

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

06/2023

TACTICAL POSITIONING

Cash	○	●	○	○	○
Fixed Income	○	○	●	○	○
Equity	○	○	●	○	○
Alt. Assets	○	○	○	●	○

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

SPOTTED

Borussia Dortmund shares – Football means excitement and emotion, on the pitch as well as in the stands. A prime example was the German Bundesliga on the last weekend in May. Bayern Munich secured the title only in the last game, nota bene in the 89th minute. This was not to be expected. Before the last game of the season, Borussia Dortmund was expected to win the title, which triggered a significant jump in the price of BVB shares on the stock market. In the week before the decisive match, the Westphalian club's shares rose by around 31.3% - but this price gain dissipated immediately after the title dream was shattered.

MARKET REVIEW

SEMICONDUCTOR STOCKS ON A HIGH

Artificial Intelligence boom on Wall Street – After chip designer Nvidia issued a strong business outlook in May, thanks to a flourishing business in the field of "artificial intelligence", companies from the sector have experienced a veritable flight to the top on Wall Street. The US semiconductor sector gained around +15.3% for the month, with industry giants Nvidia (+36.3%), AMD (+32.3%) and Broadcom (+29.0%) swinging sharply higher. In Europe, too, the euphoric reports from Silicon Valley were able to drive the sector representatives: VAT Group (+19.8%), ASML (+17.1%) and AMS (+8.8%) all clearly outperformed the broad stock market. While the semiconductor sector posted strong gains on the trading floor, most of the well-known stock indices were at best treading water. The local SMI index closed the month -1.9% lower, with the market largely influenced by the poor performance of heavyweights Nestlé (-5.8% in May) and Novartis (-4.4%). In Europe, the German DAX index reached a new record high in the middle of the month, but could not sustainably defend this mark and ended the month -1.6% lower.

US debt ceiling is raised – After US President Biden and Republican Congressional Chairman McCarthy agreed to raise the debt ceiling at the end of May, Congress has now also approved this "last minute deal". Thus, a default of the world's largest economy could once again be avoided. Based on this agreement, the financing of the US national budget is secured until January 2025. However, the debt situation in the USA will probably remain a structural problem that will be with us for some time to come. In the short term, however, this agreement has significantly reduced the recent uncertainty on the financial market: the VIX volatility index, a classic fear barometer on Wall Street, has fallen back below the level of 18, which corresponds to the lower trading range since the pandemic.

European inflation momentum cools somewhat – Eurozone inflation fell by -0.3% to 5.3% (year-on-year core inflation) last month, continuing the recent trend of disinflation. After inflation peaked in March 2023 (core inflation at 5.7%), consumers recently benefited from declining prices in the manufacturing sector. Nevertheless, against this backdrop, the European Central Bank (ECB) raised the reference rate by 25 bps to 3.75%. Investors expect two more rate hikes by the end of the year,

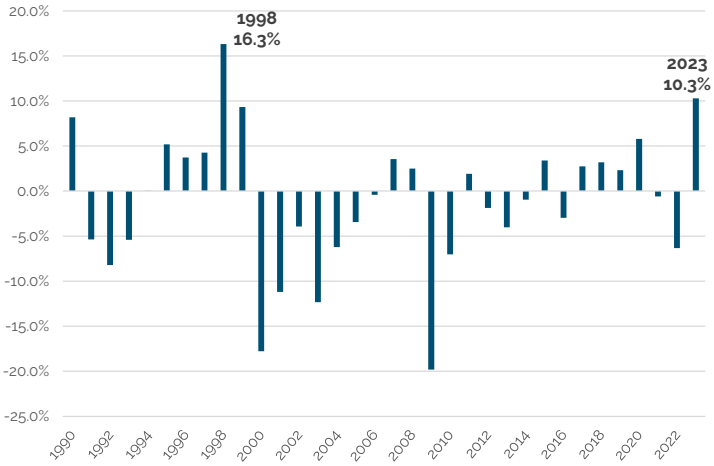
SOON IN FOCUS

Challenging seasonality – The trading month of June is statistically one of the worst months for equities. The US S&P 500 stock index has lost around -0.4% on average in June since 1990, making it the third worst single month of the year after January (monthly performance of -0.5%) and September (-0.5%). We will see whether the S&P 500 - which recently broke out of its sideways movement - can escape the long-term trend this year or not.

while a gradual reduction in the reference rate is already being factored in for 2024. In Switzerland, the SNB is expected to raise interest rates to a level of 2.0% by the end of 2023, which would also correspond to two additional rate hikes.

