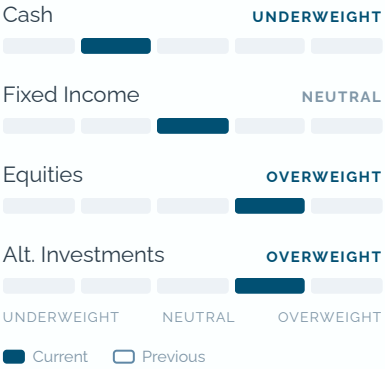
MARKET COMPASS

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



TACTICAL POSITIONING



We are happy to explain our detailed tactical positioning to you in a conversation. Please contact us.

SPOTTED

Anthropic – The developer of the AI model Claude is preparing for one of the biggest IPOs in history. Parts of the previously confidential prospectus have already been leaked, offering a first glimpse into the figures: in 2025, turnover rose twelvefold to around USD 4.6 billion, whilst capital requirements remained enormous. The IPO could take place as early as November and value Anthropic at up to USD 2 trillion. This means the IPO is likely to become a key test for the AI narrative on the capital markets.

MARKET REVIEW:

RISING YIELDS WEIGH ON MARKETS – AI PROVIDES SUPPORT

Bond markets at the center of the turmoil – September was characterized by a significant rise in yields. The US Federal Reserve, under Fed Chairman Kevin Warsh, raised its key interest rate by 0.25% to a range of 3.75–4.00%. With its first interest rate hike since 2023, the Fed responded to persistently high inflation and the robust US economy. At the same time, it left the door open for further rate hikes, thereby reinforcing expectations that monetary policy is likely to remain restrictive for some time to come. Higher energy prices resulting from the Middle East conflict, large-scale new issues of government bonds and concerns about the long-term sustainability of public finances further increased pressure on yields. Longer maturities in particular came under pressure, as investors demanded higher compensation for inflation and maturity risks. The yield on ten-year US government bonds rose by around 0.50% over the course of the month. European bonds also recorded losses, with the ECB's interest rate rise and its warning of persistent inflationary pressures exacerbating the trend. The price losses on corporate bonds were also largely driven by interest rates: their risk premiums remained comparatively stable, indicating that investors continue to view credit quality favorably.

AI provides resilience, whilst market breadth remains limited – The equity markets proved comparatively resilient in the face of the sharp rise in interest rates, although the picture beneath the surface was considerably more mixed. Technology and AI-related companies underpinned the US indices, whilst interest-rate-sensitive sectors such as property, utilities and smaller companies came under greater pressure. The resilience of the major indices was thus driven by a limited number of high-growth companies. European equities underperformed, weighed down by rising financing costs and the economy's greater vulnerability to persistently high energy prices. Within the technology sector, the AI ecosystem remained the key driver. Alongside semiconductor firms, companies providing storage solutions and infrastructure for the expansion of data centers also benefited. Micron's results, published at the end of the quarter, confirmed the continued high demand for high-performance memory chips: revenue, profit and the outlook all exceeded analysts' expectations. However, the initially muted market reaction highlighted just how high the bar has now been set for the winners of the AI investment cycle. It is becoming increasingly crucial whether companies can exceed the already ambitious expectations and maintain their high growth rates.

SOON IN FOCUS

Earnings season for Q3 2026 – With the latest corporate results on Wall Street once again proving impressive, investors' attention will turn from mid-October to the next fundamental "reality check". Strong earnings growth of 29.1% is expected for the S&P 500. The main drivers are likely to be, once again, the large technology stocks, whose earnings momentum is expected to significantly outpace the broader market.

Geopolitics remains a source of uncertainty – The unresolved situation in the Middle East kept energy supplies and key shipping routes in the markets' focus. Alongside the Strait of Hormuz, the Red Sea and the Bab al-Mandeb Strait came more sharply into the spotlight. Houthi attacks on ships and Saudi infrastructure further heightened uncertainty, as alternative transport routes for energy supplies were also disrupted. Whilst there was occasional progress regarding passage through the Strait of Hormuz and further diplomatic initiatives, a sustained return to normality failed to materialize. The meeting between the US and China, on the other hand, brought about a degree of stabilization in relations. The continuation of the dialogue and limited progress on individual trade issues reduced the risk of an immediate escalation. However, there was no comprehensive breakthrough: the fundamental differences regarding critical raw materials, technology and security policy issues persist. Further planned meetings create opportunities for gradual rapprochement, but for the time being do little to alter the strategic rivalry between the two countries.

