TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

09/2023

TACTICAL POSITIONING

	1	2	3	4	5
Cash	○	●	○	○	○
Fixed Income	○	○	○	●	○
Equity	○	○	●	○	○
Alt. Assets	○	○	○	●	○

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

SPOTTED

Nvidia – In the month under review, investors watched with great interest as chipmaker Nvidia released its latest quarterly report. Once again, the company, whose chips are at the heart of the artificial intelligence boom, did not disappoint its shareholders: last quarter, sales doubled compared to the previous year, while profits soared by a meteoric 800%. However, the muted reaction of investors to the strong quarterly results – the stock rose just 0.7% after the announcement – suggests that shareholders' expectations are now elevated.

MARKET REVIEW

GLOBAL EQUITY MARKETS TAKE A BREATHER

Upside pressure on US yields – After consolidating in a trading range between 3.25% and 4.00% since the beginning of the year, US 10-year government bond yields experienced some hectic activity during the month as they were on the verge of a technical breakout. In mid-August, rates gradually advanced to 4.35%, putting pressure on the previous cycle peak reached in October 2022. Various factors can be put forward as the cause of this somewhat surprising interest rate comeback: Stubborn inflation, aggressive central bank rhetoric, and more technical factors regarding the supply and demand situation in the government bond market. In light of these interest rate developments, the equity market also came under considerable selling pressure in the first half of the month. The technology-heavy Nasdaq 100 Index lost 6.7% by mid-month, the broad S&P 500 Index 4.6% and the Swiss SPI also temporarily lost 4.2%. Due to the fact that interest rates were ultimately unable to overcome the October peak, the situation on the financial markets calmed down noticeably again - the main indices closed the month under review around 1.5% to 3.5% lower.

Disappointing economic data from China – The world's second largest economy has been in a macroeconomic downward spiral for several months. Although the Chinese party leadership lifted the strict COVID-19 policy in December 2022, the hoped-for growth spurt has so far failed to materialize. The economic momentum has even softened noticeably most recently. The data on industrial production, inflation and retail sales published in August clearly failed to meet analysts' forecasts. However, the politicians' response was immediate: the monetary authorities of the Chinese central bank unexpectedly lowered the key interest rates, for the second time in the last three months. In addition, several support measures were recently adopted that are aimed at strengthening the domestic economy. It remains to be seen whether these measures will be enough to get the sputtering economic engine in the Far East back on track.

Summit meeting of the BRICS countries – Politicians from Brazil, Russia, India, China and South Africa, which together define the acronym "BRICS", met in the reporting month to debate the future of the community of states. Currently, the expansion of this community is at the top of the agenda, as the countries of Saudi Arabia, Iran, the United Arab Emirates, Argentina, Egypt and Ethiopia are to be added as weighty union partners by the beginning of 2024.

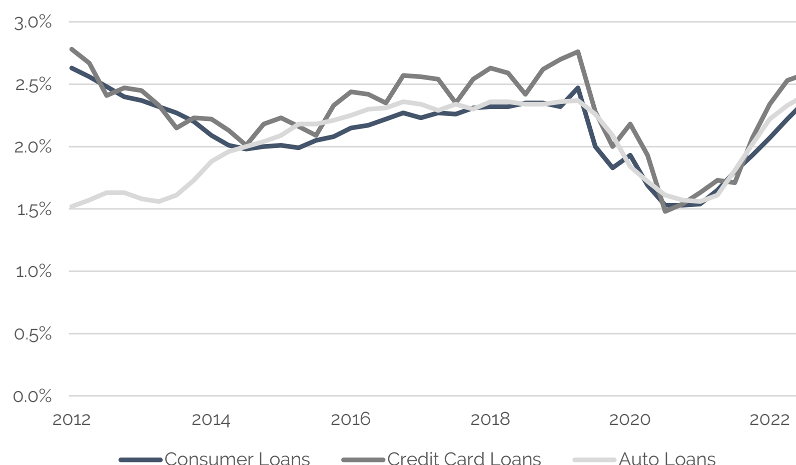
SOON IN FOCUS

Swiss National Bank (SNB) – The SNB will hold its next monetary policy meeting on 22 September. For now, market participants do not expect the central bank to raise the key interest rate, which is currently at 1.75%, again. In the coming weeks, however, local monetary policymakers are likely to keep a wary eye on Frankfurt, where the European Central Bank (ECB) will give a mid-month update on its monetary policy.

Even if these states are pursuing fundamentally different interests – China wants to cement its power globally, Brazil is striving for a better organization of the "Global South" – they all have one thing in common: they want to reduce their dependence on the US dollar and the USA. For this reason, the idea of a common currency of their own was (once again) prominently discussed at the most recent BRICS conference in South Africa. At this point, however, it should be mentioned that considerable hurdles would still have to be overcome for the introduction of such a common currency. The euro shows how complex a single currency is, whereby the countries of the Eurozone are probably much closer to each other than the BRICS countries.

DID YOU KNOW THAT..

..DELINQUENCIES IN THE US CREDIT BUSINESS HAVE RISEN GRADUALLY OVER THE LAST 18 MONTHS?



DELINQUENCIES IN THE US CREDIT BUSINESS;
SOURCE: BLOOMBERG, TRAMONDO

IN THE MEANTIME, DELINQUENCIES ON CONSUMER/CREDIT CARD AND AUTO LOANS HAVE RISEN TO THEIR HIGHEST LEVEL SINCE 2020.

While the officially reported macro data in the US still point to solid economic momentum, first cracks in underlying fundamentals can be seen beneath the surface. The Federal Reserve's historic campaign of interest rate hikes has massively increased lending rates over the past 18 months – with far-reaching consequences for borrowers, who are increasingly struggling to service their loans on time. In the meantime, delinquencies on consumer/credit card and auto loans have risen to their highest level since 2020 – and unfortunately, there is no sign of an imminent turnaround in view of the absolute interest rate level and the cooling of the real economy.

