

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

02/2024

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

Strong growth in the USA – According to initial estimates, the world's largest economy grew at an above-average rate in Q4 2023. After the figures for Q3 2023 had already come as a positive surprise, the growth figures for Q4 2023 (GDP growth of 3.3% QoQ) also "easily" exceeded economists' expectations of 2.0%. Once again, consumers and the Biden administration's expansionary fiscal policy made a significant contribution to growth.

MARKET REVIEW

US EQUITY MARKETS HEADING TO NEW HIGHS

Gold rush on Wall Street – At the start of the new investment year, robust fundamental data combined with hopes of interest rate cuts in the near future put investors in a party mood. Equity markets could continue their strong momentum with the US equity index S&P 500 even reaching new record highs in the second half of the month. Overall, the S&P 500 ended the month with a remarkable gain of +1.6%. Technology stocks were once again the main attraction for investors, as last year's winners, such as Nvidia (+24.2%), AMD (+13.8%), Meta Platforms (+10.2%) and Microsoft (+5.7%) once again outperformed their peers. European equity markets also recorded an upbeat start to the year: the EuroStoxx 50 index rose by 2.8%, while the Swiss SMI index closed around 1.8% higher.

US Federal Reserve dampens interest rate hopes – Most recently, monetary authorities in Washington have once again been the focus of investor attention. At the end of the month, Fed Chairman Jerome Powell – whose rhetorical pivot in November was the catalyst for the strong year-end rally – dampened market expectations of interest rate cuts in the near future. The US Federal Reserve is currently adopting a rather hawkish stance, saying that it will only cut rates if inflation moves sustainably towards its 2.0% target. With that, market participants, who only a few weeks ago were firmly expecting a rate cut as early as March 2024, have been forced to revise their (euphoric) interest rate expectations. Investors now believe that the Fed will cut rates for the first time in May and that the policy rate will fall to 4.25% over the course of the year (for a total of five rate cuts in 2024). Given the strong labour market and growth data in the US, it will be interesting to see whether the Fed will loosen the monetary reins so early – or whether investors will have to revise their expectations once again.

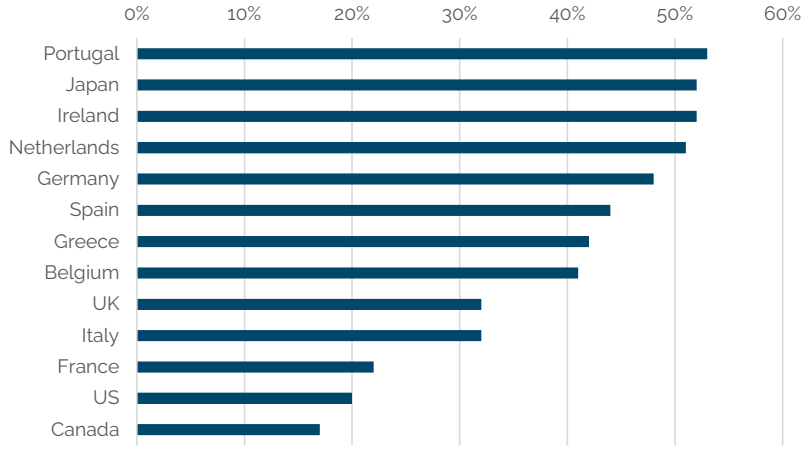
CHF off to a weak start to the year – After the Swiss franc appreciated significantly against both the USD (+9.9% in 2023) and the EUR (+6.6%) in the past investment year, the CHF's upward trend recently came to an abrupt halt in January. The CHF weakened against both the USD (-2.3%) and the EUR (-0.3%), which should provide some relief for the export-orientated economy in the medium-term. The President of the Swiss National Bank (SNB), Thomas Jordan, is also likely to be pleased with the depreciation of the CHF, as he recently pointed out that the strength of the domestic currency is increasingly challenging the outlook for the country's businesses. In that context, the SNB is expected to cut interest rates sooner rather than later, which should make the CHF even cheaper.

SOON IN FOCUS

Nestlé's quarterly figures – The food giant will report its earnings for the past quarter on 22nd February. Investors are likely to be looking forward to Vevey on this day, where CEO Schneider may further elaborate on the measures taken to combat the company's recent growth weakness.

DID YOU KNOW THAT...

...SOME CENTRAL BANKS HOLD MORE THAN HALF OF THE OUTSTANDING GOVERNMENT BONDS?



CENTRAL BANK OWNERSHIP OF OUTSTANDING GOVERNMENT BONDS (IN %)
SOURCE: TRAMONDO

A decade of excessive fiscal policy has led to debt levels in most Western countries rising to unprecedented levels. In order to counter this enormous supply of government bonds, central banks have stepped into the breach in many countries to prevent fixed income market from becoming unbalanced. As illustrated, the situation can occasionally take absurd dimensions as the central banks of countries such as Portugal, Japan, Ireland and the Netherlands hold more than half of all outstanding government bonds.

CENTRAL BANKS WILL INEVITABLY HAVE TO HELP FINANCING THE HIGH LEVEL OF GOVERNMENT DEBT.

This situation undoubtedly raises a series of (obviously justified) questions. What would happen if demand from central banks were to fall? What would be the consequences for medium-term interest rates? Would the market for government bonds collapse? We think that it is fair to assume that a reduction in demand (assuming supply remains the same) would certainly trigger negative price reactions. However, the extent of any negative price movements is currently very difficult to assess.

In general, it is unlikely that these potential problems on fixed income markets will materialize in the short- and medium-term. Central banks will inevitably have to help financing the high level of government debt. Structural investment requirements – driven by decarbonization, demographics, and onshoring – are too high for major financing partners, especially state-related, to shirk its responsibility. This is despite the official independence of central banks.

At Tramondo, we follow such asset class-specific developments very closely and try to recognize medium- to long-term structural breaks at an early stage in order to make appropriate adjustments to our asset allocation.

MARKET OUTLOOK

As long as market participants continue to believe in a "soft landing" for the US economy – and this is underpinned by supportive fundamental data – the current market boom is likely to continue in the coming weeks. Even the central banks' apparent efforts to keep interest rates high for a little longer have not dampened financial markets' optimistic mood recently. Accordingly, we maintained our moderate overweight in equities during January, continuing to favour the information technology, communication services and consumer discretionary sectors.

Although financial markets' short-term outlook remains rather positive, the medium-term forecast may not be as optimistic. Over the next three to six months, we anticipate a shift in investor expectations, putting pressure on valuations due to weakening fundamentals. This, in turn, may have negative implications for equity markets. On the back of this scenario, we selectively purchased put options in order to be prepared for such a negative outcome.

WE BELIEVE THAT CORPORATE BONDS WITH HIGH CREDIT QUALITY WILL OFFER AN ABOVE-AVERAGE RISK/RETURN COMBINATION IN THE COMING QUARTERS.

We maintain an overweight position in nominal assets as part of our asset allocation. We believe that corporate bonds with high credit quality will offer an above-average risk/return combination in the coming quarters. Additionally, we maintain a cautious position towards issuers with higher credit risk ("high yield") due to an (expected) slowdown in growth. This is because credit risk spreads are currently anticipating an overly optimistic scenario.

Regarding alternative investments, we have maintained our neutral stance. We continue to recommend our investors to stick to their gold allocation and not to increase their exposure to the precious metal as market consensus already discounts lofty expectations regarding upcoming interest rate cuts. In addition, we still use market-neutral investment strategies as part of our portfolio construction. These strategies can help stabilize the portfolio in case 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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