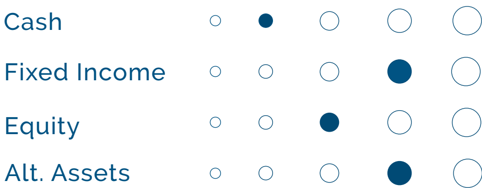
TRAMONDO
INVESTMENT PARTNERS

# MARKET COMPASS

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

**10/2023**

## TACTICAL POSITIONING




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

| Market Review Index | Asset Class | 30/09/2023 2023 YTD |
|---|---|---|
| MSCI World Index | *Equity* | 11.6% |
| MSCI Emerging Markets Index | *Equity* | 2.1% |
| S&P 500 Index | *Equity* | 13.1% |
| Swiss Market Index | *Equity* | 5.4% |
| Euro Stoxx 50 Price Index | *Equity* | 13.4% |
| Barclays Glo.-Agg. Total Return Index | *Fixed Income* | -2.2% |
| Swiss Bond Index (SBI) Domestic Index | *Fixed Income* | 3.9% |
| Gold Spot Price (USD/Oz) | *Alternatives* | 1.3% |

AS OF 30.9.2023; SOURCE: BLOOMBERG, TRAMONDO

## MARKET REVIEW

### RISING INTEREST RATES BURDEN EQUITY MARKETS

**Upward pressure on bond yields –** Yields on 10-year US government bonds rose for the fifth month in a row in September, reaching 4.6%, the highest level since 2007. In the European bond market, a similar dynamic could be observed in the month under review - interest rates of long-term German government bonds rose by almost 40 bps and, at 2.8%, are currently yielding as much as they last did in 2011. The reasons for the rise in interest rates remain largely unchanged: Stubborn inflation, aggressive central bank rhetoric and a still robust labour market. Similar to the last investment year, the equity market was not spared from the recent rise in interest rates on the bond markets. The technology-heavy Nasdaq 100 Index ended the month 5.1% lower, while the broad based S&P 500 also lost 4.9%. European stock markets performed somewhat better in relative terms, but still recorded steep monthly losses. The EuroStoxx 50 ended September about 2.9% lower, while the Swiss Market Index (SMI), with a monthly loss of 2.5%, could do little to counter the negative market environment. Only the defensive pharmaceutical company Novartis, whose generics division Sandoz will be listed separately at the beginning of October, was able to impress with a monthly performance of +5.1%.

**Central banks take a breather –** The US Federal Reserve (Fed) left its key interest rate unchanged in September in the range of 5.25% to 5.50%, as expected, but signaled it may raise rates again by the end of the year. At the same time, the Fed increased its economic growth forecasts and expects the labour market to remain robust. Fed Chairman Powell thus sent a clear rejection to all those investors who had hoped for an early end to the high interest rate era - thus the familiar "higher for longer" narrative is likely to be with us for a little longer. On the other side of the Atlantic, the European Central Bank (ECB) continued its cycle of interest rate hikes in the month under review, raising the refinancing rate by 25 bps to 4.5%. With the tenth-rate hike in a row, the ECB's key interest rates reached their highest level since 2001. However, ECB Chairwoman Lagarde hinted that this might have been the last rate move for the time being, while equally rejecting hopes of a quick rate cut in the Eurozone. The Swiss National Bank (SNB) left key interest rates unchanged at 1.75% in September, but did not unconditionally rule out further interest rate steps. In this context, the development of inflation is likely to play a central role, whereby this is likely to receive a boost as early as Q4 2023 due to the upcoming rent increases.

## SPOTTED

**Swiss Franc –** After the Swiss National Bank (SNB) left interest rates unchanged at 1.75% at its last monetary policy meeting in September, the Swiss franc came under considerable selling pressure. The EUR appreciated by 0.9% in the month under review, while the USD rose by a whopping 3.3%. For export-oriented companies in Switzerland, this should be a (long-awaited) blessing, as a depreciation of the home currency favours local companies in international competition.

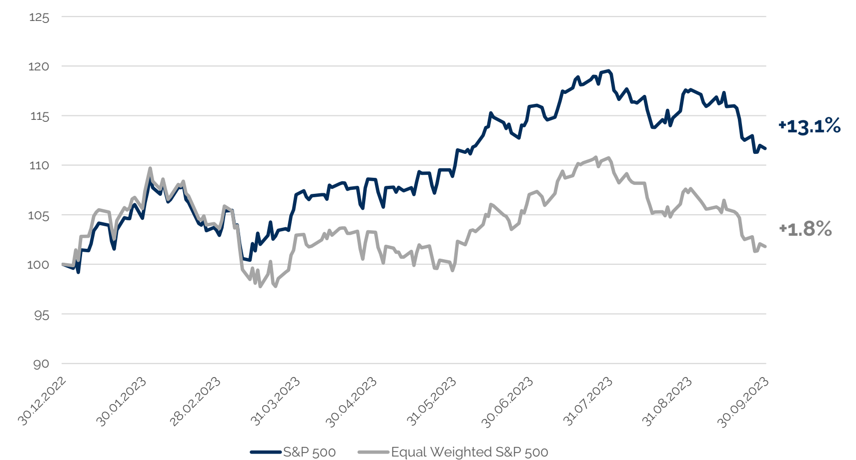
**Oil price with strong momentum –** The oil price continued to rise steadily in the month under review (+8.6% in September) and has now recorded significant price gains for the fourth month in a row. Since the end of June, the oil price has risen by a total of 34.1%, which naturally also had consequences for consumers' inflation expectations and bond yields during this period - with corresponding consequences for the global financial markets. Both supply-side and demand-side factors can be cited as the reason for the strong momentum of the "black gold". On the supply side, the political efforts of the major oil producers Saudi Arabia and Russia to keep supply as tight as possible are obviously bearing fruit. On the demand side, the oil price continues to be supported by a robust global economy and record high demand. Taken together, this supply and demand constellation creates a dangerous cocktail for central banks, which face a possible comeback of inflation.

