

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

FEBRUARY 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

Richemont – The luxury goods company surprised investors in January with outstanding quarterly earnings. Thanks to strong revenue momentum at its two main jewellery brands, Cartier and Van Cleef & Arpels – which account for around 60% of total revenue – the stock surged by an impressive 16.4% on the day of the earnings release.

MARKET OVERVIEW:

DEEPSEEK AND TRUMP STRAIN INVESTOR NERVES

DeepSeek is shaking up Silicon Valley – Anyone aiming to lead in the field of artificial intelligence (AI) must be prepared to invest heavily. However, the Chinese start-up DeepSeek has (allegedly) proven the opposite with its new AI assistant. Not only can it compete with its US counterparts, but it was also developed at significantly lower costs and is reportedly capable of operating on computer chips with reduced processing power. Beyond doubt, this AI alternative from China challenges the dominance of the established technology companies from Silicon Valley. Consequently, questions arose about the valuations and the sustainability of the months-long market rally, which led to significant selling pressure in the semiconductor sector during the last week of January. Market darlings such as Nvidia (-10.6% in January) and Broadcom (-4.6%) emerged, unsurprisingly, as major underperformers in the S&P 500 index.

ECB cuts policy rate, while Fed holds its ground – Last week, the European Central Bank (ECB) reduced its policy rate by 0.25% to 2.75%, aiming to provide a much-needed boost to the flagging economy. The economy, indeed, is in urgent need of support – as evidenced by the German government revising its growth forecast for the monetary union's largest economy from 1.1% down to 0.3% for 2025. Regarding its future monetary policy, the ECB has decided to proceed on a data-dependent basis. The situation in the United States is markedly different. There, Fed Chairman Powell made it clear that, in view of sticky inflation and robust economic activity, the central bank sees no urgency in monetary easing. As investors had expected, Powell kept the interest rate at 4.50%, and, given current fundamentals, no rapid policy changes should be expected.

Swiss market reaches an all-time high – In contrast to the semiconductor sector in the Silicon Valley, the Swiss equity market enjoyed an exceptional start to the year. The SPI index advanced by an impressive 8.2% during the reporting month, thereby reaching a new record high. Among the large cap companies in the index, Richemont (+28.4% in January), Logitech (+21.9%) as well as UBS (+16.6%) stood out in particular. Following two rather disappointing years, it is quite conceivable that the domestic equity market could once again attract considerable attention from international investors, especially in an investment landscape characterized by political uncertainty.

SOON IN FOCUS

Nvidia – After the former equity market darling surged by an astonishing 820% over the past two years, recent developments surrounding DeepSeek have put a damper on Nvidia's investment story. The next earnings report, set to be published on 26 February, will definitely be crucial in maintaining investor confidence.

Trump imposes import tariffs – At the end of the month, US President Trump announced import tariffs on the largest trading partners of the US. Mexico and Canada will face tariffs of 25% from early February, while China will be hit with a 10% tariff. Investors were somewhat surprised by these measures, as the prevailing market narrative suggested that US Treasury Secretary Bessent, seen as Trump's closest economic advisor, would prevent the worst. Whether this move is merely a tactical manoeuvre by Trump to secure better negotiation leverage on non-trade-related issues or the beginning of a global trade conflict remains uncertain – the coming days and weeks will surely provide clarity.

DID YOU KNOW THAT...

...ONLY A FEW COMPANIES ACCOUNT FOR THE ENTIRE EQUITY MARKET RETURN?

Name	Start date	End date	Final value per USD invested	Annualized return
Altria Group	31-12-25	29-03-23	2,655,290	16.29%
Vulcan Materials	31-12-25	29-03-23	393,492	14.05%
Kansas City Southern	31-12-25	29-03-23	361,757	14.27%
General Dynamics	28-01-26	29-03-23	220,850	13.39%
Boeing	05-09-34	29-03-23	212,206	14.72%
IBM	31-12-25	29-03-23	175,437	13.11%
Eaton	31-12-25	29-03-23	151,173	12.94%
S&P Global	14-02-29	29-03-23	128,787	13.20%
CocaCola	31-12-25	29-03-23	123,724	12.71%
PepsiCo	31-12-25	29-03-23	86,360	12.30%

SOURCE: ARIZONA STATE UNIVERSITY, NOVEMBER 2024

As we wrote in the last issue of the Market Compass, the stocks of the "Magnificent Seven" contributed more than half of the S&P 500's return last year. Furthermore, only 30% of the index's constituents managed to achieve a return that exceeded that of the S&P 500. However, the concentration of exceptional returns in merely a handful of stocks is nothing new. Indeed, a recent study demonstrates that, even over the long term, only a small number of stocks drive the overall market return, whilst the majority of listed companies actually detract from the gains of these top performers.

A MAJORITY OF US EQUITIES HAVE LOST MONEY SINCE 1926.

