

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

11/2023

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

Political stability in Washington – Following the recent political battle that resulted in the resignation of the US House of Representatives' former speaker Kevin McCarthy, there appears to be a gradual return to order in the nation's capital. The newly elected speaker, Mike Johnson, a staunch supporter of President Trump, faces an arduous challenge as the Congress must approve a new budget by mid-November.

SOON IN FOCUS

Richemont – The Swiss luxury conglomerate is due to disclose its results for Q3 2023 on 10th November 2023. Following gloomier comments made in September by Chairman and controlling shareholder Johann Rupert with regard to the short-term business outlook, it will be interesting to see whether the most recent revenue and earnings dynamics coincide with these comments.

MARKET REVIEW

EARNINGS SEASON DOES NOT (YET) REVERSE THE TREND

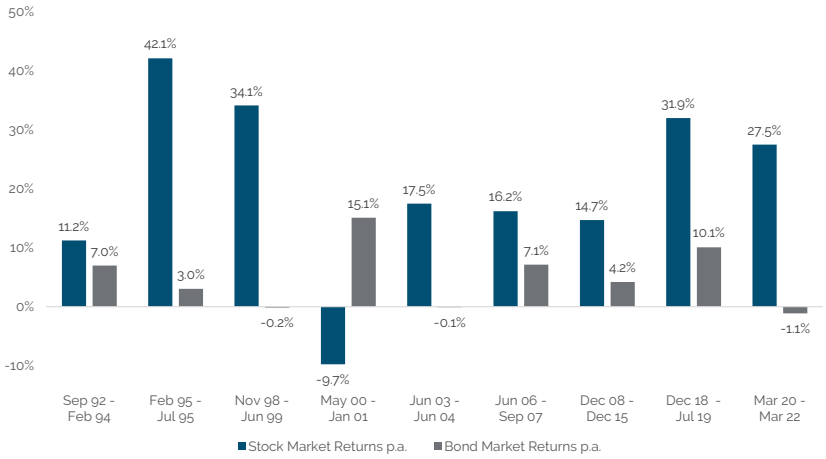
European cyclicals struggle – While companies on both sides of the Atlantic generally have performed well during the current earnings season, some cyclical companies in Europe have failed to meet expectations. For instance, luxury goods companies LVMH and Kering, as well as industrial firm ABB, did not generate a great deal of enthusiasm with their results for the quarter, which subsequently had a notable impact on their stock prices. Overall, the current earnings season suggests that the economic momentum in the Eurozone is gradually deteriorating. By contrast, Wall Street presents a more encouraging picture. With approximately 80% of S&P 500 companies having disclosed Q3 2023 results already, earnings growth currently stands at 3.7%, surpassing analysts' estimates. Last month, there was a mixed performance among the "Magnificent Seven", the current high-flyers on Wall Street. Microsoft (+7.1% in October) and Amazon (+4.7%) both delivered strong operational growth that delighted investors, whereas Tesla (-19.7%) and Alphabet (-5.2%) did not meet high market expectations. The technology-heavy Nasdaq Index ended the month 2.8% lower, and the broad market S&P 500 ended the month 2.1% lower. In Switzerland, equity investors suffered a considerable setback in the domestic market in October. The Swiss Market Index (SMI) plummeted by 5.2%, and the market heavyweights Roche (-6.6%), Nestlé (-5.5%), and Novartis (-5.0%) struggled significantly.

No rate increase in the Eurozone – Following a series of ten interest rate hikes since the summer of 2022, the European Central Bank (ECB) has recently paused its efforts to combat inflation. In light of a sluggish economy, particularly in Germany which was once the driving force, and weakening inflationary pressures, ECB President Lagarde decided at the October meeting to keep the key interest rates steady (deposit rate at 4.00%). With that, the ECB's current rate hike cycle seems to be over, causing investors to already address the question of when the European monetary authorities plan to reduce interest rates again. However, Lagarde swiftly denied any expectations in this area, affirming that the current interest rate level is crucial for bringing inflation to an acceptable level for the central bank. Currently, investors anticipate the first rate decrease to occur in spring 2024.

