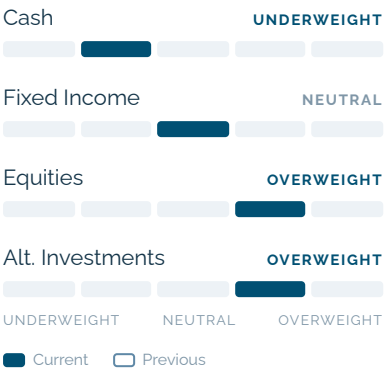
MARKET COMPASS

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

Brazilian equity market – The surprising reelection of President Luiz Inácio Lula da Silva on October 25 triggered severe turbulence in the Brazilian financial markets. After the Ibovespa stock index had risen by 7.7% following the first round of voting, it plummeted by 13.9% within a single day after the runoff election – the sharpest one-day decline since March 2020. Investors are particularly concerned about a relaxation of fiscal discipline, which could place an additional strain on the already tight national budget and exacerbate the debt situation.

MARKET REVIEW:

AI INVESTMENTS UNDER SCRUTINY AND BONDS ON THE RISE

Equity markets marked by sector rotation – October was characterized by a pronounced sector rotation in international equity markets. Technology and AI-related companies came under selling pressure as investors increasingly questioned the economic viability of the enormous investments in artificial intelligence. The quarterly results from Microsoft, Alphabet, Amazon, and Meta Platforms underscored this trend: Despite robust operating growth and sustained high demand for cloud services, the focus shifted to ambitious investment plans and their impact on free cash flow. The technology-heavy Nasdaq 100 lost about 6.7% in October, while the more broadly diversified S&P 500 fell by only 0.9%. The correction was particularly pronounced among semiconductor stocks: The Philadelphia Semiconductor Index fell by about 15.4%. At the same time, other market segments proved resilient. In particular, the healthcare, consumer staples, and energy sectors benefited from a shift toward business models with more stable cash flows and less dependence on the AI investment cycle. This trend also benefited the defensively oriented Swiss stock market, which was largely able to withstand the downward pressure (SPI +6.3%). European stocks also performed robustly: The STOXX Europe 600 gained about 1.9% in October, outperforming the S&P 500 by about 3%.

Bond markets see a strong recovery – Following significant price declines in September, international bond markets posted a noticeable recovery in October. The movement was particularly pronounced in U.S. Treasuries, whose 10-year yield fell back below the psychologically important 5.0% mark toward the end of the month. This trend was supported by increased demand for safe-haven assets amid weakness in the equity markets, as well as by the unwinding of substantial speculative short positions. At the same time, credit spreads for certain high-yield issuers in the AI infrastructure sector widened significantly. Neo-cloud providers such as CoreWeave and Nebius were particularly affected; their high capital requirements and rising debt levels raise questions about their long-term financing. In Europe, meanwhile, political and fiscal uncertainties in France weighed on government bond markets.

SOON IN FOCUS

Anthropic's IPO – The developer of the AI model Claude is poised for one of the largest initial public offerings in history. The initial public offering (IPO), scheduled for November, could value the company at USD 1.5–2 trillion. This makes the IPO an important test of market sentiment for the AI sector and investors' willingness to accept high valuations despite enormous investments and still-limited profitability.

Central banks take a break from rate hikes – The major central banks refrained from further rate hikes at their October meetings but continued to signal vigilance regarding inflation risks. The Federal Reserve left its benchmark interest rate unchanged at 3.75–4.00% following the September hike. Fed Chairman Warsh pointed to the robust economy and persistent price pressures, while two members of the Open Market Committee already advocated for another 0.25% rate hike. The European Central Bank also paused its rate hikes and kept its deposit rate at 2.50%. Given that inflation has risen to 3.8% and growth prospects have weakened, its room for maneuver in monetary policy remains limited. The Bank of Japan also kept its key interest rate unchanged at 1.25%, after raising it in September. Overall, these decisions underscore that, despite the pause in rate hikes, central banks continue to pursue a restrictive stance, and further rate hikes are by no means ruled out.

