

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

JANUARY 2025

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

Labour market data – After Fed Chairman Powell disappointed investors with his monetary policy outlook in December, the US labour market data published on 10 January 2025 is likely to come back into focus. In that context, the truism 'bad news is good news' may soon make a comeback in financial markets.

MARKET OVERVIEW:

FED CHIEF POWELL SPOILS NEW YEAR'S EVE PARTY

Fed lowers interest rate expectations – At its last meeting in 2024, the US central bank, the Federal Reserve (Fed), cut key rates for the third time in a row, as expected. With that, the Fed' target range for the federal funds rate ended the year at a level of 4.25% to 4.50%. However, Fed Chairman Powell clearly indicated a more gradual easing approach in 2025. According to the bank's official forward guidance, central bankers expect only two further key interest rate cuts in 2025, a significant revision to the four interest rate cuts expected in September. Investors reacted disappointed: the S&P 500 ended the year with a monthly performance of -2.5%, with the losses being heavily concentrated in the last two weeks of trading (after the Fed interest rate decision). In this context, European equity markets outperformed their US competitors for once. While the German DAX index closed the month around 1.4% higher, the EuroStoxx 50 even climbed by 1.9% in December. The Swiss equity market was – not for the first time in the past investment year – tied back by the index heavyweights: Novartis (-4.9% in December) and Nestlé (-2.0%) were on investors' sell lists, causing the SMI index to close the month down 1.4%.

Rates of government bonds with a boost – In view of the disappointing monetary policy outlook in the US, it is hardly surprising that yields on 10-year US Treasuries continued their recent uptrend in December. Since the US central bank initiated the current easing cycle in September, long-term rates in the US have risen by around 100 bps – despite policy rates being cut by exactly 100 bps during this period. Donald Trump and the Republicans' landslide victory in the US elections undoubtedly play a major role in this latest "drama" on fixed income markets. Investors are concerned that President-elect Trump would use the Republican-dominated Congress to expand fiscal policy even further – with consequences for growth and inflation. From a tactical point of view, interest rates remain the biggest source of risk for both fixed income and equity markets. A breakout of 10-year rates above 4.73%, the high in April 2024, would likely have painful implications for both asset classes.

Swiss National Bank surprises investors – Not only the Federal Reserve, but also the Swiss National Bank (SNB) are able to surprise markets. Contrary to the market consensus, the SNB lowered its key interest rates by 0.50% (instead of 0.25%) at its December meeting. This surprising decision was justified by the sharp decline in inflation and the intention to support

SOON IN FOCUS

Earnings Season – With the end of the fourth quarter, companies' fundamentals are once again will be put into the spotlight. With regards to the upcoming earnings season for Q4 2024, analysts expect earnings for the US equity index S&P 500 to expand by 11.9%, which is the highest increase since Q4 2021.

the economy. However, with this policy offensive, the bank is reducing the scope for further gradual easing in the future. Consequently, the Swiss franc came under pressure and ended the month around 2.9% (vs. the USD) and 0.9% (vs. the EUR) weaker.

DID YOU KNOW THAT...

...IN 2024, MORE THAN HALF OF THE S&P 500 RETURN WAS ACHIEVED BY THE "MAGNIFICIENT SEVEN"?

	NAME	SEKTOR	WEIGHT [1]	RETURN	CONTRIBUTION
1	**NVIDIA**	**Technology**	**3.1**	**171.2**	**5.04**
2	**Apple**	**Technology**	**7.0**	**30.1**	**1.82**
3	**Amazon.com**	**Discretionary**	**3.5**	**44.4**	**1.41**
4	**Meta Platforms**	**Comm Svcs**	**3.0**	**65.4**	**1.21**
5	**Alphabet**	**Comm Svcs**	**3.8**	**35.5**	**1.20**
6	Broadcom	Technology	1.2	107.7	1.18
7	**Microsoft**	**Technology**	**7.0**	**12.1**	**0.87**
8	**Tesla**	**Discretionary**	**1.7**	**62.5**	**0.81**
9	JPMorgan Chase	Financials	1.2	40.9	0.45
10	Berkshire Hath.	Financials	1.6	27.1	0.41

In Blue: «Magnificient Seven» Companies | [1] Weighting as per 31.12.2023

QUELLE: BLOOMBERG / TRAMONDO

Last year, the US equity index S&P 500 returned 23.3%, breaking the 20% mark for the second year in a row. Since 1871, this phenomenon has only been observed in ten cases. Only in the bull market of the 1990s (1995-1998) and the 'Roaring Twenties' of the last century (1924-1927) could this trend continue for another two years.