At Tramondo, we try to obtain a holistic picture of the state of the global economy by systematically obtaining a whole range of different macro and micro data. The corresponding interpretation of this data serves as an important input source for defining our tactical asset allocation. For example, based on the above insight, we have decided to express a clear preference for high quality issuers ("investment grade") within the fixed income allocation and to avoid cyclical securities with high credit risk ("high yield").

MARKET OUTLOOK

THE CURRENT VALUATION RATIOS AND EARNINGS EXPECTATIONS FOR 2024 INDICATE THAT MARKET PARTICIPANTS ARE CURRENTLY NOT EXPECTING A RECESSION IN THE NEXT INVESTMENT YEAR.

September typically marks the beginning of a rather difficult seasonal phase for equity markets – we believe that 2023 should be no exception in that context. Fundamentally, we think that investors are currently somewhat overconfident about the macroeconomic outlook for the next few quarters. The current valuation ratios – the US equity index S&P 500 is currently trading at a P/E ratio of 20.6x – as well as the earnings expectations for 2024 indicate that market participants are currently not expecting a recession in the next investment year.

So far, this negative economic scenario has been successfully averted because US consumers, in combination with an expansive fiscal policy, have kept the world's largest economy afloat. While the second factor is likely to continue to stimulate growth in the coming quarters – President Biden is expected to keep fiscal policy generous in 2024 due to the upcoming presidential election campaign - consumer sentiment is likely to lose significant momentum in the coming months. In the aftermath of COVID-19, consumers benefited from ample excess liquidity, thanks in particular to generous stimulus cheques from the US government. However, according to economic estimates, these funds are likely to be exhausted by the end of the quarter – with corresponding negative consequences for consumption and economic growth.

Overall, we consider the risk-reward ratio for the coming weeks to be unconvincing and advise our investors not to chase equity markets on current levels. We currently maintain a neutral view on equity markets and continue to prefer US equity markets. Within the European equity market, we recommend a quality-oriented selection approach, as the coming months are likely to be characterized by a softening economic cycle. Accordingly, we prefer cyclically resilient business models in this region, which are predominantly to be found in the healthcare and consumer staples sectors, selectively also in industrials.

Regarding fixed income, we reiterate our overweight allocation. Even though interest rates have recently experienced some upward momentum, we are convinced that the asset class offers an interesting risk/return constellation in the coming quarters. Within the fixed income universe, we prefer high-quality issuers ("investment grade") and remain cautiously positioned in securities with higher credit risk ("high yield").

Last but not least, a word on our allocation to alternative investments. Within the asset class, we continue to favor the "safe haven" gold and industrial metals, which should benefit from potential stimulus measures in China. In addition, we continue to hold an allocation to market-neutral investment strategies, which can make a valuable contribution to stabilizing a multi-asset portfolio – possibly as early as in the coming weeks.

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

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.

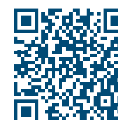
CONTACT US

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

Find out more about our asset management mandates and vested benefits solutions that are individually tailored to the special needs of private clients. and vested benefits solutions.

Or register now for an independent and critical assessment of your investment portfolio. As a result, you will receive concrete, easy-to-implement recommendations on how you can optimally align your investments and reduce costs in the process.

Please scan the QR code on the right with the photo function of your mobile phone and you will be taken to the page that provides more information and a link to register.



This information sheet has been prepared by Tramondo Investment Partners AG (the "Company") irrespective of specific or future investment objectives, a particular financial or tax situation or the individual needs of a particular recipient and is provided for personal use and information only. It is based on specific facts and circumstances and is prepared for a specific purpose. It is not intended to be and must not be relied upon by any other person.

The information in this sheet does not constitute a solicitation, offer or recommendation to any person in Switzerland or any other jurisdiction to buy, subscribe for or sell any securities or other financial instruments, to use it as a sufficient basis for making an investment decision or to engage in any transaction of any kind for that purpose. Furthermore, this presentation should not be construed as financial, legal or tax advice.

The information and opinions expressed in this sheet have been carefully collected, analysed and compiled by the Company based on publicly available information from trusted sources at the time of writing. They are subject to change without notice. The Company undertakes no obligation to update the information contained herein and it should be noted that material events may have occurred since the date hereof. Although the information has been obtained from sources believed by the Company to be reliable, no warranty is made as to the accuracy or completeness of the information. Any reference to past performance data is not necessarily indicative of current and future returns.

Individual products or components mentioned in this sheet may have a certain complexity and high risk (e.g. derivatives, alternative investments, structured investments). They are intended only for investors who understand and accept the risks involved. Investments in foreign currencies are subject to currency fluctuations, investments in emerging markets or in specialised products are subject to particular risks. An investment in any target described in this Information Sheet should only be made after careful consideration of the latest Prospectus and extensive due diligence on the targeted assets. The Company recommends that investors carefully consider and, where appropriate, seek professional advice on financial, legal, regulatory, credit, tax and accounting implications before making a final investment decision or implementing a strategy. The investor assumes responsibility for the proper declaration of all assets and their tax assessment.

The Company reserves the right to change the contents of this sheet in whole or in part at any time, at any time and without prior notice. Although the Company takes all reasonable care to ensure the accuracy of the information contained in this sheet, it cannot guarantee it. The company or its employees accept no liability for any damage (whether material or immaterial) arising from the use or non-use of the information contained herein, in particular no responsibility for the accuracy, completeness, reliability or comparability of the information on third parties contained herein, which is based exclusively on publicly available information.

Tramondo Investment Partners AG is domiciled in Switzerland and is authorised and supervised by FINMA.