DID YOU KNOW THAT...

...STOCK MARKETS HAVE TENDED TO POST POSITIVE RETURNS FOLLOWING THE START OF INTEREST RATE HIKING CYCLES?

FED RATE HIKES

S&P 500 total return 6 and 12 months after the first rate hike of each Federal Reserve tightening cycle since 1974.

SOURCE: BLOOMBERG, US FEDERAL RESERVE, TRAMONDO ANALYSIS

				S&P 500 TOTAL RETURN	
FIRST HIKE	LAST HIKE	NO. OF HIKES	TOTAL INCREASE	6 MONTHS	12 MONTHS
Mar 1974	Jun 1974	3	4.00%	**-30.8%**	**-7.0%**
Apr 1976	Jun 1976	2	0.75%	**3.3%**	**1.0%**
Dec 1976	Nov 1979	19	10.75%	**-4.4%**	**-7.2%**
Feb 1980	Mar 1980	2	6.00%	**10.7%**	**21.6%**
Aug 1980	Dec 1980	4	8.50%	**9.9%**	**5.4%**
Mar 1984	Sep 1984	3	2.25%	**6.9%**	**18.9%**
Dec 1986	Sep 1987	4	1.37%	**27.4%**	**5.3%**
Mar 1988	May 1989	8	3.25%	**7.0%**	**18.1%**
Feb 1994	Jun 1995	7	3.00%	**3.3%**	**7.4%**
Jun 1999	Dec 2000	6	1.75%	**7.7%**	**7.2%**
Jun 2004	Aug 2007	17	4.25%	**7.2%**	**6.3%**
Dec 2015	Jun 2019	9	2.25%	**3.8%**	**12.0%**
Mar 2022	Jul 2023	11	5.25%	**-20.9%**	**-9.3%**
Average		**7.3**	**4.1%**	**2.4%**	**6.1%**
Median		**6.0**	**3.3%**	**6.9%**	**6.3%**

Financial markets often react nervously to central bank measures, with the common assumption being that interest rate hikes are detrimental to share prices: when borrowing costs rise, financing conditions deteriorate and companies' future cash flows are valued using higher discount rates. Against the backdrop of the Fed's recent key interest rate rise, this issue is once again coming into focus for market participants. Historical data, however, shows that the equity market often performs strongly after the Fed has initiated a new tightening cycle.

ACROSS 13 INTEREST RATE HIKE CYCLES, THE EQUITY MARKETS RECORDED POSITIVE RETURNS IN 77% OF CASES IN THE SIX MONTHS FOLLOWING THE FIRST INTEREST RATE RISE.

An analysis of the Federal Reserve's interest rate hike cycles reveals a surprising trend: US equities have almost invariably outperformed following the start of a tightening cycle. Of the 13 interest rate hike cycles analyzed between 1974 and 2022, the US equity market achieved a positive total return in the 12 months following the first hike on 10 occasions. By the same token, equity markets recorded positive returns in the six months following the first interest rate hike in 77% of cases. Across all of these cycles, the S&P 500 achieved an average 6-month total return of 2.4% and an average 12-month total return of 6.1% following the first interest rate hike.

Whilst higher interest rates increase the cost of capital, interest rate cuts typically occur during periods of economic weakness. Conversely, the start of a rate-hiking cycle usually coincides with a robust, growing economy accompanied by elevated or rising inflation. These underlying economic dynamics, combined with strong corporate earnings growth, provide a supportive environment that drives equities in the early stages of monetary tightening.

Although the initial performance of equities is historically strong, the duration and context of the cycle play a decisive role. If interest rate rises persist over a prolonged period, the cumulative effect of tighter financing conditions may ultimately weigh on business activity and equity valuations. Furthermore, over the past two decades, markets have frequently relied on central banks to intervene during periods of weakness – a dynamic that Mario Draghi encapsulated in his famous 'Whatever it takes' speech in 2012. If elevated inflation prevents central banks from providing this safety net, investor sentiment can deteriorate rapidly.