## SOON IN FOCUS

**Sandoz –** The generics division of Novartis will be listed as an independent company on the Swiss stock exchange on 4 October 2023. In principle, the company has a strong position in the biosimilars market, a sub-segment of the generics market that has structural growth potential as well as attractive profitability characteristics. Accordingly, we would remain exposed to Sandoz shares for the time being.

## DID YOU KNOW THAT..

### ..THE AVERAGE STOCK IN THE US S&P 500 INDEX HAS GAINED ONLY 1.8% SINCE THE BEGINNING OF THE YEAR?




COMPARISON OF THE CAPITAL-WEIGHTED WITH THE EQUAL WEIGHTED S&P 500 INDEX; SOURCE: BLOOMBERG, TRAMONDO

INTEREST RATE SENSITIVE REAL ESTATE AND UTILITY COMPANIES, WHICH ARE MORE HEAVILY WEIGHTED IN THE EQUAL WEIGHTED INDEX, WERE SIGNIFICANTLY PUNISHED DURING THIS PERIOD.

While the capital-weighted S&P 500 still shows a gain of 13.1% since the beginning of the year - thanks in particular to the strong profits of the large technology companies - the equal weighted counterpart is only up 1.8%. This index, whose members are all considered with the same weighting of 0.2%, has lost a lot of ground, especially in the last two months (-3.2% in August, -5.1% in September), much more than the "normal" S&P 500 (-1.8% in August, -4.9% in September). This is mainly due to the fact that interest rate sensitive real estate and utility companies, which are more heavily weighted in the equal weighted index (11.7% vs. 4.9%), were significantly punished during this period.

At Tramondo, we analyse market indices, which may be somewhat overlooked by the general public, very closely in order to obtain a holistic picture of global financial markets. The corresponding interpretation of this data serves as an important source of input for defining our tactical asset allocation, especially with regard to the risk character of our investment solutions. Strong divergences between the two indices indicate highly selective market dynamics that typically need to be addressed with an increased degree of caution.

## MARKET OUTLOOK

After global equity markets had to contend with a rather challenging market phase in September, as described in last month's publication, there are increasing signs in terms of investment tactics that investors should return to the trading floor. We generally expect solid fundamentals for Q3 2023 and believe that the recent upward momentum in interest rate markets should also prove sustainable. At current levels, the "higher for longer" narrative of the major central banks seems to be priced in, which should promise a countermovement (at least temporarily). In addition, intact fundamentals, a (now) pessimistic investor sentiment as well as supportive seasonality factors should also encourage investors to position themselves somewhat more opportunistically in equity markets again.

BASED ON THE RECENT CORRECTION PHASE, WE CONSIDER THE RISK/REWARD RATIO ON GLOBAL EQUITY MARKETS TO BE SIGNIFICANTLY MORE ATTRACTIVE AGAIN.

Based on the recent correction phase, we consider the risk/reward ratio on global equity markets to be significantly more attractive again, especially since the valuation ratios have recently been subjected to at least a certain normalisation. The broad US equity index S&P 500 traded at a P/E ratio of 19.6x at the end of the month, well below the level at the end of July when the US equity market was valued at a P/E ratio of 21.2x. Accordingly, we see an interesting entry opportunity in certain quality companies that are currently trading below their fair value. Overall, we maintain a neutral equity allocation, with a continued preference for information technology and healthcare within our sector strategy. We strongly believe that both sectors should outperform in the coming quarters given the advanced monetary as well as economic cycle.

In terms of tactical asset allocation, we have used the past few weeks to increase the duration of corporate and government bonds as part of our bond strategy. The recent upward momentum in the interest rate markets offers investors an (almost historic) opportunity to "lock in" the currently very high interest rates for the next few years. From today's perspective, the risk/return constellation of this "operation" seems to be more than advantageous, especially since a possible cooling of the macroeconomic environment in 2024 offers the prospect of capital gains. We remain fundamentally cautious on credit risk: We continue to favour high-quality issuers ("investment grade") and remain cautious on bonds with higher credit risk ("high yield"). The credit risk premiums offered in this sub-segment are currently far too unattractive for us to consider an exposure.

Our positioning in alternative investments did not change in the month under review - accordingly, we reaffirm a slightly overweighted positioning towards this asset class. Within the asset class, we continue to favour the "safe haven" gold and industrial metals, whose price dynamics are supported by an attractive supply/demand constellation. In addition, we continue to hold an allocation towards market-neutral investment strategies, which can offer a valuable contribution to stabilising a mixed investment portfolio.

## 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.

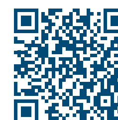
## CONTACT US

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.