

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

NOVEMBER 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

European Central Bank (ECB) - As expected, the most important central bank in Europe cut its key interest rate by a further 0.25% in October. However, ECB chief Lagarde's statement that the central bank sees clear downside risks to economic growth, which suggests a somewhat more supportive stance in the coming months, came as a surprise.

MARKET OVERVIEW:

INVESTORS UNDER THE SPELL OF THE US ELECTIONS

Earnings season with light and shade - Around 70% of Wall Street companies already reported their quarterly earnings for Q3 2024. Overall, the latest earnings season can be described as rock solid, even if the latest earnings momentum is generating somewhat less enthusiasm among investors than the two previous quarters. Around 75% of the quarterly results already reported by S&P 500 companies are better than analysts' expectations. However, the quality of this "beat ratio" must undoubtedly be put into perspective, as expectations were significantly reduced in the run-up to the earnings season and companies exceeded analysts' expectations by just 4.6%, which is significantly lower than the five-year average of 8.5%. The eagerly awaited quarterly figures of the major tech companies from Silicon Valley ("Magnificent 7") in the last week of October unfortunately did nothing to dampen the cautious investor attitude. While Alphabet (+3.2% in October) and Amazon (+0.1%) pleased investors with their strong sales momentum, Microsoft (-5.6%), Apple (-3.0%) and Meta Platforms (-0.9%) were only able to convince investors with their results to a limited extent. Overall, the US equity index S&P 500 closed around -1.0% lower last month. In Europe, the EuroStoxx 50 even fell by around -3.5%, as the two index heavyweights ASML (-16.7% in October) and Novo Nordisk (-3.0%) came under pressure in October.

"Red sweep" as a party crasher for fixed income markets - In the second half of October, financial markets were increasingly dominated by the US presidential election. Fixed income markets in particular came under selling pressure in the month under review, as investors seemed to be pricing in a victory for the Republican party. The constellation of a Republican landslide victory in which Trump takes the Oval Office, and his party colleagues win the House of Representatives and the Senate seemed to be coming to the fore. This "red sweep" would probably have consequences for the budget discipline in Washington, as Trump would effectively have a blank check for his expansionary fiscal policy thanks to the support of both chambers of Congress. 10-year interest rates in the US ended the month at 4.3%, which corresponds to a monthly increase of around 50 bps. Consequently, corporate bonds in USD lost around -2.4% in October. In view of a surprisingly supportive outlook from the European Central Bank (ECB) in October, the upward pressure on European rates was far less pronounced: 10-year interest rates in Germany rose by just 27 bps, while Swiss interest rates remained largely unchanged.

SOON IN FOCUS

Nvidia - There is probably no other company in the world that is currently benefiting as much from the current AI boom as the chip designer from Silicon Valley. Accordingly, the company will attract lots of investor attention on November 20, when Nvidia publishes its long-awaited quarterly earnings – in that context, expectations are likely to be relatively high (once again).

Robust US economic data - Macroeconomic data from the world's largest economy was once again robust last month. Although the growth rate for Q3 2024 was slightly lower than expected. The US economy grew by around 2.8%, slightly lower than the market consensus, which had expected around 3.0%. The scenario of a recession feared just a few months ago seems rather unrealistic. The US economy, however, continues to be strongly divided, as the discrepancy between the manufacturing and the service sector is historically high. While the latter continues to benefit from consumers who are keen to spend, the latest early-cycle indicators in the manufacturing sector unfortunately point to little short-term improvement.

DID YOU KNOW THAT...

...THE OUTCOME OF THE US PRESIDENTIAL ELECTION HAS HARDLY ANY INFLUENCE ON EQUITY MARKETS?

Oval Office	Congress	S&P 500: Avg. relative performance in consecutive 3-month period
Democrats	Democrats	0.02%
Democrats	Republicans	1.67% *
Democrats	Democrats Republicans	1.75% *
Republicans	Republicans	-0.99% *
Republicans	Democrats	0.49%
Republicans	Democrats Republicans	-0.67%

* Statistical significance

SOURCE: U.S. BANK ASSET MANAGEMENT GROUP

Few events currently captivate market participants as much as the US elections. The above study has examined the performance of the S&P 500 since 1948 during various power constellations in Washington. The analysis concludes that the political balance of power has hardly any influence on the short-term performance of US equity markets. Somewhat surprisingly, Democratic presidents perform slightly better than their Republican counterparts, but only under the premise that the party of the incumbent president does not have (complete) control of Congress.