DID YOU KNOW THAT..

..THE MARKET BREADTH ON WALL STREET IS ALMOST AS WEAK AS IT WAS BEFORE THE DOTCOM CRISIS?



RETURN DIFFERENCE BETWEEN S&P 500 AND EQUAL WEIGHTED S&P 500;
SOURCE: BLOOMBERG, TRAMONDO

AN OUTPERFORMANCE OF THE "NORMAL" S&P 500 INDICATES A STRONG RETURN OF THE HIGHER WEIGHTED STOCKS IN THE INDEX.

The chart above illustrates the return differential between the "normal" (market-capitalised) S&P 500 and an equally weighted counterpart of the US equity index (each stock is weighted at 0.2%). Accordingly, an outperformance of the "normal" S&P 500 indicates a strong return of the higher weighted stocks in the index. In 2023, the return discrepancy between the two indices is particularly striking, as the S&P 500 (+9.6% YTD) "outperformed" the equally weighted index (-0.7% YTD) by more than 10% over the course of the year. Consequently, only a handful of stocks have driven the index since the beginning of the year (including Apple +36.8%, Microsoft +37.6%, Amazon +46.6%), while a large majority of stocks have barely moved in the current investment year.

At Tramondo, we constantly monitor such indicators to analyse market breadth/participation, as they provide us with valuable signals for defining our tactical asset allocation. In addition to the continuous evaluation of fundamental data as well as chart analysis, the interpretation of such (intra-market) indicators forms the basic framework for our investment tactics. At Tramondo we work every day to read these factors correctly in order to be able to adapt our investment solutions to the current market conditions in the best possible way.

MARKET OUTLOOK

WE CURRENTLY MAINTAIN A NEUTRAL EQUITY WEIGHTING, AS VARIOUS MARKET DIVERGENCES INDICATE THAT THE RECENT UPWARD MOVEMENT IS LIKELY TO REMAIN LIMITED.

After the US stock index S&P 500 broke out of several months of sideways consolidation towards the end of the month, the positive market momentum is likely to continue for a while in the short term. The latest market data show that many investors had been betting on falling share prices and are now likely to liquidate their positions due to the recent chart breakout. Accordingly, further price rises on the global equity markets can certainly not be ruled out. Nevertheless, we currently maintain a neutral equity weighting, as various market divergences indicate that the recent upward movement is likely to remain limited. On this basis, we currently consider the risk/return nature of equity markets to be insufficiently favourable to increase the allocation to the asset class. Within the equity markets, we reiterate our preference for the information technology, healthcare and industrial sectors, having selectively taken profits in the semiconductor sector.

Thanks to the "last minute deal" in Washington, government bond yields have recently fallen again somewhat, first and foremost of course in the US. We continue to believe that high quality issuers offer an interesting constellation with a view to the coming quarters, as the advanced tightening cycle in monetary policy and a potential slowdown in the global economy provide an attractive foundation for this asset class. We reiterate our cautious stance on high yield bonds, as the credit spreads offered do not adequately compensate for the underlying risks.

We remain constructively positioned towards alternative investments. In this context, we continue to focus on commodity investments - especially gold - as well as market-neutral investment strategies that diversify the portfolio in a stormy investment environment.

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.

CONTACT US

Tramondo Investment Partners AG
Unter Altstadt 10
CH-6302 Zug
T +41 41 710 76 76
F +41 41 710 76 78
contact@tramondo.ch
www.tramondo.ch

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