DID YOU KNOW THAT...

...AN INDEX OF ALL RECENT U.S. IPOS HAS OUTPERFORMED THE BROAD EQUITY MARKET OVER THE LONG TERM?

IPO PERFORMANCE

IPOX-100 Index (newly listed US companies during their first 1,000 trading days) and S&P 500, price indices in USD, month-end values, indexed to 100 at the end of December 1999.

SOURCE: BLOOMBERG



As AI giant Anthropic aims for a potentially record-breaking initial public offering (IPO) on the Nasdaq, the opportunities and risks of IPOs are once again coming into focus for investors. A look back at history shows that nearly every major equity market cycle has produced its eventual winners. A particularly striking example is Nvidia, which went public in 1999 as one of a total of 476 companies. Even if all the other IPOs from that year had become worthless, an equally weighted portfolio of these companies would have outperformed the S&P 500 over the long term thanks to Nvidia's exceptional performance.

However, this example also highlights a key challenge: The long-term performance of newly listed companies is often dominated by a few exceptionally successful firms, while many others fail to meet high expectations.

In fact, historical data shows that IPOs, as a broadly diversified asset class, can indeed generate attractive returns. The IPOX-100 Index, which tracks newly listed U.S. companies during their first 1,000 trading days, has outperformed the S&P 500 over extended periods. However, this performance was by no means consistent. Particularly during periods of rising interest rates, declining risk appetite, or falling growth valuations, newly listed companies were at times subject to significant price corrections.

A PORTFOLIO OF NEWLY LISTED STOCKS HAS GENERATED A SIGNIFICANT EXCESS RETURN OVER THE LONG TERM COMPARED WITH BROADER MARKET INDICES SUCH AS THE S&P 500.

Our conclusion: Even though individual newly listed companies can generate exceptional returns over the long term, we are generally skeptical of investing in them immediately upon their initial public offering. IPOs often present an unfavorable risk-reward ratio: a limited track record, frequently ambitious valuations, and potential selling pressure from existing shareholders' expiring lock-up periods all increase the risks compared to established publicly traded companies. Furthermore, it is not uncommon for existing owners to benefit from particularly favorable market sentiment during an IPO.

We therefore prefer to wait and see how the company performs operationally and how its stock price develops after its market debut before considering an investment. In our view, the prospect of discovering the next Nvidia early on does not justify the additional risks associated with an IPO investment. Ultimately, what matters is not investing as early as possible, but investing at the right price in a company with compelling fundamentals.

MARKET OUTLOOK

The US midterm elections on 3 November have fundamentally reshaped the political balance of power in Washington. With Democrats securing a surprisingly decisive majority in both chambers of Congress, President Donald Trump will face significant legislative constraints from January 2027 onwards. For financial markets, however, the implications are more nuanced. On the one hand, political gridlock reduces the likelihood of sweeping tax increases or major regulatory changes over the next two years. On the other hand, budget negotiations, elevated government debt and potential disputes over the debt ceiling could become additional sources of uncertainty. Trade and foreign policy, meanwhile, remain largely under presidential control. Looking further ahead, the new political constellation could become increasingly relevant in the run-up to the 2028 presidential election, particularly regarding the longer-term outlook for taxation and regulation. Our central assessment nevertheless remains unchanged: Corporate earnings, economic growth and monetary policy are likely to remain far more important drivers of medium-term equity market performance than the political composition of Congress. Historically, US midterm elections have also frequently been followed by above-average equity market returns, although past patterns do not provide a reliable indication of future performance.