At Tramondo, we carefully examine these historical precedents in order to successfully navigate today's dynamic market environment. Although history demonstrates that initial interest rate rises rarely send equity markets into a tailspin, successfully navigating the current cycle requires looking beyond historical averages: a sound assessment of the current economic climate, company valuations and shifting market sentiment remains essential.

MARKET OUTLOOK

As we enter the fourth quarter, our baseline macroeconomic scenario remains positive. The US economy continues to show resilience, supported by robust consumer spending and high levels of investment in AI and infrastructure. The latest US data illustrate this combination: real consumer spending rose by 0.6% month-on-month in August, whilst core inflation, as measured by the PCE index, was relatively moderate, rising by 0.2% month-on-month. However, at an annual rate of 3.0%, it remains above the Fed's target.

We expect inflationary pressures to persist, at least until the end of the year. Developments in the Middle East remain crucial: persistently high energy prices could delay the decline in inflation and necessitate further interest rate hikes. Our base scenario therefore anticipates a further interest rate rise of 0.25% in December, as well as an additional hike of a similar magnitude in the first quarter of 2027. We therefore expect a limited monetary policy adjustment – a 'hiking cycle light' – rather than an aggressive tightening cycle like that seen in 2022.

IF MONTHLY CORE INFLATION, AS MEASURED BY THE PCE INDEX, FALLS SUSTAINABLY BELOW AROUND 0.25%, WE BELIEVE THE NEED FOR FURTHER INTEREST RATE HIKES IS LIKELY TO DIMINISH.

As 2027 progresses, we anticipate easing inflationary pressures. Unless oil prices rise significantly again, more favorable base effects should reduce the annual contribution of energy prices to inflation. At the same time, structural factors point to easing price pressures: a more balanced labor market and more moderate wage growth are limiting cost pressures on businesses. Added to this are productivity gains, which are increasingly supported by the use of AI and can help to curb the rise in labor costs per unit produced.

Whether this easing is confirmed by the latest inflation data remains crucial to the Fed's response. If monthly core inflation, as measured by the PCE index, falls sustainably below 0.25%, we believe the need for further interest rate rises is likely to diminish. Following the two expected rate rises, we therefore anticipate a pause in rate rises, during which the Fed will assess the impact of its measures to date.

We remain constructive on equities in the medium term and are maintaining our overweight position. The robust US economy and solid earnings prospects continue to provide a sound foundation. In the AI ecosystem in particular, high levels of investment are increasingly translating into rising turnover and profits. The investment cycle has long since extended beyond semiconductors to encompass data centers, power supply, cooling and industrial infrastructure. Regionally, we continue to favor the US, where companies are benefiting particularly strongly from the AI investment cycle. In Europe, too, we see interesting structural winners, particularly in the areas of electrification and industrial infrastructure.

In the bond market, the significant rise in yields has, in our view, improved the risk-reward ratio. We are therefore raising our duration assessment from 'underweight' to 'neutral'. The higher current interest income provides a buffer against further price losses: if yields rise moderately, it can offset a significant portion of interest-related losses. If, on the other hand, yields fall, capital gains will be added to the current income. This results in an attractive, asymmetric return profile, particularly in the medium-term maturity segment, where the potential for recovery can significantly exceed the possible losses in the event of a comparable rise in yields. This asymmetry becomes increasingly significant given our expectation of a limited Fed tightening cycle and easing inflation in the course of 2027. Should the Fed tighten policy less aggressively than the market expects, this would open up additional recovery potential. However, high government deficits, substantial new issuance and geopolitical uncertainty remain risk factors, particularly for very long maturities. We therefore favor a balanced maturity profile.

Alternative investments remain overweight, with gold continuing to be our strongest conviction within the asset class. In the short term, high real yields, a stronger US dollar and position adjustments may weigh on price performance. However, such fluctuations do not alter our strategic assessment: the diversification of currency reserves, high government debt and geopolitical uncertainty underpin the long-term investment case. We therefore maintain our view of gold as a strategic diversification component.

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 sixth time, the company was named one of the 50 most influential independent asset managers in Switzerland and Liechtenstein by the renowned media company Citywire.

Additionally, Tramondo has been recognised as the winner in the Fund Manager category at the prestigious WealthBriefing Swiss Awards 2026 for the first time.

Tramondo is a member of the VSV-ASG, Switzerland's leading association of independent wealth managers, and a member of the Alliance of Swiss Wealth Managers.

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