Middle East conflict results in surge of gold price – Gold faced a challenging period between May and October, plummeting from USD 2'050 to USD 1'820 due to increasing bond yields. Nevertheless, with the intensifying geopolitical tensions in the Middle East, the precious metal has reaffirmed its reputation as a reliable "safe haven". In October, gold prices skyrocketed by 7.3%, closing the month at USD 1'984. In comparison, the oil price has demonstrated exceptional resilience in the face of recent tensions. Although concerns about a widespread conflict – with potential Iranian involvement – caused the oil price to surge to roughly USD 90 in early October, price dynamics clearly stabilized during the remainder of the month. Taken together, the oil price finished the month down by roughly 10.8%, which is somewhat unexpected considering the geopolitical setting.

DID YOU KNOW THAT..

..FIXED INCOME AND EQUITY MARKETS IN THE US PERFORM STRONGLY DURING A MONETARY POLICY PAUSE?



STOCK AND BOND MARKET RETURNS DURING FED RATE PAUSE PERIODS;
SOURCE: BLOOMBERG, TRAMONDO

IT IS LIKELY THAT THE UNPRECEDENTED TIGHTENING OF MONETARY POLICY IN THE PREVIOUS QUARTERS HAS CEASED.

Following the most recent meetings of the leading central banks, including the Federal Reserve and the European Central Bank, it is likely that the unprecedented tightening of monetary policy in the previous quarters has ceased. From a tactical point of view, investors are currently faced with a (shorter or longer) transition period characterized by lower data dependency by central banks (and investors) and decreasing market volatility. Altogether, this should have positive implications for the financial markets.

The chart above illustrates annual returns of fixed income and equity markets in the US during a period of monetary policy pause that is characterized by a wait-and-see approach of policy makers. Since 1992, these periods delivered average annual returns of 20.6% for US equity markets (S&P 500), while fixed income markets (Bloomberg US Aggregate Bond index) exhibited an annual growth rate of 5.1%.

At Tramondo, the analysis of financial market cycles is a key input factor for our investment process. We use these analyses as a valuable source to determine our tactical asset allocation, particularly in relation to the risk characteristics of our investment products. There is no doubt that historical correlations cannot always be applied to a given financial market constellation, but empirical patterns help us to better quantify the probability of success of our investment decisions. There is no doubt that these market cycles (and their impact on different asset classes) cannot always be applied to a given financial market constellation. Nevertheless, empirical patterns and historical correlations unquestionably support us in evaluating the success probability of our investment decisions.

MARKET OUTLOOK

After global equity markets experienced their third consecutive negative month in October, the underlying risk/reward ratio definitely has improved most recently. At present, our proprietary market indicators suggest that equity markets are oversold, increasing the likelihood of a (at least temporary) market recovery. Furthermore, we expect bond yields to have reached the upper bound of their short-term trading range providing tailwind to rate-sensitive equity sectors. From a tactical point of view, we see interesting opportunities for quality stocks in the information technology and consumer discretionary sectors as those have been beaten down significantly over the course of the last weeks.

OVERALL, FUNDAMENTAL AND TECHNICAL FACTORS INDICATE THAT THE MOST RECENT MARKET BREATHER IS SOON COMING TO AN END, AND WE ARE PREPARING TO SELECTIVELY INCREASE OUR EXPOSURE TOWARDS EQUITIES.

Overall, we are sticking to a neutral equity allocation, but we see an opportunity to scale up risks of a balanced investment portfolio in the coming weeks. The present earnings season indicates that "Corporate America" is still in good shape even though some companies have been slightly more cautious regarding their business outlook. In Europe, underlying economic fundamentals are softer, which however seems to be reflected in the market valuations (the European EuroStoxx 50 trades at a P/E ratio of 11.8x). Overall, fundamental and technical factors indicate that the most recent market breather is soon coming to an end, and we are preparing to selectively increase our exposure towards equities.

We maintain an overweighted position in fixed income as a part of our asset allocation. In the previous weeks, we have continued to lengthen the duration of our fixed income portfolio, seeing that the long-end of the curve offers interesting opportunities. Looking forward to 2024, we still believe that the USA will be faced with weakening economic momentum that will ultimately send bond yields lower. In that context, we believe that long-term government bonds and paper from high-quality issuers ("investment grade") offer attractive price potential. On the back of our macro scenario, we maintain a cautious approach towards credit risks and as such, only hold minor exposure towards borrowers with increased credit risk ("high yield").

In October, our position in alternative investments remained unchanged. Accordingly, we confirm the slightly overweighted position in this asset class. In that context, it is noteworthy that gold is currently trading only USD 90 below its all-time high from August 2020. However, we believe that a significant escalation of the Middle East conflict would be necessary for the precious metal to achieve new highs given the historically elevated level of real yields – as of now, this scenario does not align with our base case though.

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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