

TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

MAY 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

Gold – In the past month, gold has once again surged to new record highs. Driven by ongoing geopolitical uncertainty, particularly stemming from developments in the United States, the precious metal has benefitted from increased demand, pushing its price to USD 3'289 – a 5.3% increase for the month. Since the start of the year, gold has already gained roughly 23%, following an impressive 27% rise in 2024.

MARKET OVERVIEW:

TRUMP FACES PUSHBACK FROM INVESTORS

Liberation Day and the investor rebellion – What a bombshell to kick off the new quarter! On April 2 – the so-called Liberation Day – US President Trump announced a sweeping import tariff regime that sent shockwaves across financial markets. Investors responded immediately – and with a forcefulness that ultimately brought even the most powerful man in the world to his knees. Following a historic sell-off in US assets in the days after the Liberation Day – including US Treasuries, typically seen as a safe haven – the administration was forced to delay the implementation of reciprocal tariffs (targeting countries with a substantial trade surplus with the US) by 90 days. Financial markets warmly welcomed the President's retreat, finding at least some comfort in the prospect of bilateral trade agreements between the conflicting parties. Despite weeks of dramatic volatility, US equity markets ended April relatively flat. The S&P 500 closed the month virtually unchanged (-0.8%), while the Nasdaq 100 even managed to post moderate gains (+1.5%). The currency markets, however, remain deeply skeptical of Trump's policies: the US dollar lost 4.5% against the EUR and 6.6% against the CHF in April. For international investors, US markets have become a costly proposition – since the start of the year, the S&P 500 is down roughly 13.4% in EUR terms and 13.9% in CHF terms.

IMF lowers growth outlook – Amid ongoing uncertainty surrounding US trade tariffs, the International Monetary Fund (IMF) revised its economic growth forecasts in April. According to the latest estimates, the world economy is now expected to grow by only 2.8% in 2025 (previously 3.3%), roughly in line with the growth seen in 2024 (3.1%) and 2023 (3.0%). Unsurprisingly, the United States is among the biggest losers in these revised projections. The IMF slashed its GDP growth forecast for the world's largest economy by a full 0.9%, down to just 1.8%. Signs of an economic slowdown were already visible in Q1 2025, with GDP shrinking by a disappointing -0.3%. This contraction was largely attributed to precautionary inventory build-ups by domestic firms in anticipation of disruptions caused by President Trump's trade policies. As a result, the US trade balance remained sharply negative in Q1 2025, weighing heavily on the country's GDP. The full impact of the US tariff regime, howev-er, is likely to become apparent only in the months ahead. In this context, it remains to be seen whether the IMF's latest projections will hold – or wheth-er further downward revisions will become necessary.

Solid start to the earnings season – The Q1 2025 earnings season has started off well in both Europe and the United States. In Switzerland, corporate results offered little cause for concern, contributing to an increasingly

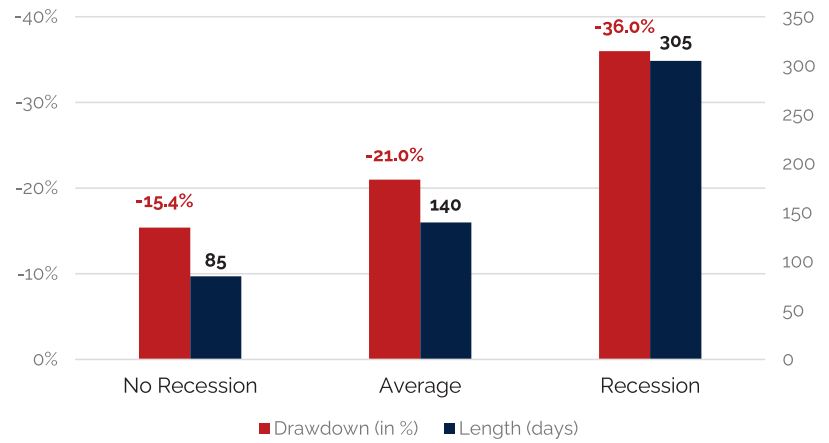
SOON IN FOCUS

Meeting of the Federal Reserve – The US Federal Reserve (Fed) will make its decision on future monetary policy on May 7. Fed Chairman Powell is currently navigating a highly challenging environment, with a slowing economy, rising inflation expectations, and uncertainties surrounding US trade policies. We expect the central bank to keep its key interest rate unchanged at 4.25% - 4.50%.

relaxed investor sentiment. Companies such as Novartis and UBS reported solid results, though market reactions remained relatively muted. Outside Switzerland, however, the consumer sectors (Consumer Discretionary, Consumer Staples) have so far delivered a rather disappointing earnings season. Companies like LVMH, for instance, faced growing headwinds, with shares down 14.7% in April, likely reflecting the ongoing decline in consumer sentiment over the past several months. Against this backdrop, the uncertainty generated by the Trump administration is unlikely to provide much relief going into Q2 2025.

DID YOU KNOW THAT...

...A MARKET CORRECTION DURING A RECESSION TYPICALLY RESULTS IN A DECLINE THAT IS MORE THAN TWICE AS SEVERE AS A CORRECTION WITHOUT A RECESSION?