Furthermore, the analysis – which spans nearly a century – demonstrates that the majority of US equities (approximately 51.6%) have lost money since 1926. The research also shows that, from 1926 to 2019, roughly 96% of stocks delivered returns comparable only to those of onemonth government bonds – definitely disappointing from a return-/risk perspective. In contrast, on average, one dollar invested at the beginning of 1926 had appreciated to USD 229.40 by the end of 2023, corresponding to an annual return of about 10.8% – while inflation over the same period averaged 2.9% per annum. Overall, 17 stocks achieved returns in excess of 5,000,000%, thereby transforming a single invested dollar into USD 50,000. The strongest performance was recorded by an investment in Altria Group, which turned a dollar into USD 2.6 million – remarkably, this was accomplished with a (relatively modest) annual return of 16.3%.

In this context, it should come as no great surprise that the highest annual returns originate from several of the "Magnificent Seven" companies. Among those with at least 20 years of return data, Nvidia tops the list with an annual return of 33.4% from January 1999 to 2023. Similarly, Amazon stands out an annual return of 31.9% from May 1997 to 2023.

The study clearly demonstrates that, at least over the long term, there is clearly no alternative for equities. Nevertheless, it is advisable to review the equity exposure from to time, as sticking to the wrong company over the long haul can entail significant opportunity costs. Identifying the 4% of the S&P 500 companies that can sustainably outperform shortterm government bonds is, without doubt, a challenging task. However, our hybrid investment approach – which combines fundamental with technical analysis – leaves us well-prepared to tackle this major task.

MARKET OUTLOOK

Beyond doubt, market volatility made an inglorious comeback in January. In particular, during the second half of the month, market fluctuations increased markedly, coinciding almost exactly with the inauguration of Donald J. Trump as the 47th President of the United States. We believe that investors should get used to this new volatility regime, as we expect this policy-driven investment environment to persist for some time. Notably, the first half of the year is likely to experience larger market movements, as Trump is poised to implement a number of his political priorities – and, as has been the case in the past, is unlikely to be overly concerned with short-term investor sentiment. In such an environment, we recommend investors to maintain a disciplined focus on reliable, objective data from companies and the real economy rather than being misled by short-term political noise.

WHILE TRADITIONAL ASSET CLASSES – NAMELY EQUITIES AND BONDS – SHUN UNCERTAINTY AS THE DEVIL AVOIDS HOLY WATER, GOLD THRIVES IN SUCH AN ENVIRONMENT.

In this context, most recent data from companies and the real economy continue to provide support. As part of the earnings season for Q4 2024, almost 35% of the companies listed on the S&P 500 have already reported their figures – with around 80% surpassing analysts' forecasts. In this respect, the earnings growth of 13.2% achieved so far marks the strongest rate since Q4 2021. Moreover, the most recent figures for GDP growth in the United States (+2.3% in Q4 2024) can be described as robust, even if economists had hoped for even more. Household consumption – accounting for roughly 70% of GDP – remains more than resilient, having even experienced a modest acceleration on a quarterly basis. In Europe, the outlook is definitely more challenging, as it appears unlikely that 2025 will herald the long-awaited economic turnaround. This year is set to be one of transition which, in comparison to the rather disappointing years of 2023 and 2024, might even offer some room for positive surprises. Finally, the European Central Bank (ECB) is now (at last) incorporating the weak economic momentum into its monetary policy, which could potentially provide an additional boost to the region.

In summary, we reaffirm our tactical asset allocation for February. Accordingly, we maintain a neutral stance towards global equities, as markets are trading in the middle of our anticipated trading range of 5,850 to 6,100. In a market environment defined by a high degree of uncertainty, we attach particular importance to a well-balanced portfolio across sectors and countries, as well as to a disciplined quality bias regarding security selection. Given that even short-term market visibility remains limited under the Trump administration, we consider the two factors mentioned above to be critical success factors for 2025 – the era of placing large bets on individual sectors and countries appears to be over (at least in the short term).

From a return-/risk perspective, fixed income markets definitely reflect more than a mere alternative in the global investment universe. Should Trump effectively implement the import tariffs being discussed at the end of January, respective repercussions are likely to be less inflationary than the current market consensus anticipates. Though, it would definitely inhibit economic growth. Consequently, this scenario might imply – contrary to market expectations – that the Federal Reserve (Fed) would be forced to relent and cut interest rates more aggressively than expected, with positive consequences for high-quality fixed income. From a tactical point of view, we continue to uphold our preference for EUR issuers, which still offer an even more compelling monetary policy outlook.

Finally, we reaffirm our constructive view on gold. The precious metal has already appreciated by 6.6% in January, underscoring the considerable value of this asset class in the current market environment. While traditional asset classes – namely equities and bonds – shun uncertainty as the devil avoids holy water, gold thrives in such an environment. Consequently, we stick to “Buy any dip” for the coming months.

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.

ASV/ASWM
Allianz Schweizer Vermögensverwalter
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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.

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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