Despite recent market turbulence and heightened political uncertainty, we remain constructive on equities and maintain our tactical overweight. The US economy continues to demonstrate resilience, supported by robust consumer spending, solid corporate earnings and substantial investment in technology and infrastructure. In particular, we see increasingly attractive entry opportunities across the artificial intelligence ecosystem following the recent correction. Admittedly, the latest earnings reports from major technology companies have intensified concerns about the enormous scale of capital expenditure and its implications for free cash flow generation. Nevertheless, underlying demand for computing capacity remains strong. Rapidly expanding and profitable cloud businesses suggest that these investments are economically justified and offer substantial long-term earnings potential. The key question will be how efficiently companies can translate additional capacity into sustainable profits and attractive returns on invested capital.

OUR DECISION TO RAISE THE DURATION TO NEUTRAL AS EARLY AS THE BEGINNING OF OCTOBER HAS PROVEN TO BE THE RIGHT ONE IN LIGHT OF THE RECENT RALLY IN U.S. TREASURY BONDS.

The midterm election results have, however, increased the importance of regulatory and execution risks for the continued expansion of AI infrastructure. More restrictive permitting procedures, tighter requirements concerning electricity and water consumption, and growing political opposition to large-scale data centers could delay individual projects or increase development costs. Nevertheless, we do not anticipate a fundamental disruption to the ongoing investment cycle. A substantial share of the capacity scheduled for delivery in 2027 is already at an advanced stage of construction and should therefore remain relatively insulated from potential regulatory changes. We see greater uncertainty emerging from 2028 onwards. Our confidence is further supported by strong semiconductor exports from South Korea and Taiwan, stable rental prices for high-performance AI processors and continued substantial capital expenditure commitments from major cloud providers. In addition, institutional investors remain exceptionally defensively positioned, suggesting that short covering could further accelerate a potential market recovery. Our focus remains on high-quality companies across the broader AI value chain, ranging from semiconductors and memory solutions to networking technology, power infrastructure and cooling systems. From a regional perspective, we continue to favor the United States, while also identifying attractive opportunities among European providers of electrification and industrial infrastructure.

The outlook for inflation remains a critical factor for financial markets. Our base case continues to anticipate another 25-basis-point rate hike by the Federal Reserve in December, potentially followed by one additional increase in the first quarter of 2027. We therefore expect a relatively limited tightening cycle – a "Hiking Cycle Light" – rather than an aggressive monetary tightening campaign comparable to 2022. This scenario assumes that inflationary pressures will gradually ease over the coming year. In particular, favorable base effects should contribute to a noticeable decline in annual inflation rates throughout 2027, thereby reducing the pressure on the Federal Reserve to tighten monetary policy further. The new political balance of power is unlikely to materially alter the monetary policy outlook in the near term, especially as we do not anticipate significant additional fiscal stimulus given the persistently elevated federal budget deficit.

Within fixed income, the risk-reward profile has improved considerably following the sharp increase in bond yields in September. Our decision to upgrade duration to neutral in early October has proven appropriate in light of the recent recovery in US Treasuries. Declining yields reinforce our assessment that the elevated interest rate environment offers not only attractive running income but also additional capital appreciation potential. The new political constellation could provide some near-term support for US government bonds, as major fiscal expansion initiatives have become less likely. However, persistently large budget deficits and substantial refinancing requirements are likely to constrain a sustained decline in longer-term Treasury yields. We therefore maintain our neutral duration stance and continue to favor a balanced maturity profile with an emphasis on high-quality bonds.

Within alternative investments, gold remains our preferred portfolio diversifier. Although elevated real yields, a stronger US dollar and temporary position unwinding could weigh on prices in the short term, the longer-term investment case remains compelling. High government indebtedness, geopolitical uncertainty and the ongoing diversification of international foreign exchange reserves provide structural support for the precious metal. The changing political balance in Washington is unlikely to materially alter these underlying dynamics, particularly as meaningful fiscal consolidation in the United States remains improbable. We therefore maintain our overweight allocation to alternative investments and continue to regard gold as an important stabilizing component within diversified portfolios.

WHO WE ARE

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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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