BASED ON LONG-TERM RETURN DATA, NO CLEAR TRADING PATTERN CAN BE IDENTIFIED AS TO WHICH SECTORS ARE PARTICULARLY FAVORED BY A SPECIFIC PARTY.

A look at the different equity sectors allows similar conclusions to be drawn: Based on long-term return data, no clear trading pattern can be identified as to which sectors are particularly in the favor of a specific party. For example, the energy and materials sectors were among the "top performers" in the S&P 500 during the Biden presidential era – somewhat surprising given the Democrats' critical stance towards these "environmental sinners".

Accordingly, we tend to assign a subordinate role to the forecast of possible election outcomes as part of our broad-based analysis process, despite the fact that this could significantly increase short term volatility. In the medium and long term, however, fundamental factors such as economic and earnings growth or inflation dynamics are particularly relevant for our tactical positioning, as these have a much stronger influence on equity markets. Accordingly, at Tramondo we focus on studying fundamental data and chart analysis in order to define adequate investment decisions.

MARKET OUTLOOK

After five consecutive months of positive returns on equity markets, October was characterized by a (probably long overdue) consolidation. In view of the earnings season and the upcoming presidential elections, this is not an overly surprising development. While corporate earnings reported so far are hardly a cause for concern – earnings growth has so far amounted to around 5.1%, slightly better than the 4.6% predicted by analysts – the showdown between Trump and Harris is likely to set investors' pulses racing. We continue to believe that the scenario of a "red sweep" (Republicans winning both chambers of Congress as well as the Oval Office) should be given a relatively high probability. After the Democratic candidate Harris benefited from a euphoric mood of optimism following her nomination, the US population seems to have returned to the most important everyday problems, above all the high cost of living. In the eyes of the electorate, Vice President Harris is likely to have contributed significantly to this problem, which is why the chances of success for Harris – as well as for the entire Democratic Party – are probably lower than the latest poll figures suggest.

In view of the current situation, we reiterated our neutral stance on equity markets at the beginning of November and continue to favor US stocks. In a red sweep scenario, we initially expect a relatively euphoric market reaction, which could well give way to some disappointment in the medium term as soon as the real economic consequences of Trump's trade policy come to the fore. In our opinion, investors still seem to be paying too little attention to these growth- and consumption-dampening consequences, which does harbor a certain potential for (negative) surprises in the medium term.

IN A RED SWEEP SCENARIO, WE INITIALLY EXPECT A RELATIVELY EUPHORIC MARKET REACTION, WHICH COULD WELL GIVE WAY TO SOME DISAPPOINTMENT IN THE MEDIUM TERM AS SOON AS THE REAL ECONOMIC CONSEQUENCES OF TRUMP'S TRADE POLICY COME TO THE FORE.

In Europe, we are still in a consolidation phase that has been ongoing for months. Fundamentally, the short and long-term challenges undoubtedly remain very big, with the associated uncertainty probably also limiting the upside potential of underlying equity markets. To make matters worse, the initial euphoria surrounding the Chinese stimulus package has dissipated somewhat in the meantime. Accordingly, China is unlikely to provide any overly strong growth impetus in the short term.

After a strong countermovement on fixed income markets – fears of a "red sweep" in Washington have driven long-term US rates to their highest level since early summer – we have confirmed our constructive view on fixed income with high credit quality (investment grade). In the short term, we expect a volatile top-building process in the US, depending on the political scenario in Washington. With a view to the coming quarters, however, we are sticking to our base scenario of falling interest rates. In this context, we continue to view the current market consensus as optimistic and consider the diversification potential in the event of any (economic) disappointments to be attractive. On a relative level, we prefer EUR bonds, which currently have a much more attractive risk/return profile than securities denominated in USD or CHF.

Last but not least, a word on gold. Regardless of the political constellation in Washington, we continue to believe that the precious metal is in a structural bull market. A Republican landslide victory in November ("red sweep") would probably only further strengthen the investment case for gold. In this scenario, President Trump would probably have a "carte blanche" to drive forward his political priorities – with dramatic consequences for inflation, geopolitics and the gold price. Accordingly, we are reiterating our view that we would increase our exposure to gold in times of (temporary) market breathers.

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.

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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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