However, only around 30% of companies were able to outperform the index last year, which is close to the historical low at the beginning of the 1990s. More than half of the index return (around 53.7%) was contributed by the 'Magnificent Seven', which contributed 12.4%. Unsurprisingly, the largest contribution to returns came from Nvidia (performance contribution of 5.04%), whose shares rose by a whopping 172% in the past year (after 239% in the previous year). As a result of this relative strength, the index concentration of the 'Magnificent Seven' also rose to over 33% at the end of the year.

MORE THAN HALF OF THE INDEX RETURN (AROUND 53.7%) WAS CONTRIBUTED BY THE 'MAGNIFICENT SEVEN', WHICH CONTRIBUTED 12.4%.

These figures illustrate, on the one hand, the increasing importance of the technology sector for the equity market and, on the other hand, the importance of a disciplined security selection process. At Tramondo, we adhere to our investment philosophy, which combines fundamental data with technical chart analysis in order to construct a balanced portfolio of high-quality stocks. At the moment, we maintain our overweight allocation in the information technology sector, where we still identify attractive opportunities in the semiconductor and software industry, even though both subsectors have already performed very well in the most recent past.

MARKET OUTLOOK

Unfortunately, the 'Santa Clause' rally failed to materialize in 2024. In view of a somewhat disappointing Fed meeting in December and the uncertainty around Donald Trump's political agenda, investors trimmed their risk positions towards the end of the year. However, we advise our clients not to overinterpret these latest market dynamics and certainly not to extrapolate them into the new investment year. Market liquidity tends to decline noticeably from mid-December onwards, which is why market movements during the festive season could be rather erratic.

At present, fundamentals in the world's largest economy, the US, remain broadly supportive. We believe that the upcoming earnings season, which begins in a few days, should once again underscore this. For Q4 2024, equity analysts expect earnings growth of 11.9% for the S&P 500, with companies in Silicon Valley likely to be (once again) ahead in terms of growth. The two sectors information technology (earnings growth of 14.0% in Q4 2024) and communication services (+20.7%) will continue to benefit from the well-known structural trends, such as artificial intelligence. Hence, we maintain our constructive positioning towards market leaders in these sectors.

From a tactical point of view, we expect the US equity index S&P 500 to trade in a range between 5'850 and 6'100 in the short term. However, once taken the Oval Office in around two weeks' time, US President-elect Trump could soon cause this trading range to be broken – either upwards or downwards. With regards to the heightened political risk premium in Washington, we are sticking to a neutral allocation towards global equity markets. Looking at fundamentals, the US equity market remains our favorite region, although we also see interesting potential in the Emerging Markets of India and Vietnam.

FROM A TACTICAL POINT OF VIEW, WE EXPECT THE US EQUITY INDEX S&P 500 TO TRADE IN A RANGE BETWEEN 5'850 AND 6'100 IN THE SHORT TERM.

After the recent rise in yields on global fixed income markets, we see interesting opportunities to log in an attractive, risk-adjusted returns, particularly in the US. The driving factor behind the latest breakout in US yields is likely to be Trump's political agenda, which is seen as inflationary. In this context, however, we remain convinced that investors are giving Trump too much credit regarding growth-stimulating policies. We believe that his political agenda may disappoint in the end which should ease the pressure in fixed income markets in the medium term.

On the old continent, EUR issuers also offer an exciting outlook for the coming year, as the European Central Bank (ECB) is likely to continue to cut rates significantly. Unfortunately, after the sharp decline in yields in recent quarters, we are back to square one with CHF bonds, as the asset class offers no prospect of positive real yields.

Last but not least, we maintain our constructive view on gold in early 2025. Despite its impressive performance last year, falling real interest rates, a weaker US dollar and strong demand from central banks should support the precious metal. Given that institutional investors remain underweight, gold is an attractive hedge against inflation and political risks in a multi-asset portfolio.

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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