equity market.

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From 1926 to 2023, there were 23 presidential elections in the USA. During this time, the average annual return of the US equity index S&P 500 was around 12.2%. During election years, the average return was 11.6%, compared to 12.4% in non-election years - it seems that presidential elections generally do not bode well for the equity market. The illustrated chart shows how the political situation in Washington affects the equity market performance of the S&P 500. During the period under review, Republican (+14.5%) and Democratic (+14.0%) US Presidents achieved comparable returns in the equity market, provided they had a supportive parliament behind them (unified government). The common belief that Republican Presidents, with their economically liberal stance, can positively influence the equity market is evidently incorrect. Republican Presidents who had to contend with a partially Democrat-dominated parliament had a particularly challenging time according to the available data (+7.3%).

THE COMMON BELIEF THAT REPUBLICAN PRESIDENTS, WITH THEIR ECONOMICALLY LIBERAL STANCE, CAN POSITIVELY INFLUENCE THE EQUITY MARKET, IS INCORRECT.

At Tramondo, we closely monitor global political developments, as particularly the last two years have shown that single geopolitical events can significantly influence short- and medium-term market dynamics. However, historical data teach us that investors should not be too focused on political considerations, as "political markets have rather short legs." Accordingly, at Tramondo, we prefer to focus on the ongoing analysis of underlying fundamental data to draw conclusions for our asset allocation.

MARKET OUTLOOK

AS LONG AS THE "NO LANDING" SCENARIO CONTINUES TO BE SUPPORTED BY FUNDAMENTAL DATA, THE MARKET RALLY IS LIKELY TO CONTINUE IN THE COMING WEEKS.

The dynamics in global equity markets in the reporting month were characterized by a "Goldilocks scenario," reflected by robust fundamental data and the prospect of declining policy rates. Especially during the recent earnings season, where earnings expectations were significantly exceeded, investors have been pricing out a negative economic scenario (i.e., recession). As long as the "no landing" scenario continues to be supported by fundamental data, the market rally is likely to continue in the coming weeks.

On the back of the incoming data, we consider the immediate downside risks in global equity markets to be rather limited. Even though central banks are likely to reduce interest rates somewhat belatedly - as economic growth and inflation dynamics are currently still too strong, especially in the US - this is likely to have little effect on uptrending equity markets. Accordingly, we maintain an overweight allocation to equity markets and would only reevaluate our constructive stance in the asset class in case of a deterioration in fundamental data. From fundamental point of view, we continue to believe that the market consensus somewhat underestimates medium- to long-term growth risks, but our market indicators currently do not point to a short-term trend reversal. Looking ahead to the coming weeks, we have a preference for the information technology, communication services, and consumer discretionary sectors. However, we also recommend adding selective defensive quality stocks, which can make a valuable contribution to stabilizing a global equity portfolio if the upbeat market sentiment does not materialize.

In February, we also reaffirmed our constructive stance on nominal assets. Thanks to slightly rising interest rates since the beginning of the year, investors face an attractive opportunity to lock in positive real returns for the coming quarters (and years), with the return profile even complemented by the prospect of potential capital gains. Within our asset allocation, we maintain our overweight position in high-quality corporate bonds accordingly.

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.

ASV/ASWM
Allianz Schweizer Vermögensverwalter
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