SOURCE: OXFORD ECONOMICS

Historical data shows that equity market pullbacks of 10% occur on average every 18 months. When analyzing the corrections of the S&P 500 index since 1965, the declines associated with or without recessions differ significantly – both in terms of depth and length. While corrections without a recession are more frequent, recessionary phases are linked to deeper market downturns. While corrections without a recession typically pull the equity market down by around 15.4%, the average losses during recessionary periods are as high as 36.0%, with these corrections often lasting for several hundred days. These historical patterns emphasize how crucial the macroeconomic environment is to the development of equity markets.

As such, the assessment of the macroeconomic environment – specifically whether a recession is imminent – is of crucial importance for our investment decisions. The analysis shows that short-term market corrections do not necessarily signal the onset of a crisis. Instead, deeper and longer-lasting declines often require a structural deterioration of economic fundamentals, such as a decline in corporate profitability or a restrictive monetary policy. Currently, the economic backdrop is moving to the forefront once again, not least due to the tariff policy implemented by the Trump administration. Already today, leading economic indicators such as the Purchasing Managers' Index show signs of cooling, especially in the manufacturing sector. In this context, a diligent analysis of the macroeconomic framework is more important than ever to identify potential risks early and align investment decisions accordingly.

ALREADY TODAY, LEADING ECONOMIC INDICATORS SUCH AS THE PURCHASING MANAGERS' INDEX SHOW SIGNS OF COOLING, ESPECIALLY IN THE MANUFACTURING SECTOR

At Tramondo, we place great emphasis on a holistic view of macroeconomic fundamentals – especially regarding recession risks, which are of critical importance for financial markets. Our assessments are based not only on short-term market signals but also on structural indicators such as labor market trends, credit growth, and corporate profits. This integrated approach allows us to identify market periods with heightened downside risks early on and position the portfolio accordingly. Particularly in an environment of potential economic slowdown, the analysis of fundamentals is essential for successfully allocating capital in the long term.

MARKET OUTLOOK

At the end of April, US President Trump completed his first 100 days in Washington. Geopolitically, we have already witnessed an earthquake during this short time period. His administration immediately began to challenge the global trade system, with the aim of reducing existing imbalances – particularly the bilateral trade deficits – to benefit the domestic economy. Unlike his first term, Trump is paying little regard to the concerns of investors on Wall Street. It appears that the US President is on an ideological crusade against the current trade policy regime and, at least in the short term, is willing to accept significant risks for the US economy. Under the immense pressure from the domestic fixed income market, Trump had to revise his political ambitions, but the White House is likely to continue pursuing its strategic goals with great determination in the coming weeks.

Given the high uncertainties and the associated growth risks for the global economy, we reduced our equity allocation from neutral to underweight in the past month. We believe that underlying investor expectations inadequately reflect the present conditions. Both earnings expectations and valuations in the us equity markets reflect an overly optimistic picture for "Corporate America", to say at least. By the end of the month, US equity market indices were virtually back at the levels seen before the Liberation Day, thus pricing in little to no risk associated with the new trade tariff system. Since consumer sentiment recently experienced a historic downturn, the second quarter is likely to be the weakest in the post-Covid-19 era. The chances of a moderate and short recession in this context are significant.

BOTH EARNINGS EXPECTATIONS AND VALUATIONS IN US EQUITY MARKETS REFLECT AN OVERLY OPTIMISTIC PICTURE FOR "CORPORATE AMERICA", TO SAY AT LEAST.

As such, the current earnings season for Q1 2025 has somewhat turned into a "formality" and should not be overinterpreted by investors. Most companies in the US and in Europe are currently navigating with limited visibility, making it difficult to provide forecasts about short-term business performance. In the current earnings season, companies from the healthcare, communication services, and infor-mation technology sectors have delivered relatively strong results, while consumer-oriented sectors (consumer discretionary, consumer staples) have performed poorly. Respective stock price action was rather muted: companies that surpassed expectations in both earnings and revenues outperformed the S&P 500 by just 0.3%, compared to an average outperformance of 1.5% over the last ten years. This subdued response reflects a broader investor focus on future developments, which remains constrained due to ongoing economic uncertainties. Only about 20% of the companies that have released results so far have provided forward-looking guidance, highlighting the lack of transparency amidst growing political uncertainties. Overall, we remain cautious toward US companies and currently prefer European equities.

In a multi-asset portfolio, we continue to view high-quality bonds as an attractive addition to hedge against current economic risks. Accordingly, we maintain our overweight allocation in this asset class for the current month. As with equity markets, we strongly advise our clients not to compromise on quality – therefore, we remain cautious for bonds that carry higher credit risk ("high yield").

Gold lived up to its reputation as a "safe haven" once again last month, reaching new record highs – by the end of the month, the precious metal was trading at USD 3'289. Following the exceptional rally (+59.8% since the beginning of 2024), a consolidation at current levels seems overdue, at least temporarily. Accordingly, we are adjusting our tactical allocation from overweight to neutral, and would consider adding to the position again on pullbacks to USD 3'100/3'000.

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 2025

For the fifth 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
Alliance of Swiss Wealth Managers

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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