TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

MARCH 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

Rheinmetall – The share price of the German arms manufacturer rose again sharply in February (+38.9%). In his speech at the Munich Security Conference, US Vice President Vance made it unequivocally clear that Europe would have to take responsibility for its own defence in the future – with corresponding (positive) consequences for the local arms industry.

MARKET OVERVIEW:
EUROPE IN THE FAST LANE

Germany has voted – Unsurprisingly, the CDU/CSU won the German parliamentary elections with a clear majority of around 28.5% of the vote. This means that the chances of a comeback for the grand coalition with the SPD are very good, after the SPD suffered a real election defeat with a share of just 16.4% of the vote. This alliance has strongly characterised the German political landscape under former Chancellor Merkel and may well have already awakened memories of the 'good old days' in some investors. However, it should be noted at this point that this coalition will require major compromises from both sides, particularly on issues such as migration and economic policy, where views sometimes differ widely. Far-reaching reforms are therefore likely to face an uphill struggle under the future Chancellor Friedrich Merz, especially since the coalition does not have the necessary majority in parliament to push through constitutional changes. However, it is precisely these structural changes that are urgently needed for Europe's largest economy. In 2024, GDP shrank by 0.2%, meaning that Germany is in recession for the second year in a row. Be that as it may, investors reacted with relief to the election result, which contributed to the German DAX index (+3.8% in February) significantly outperforming the S&P 500 (-1.2%) for the third month in a row.

Good, but not good enough – The reporting season for Q4 2024 is now coming to an end. Overall, the quarterly figures reported by companies have been good, although investors have penalised certain sectors disproportionately – despite strong fundamentals. Stock market favourites of previous quarters, such as Alphabet (-16.5% in February), Amazon (-10.7%) and Microsoft (-4.4%), were sold off by investors on Wall Street despite good results and solid business outlooks. The market narrative that has dominated until a few weeks ago, namely that there is no alternative to US equities – especially companies from Silicon Valley – has undoubtedly suffered in recent weeks. Meanwhile, stock markets in Europe (EuroStoxx 50 +11.6% in 2025) or China (Hang Seng +14.4%) are increasingly coming to the fore again.

Trump on all fronts – US President Trump once again kept investors on their toes last month. In recent weeks, Washington has noticeably stepped up its efforts to achieve peace in the Ukraine/Russia conflict, with the new administration adopting a strongly divergent stance from the Biden administration towards the parties to the conflict. It will undoubtedly take several more weeks before an agreement acceptable to all parties can be found on this complex issue – but the initiation of peace talks is definitely a more than

SOON IN FOCUS

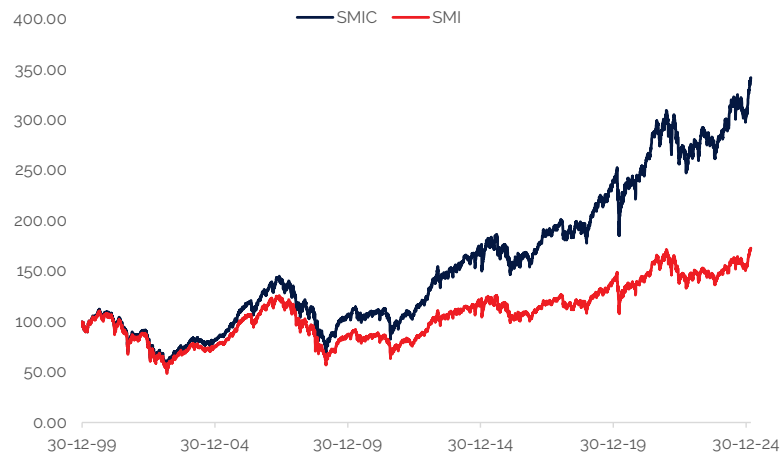
Chinese national people's congress – From 5 March, international investors will be looking to China with great anticipation. During the 14th National People's Congress, the politicians under President Xi Jinping will discuss measures to get the world's second-largest economy back on track – definitely no easy undertaking.

welcome development. In terms of trade policy, however, Trump continues to be very aggressive. While Trump postponed import tariffs on neighbouring Mexico and Canada at the last minute after talks with the respective governments at the beginning of February, he reiterated his threats of import tariffs towards the end of the month. Imports from both countries are to be subject to punitive tariffs of 25% from March. Europe in particular is likely to have noted these latest developments with great concern, as the US president has repeatedly pointed to the allegedly unfair trade practices of the European Union (EU).

DID YOU KNOW THAT...

...OVER THE LONG TERM, DIVIDENDS ACCOUNT FOR A SIGNIFICANT PROPORTION OF THE TOTAL RETURN OF THE STOCK MARKET?

Historical Index Performance[1)]



[1)] Indexed. The Swiss Market Index (SMI) is a price index that only reflects the price development of the underlying companies. The Swiss Market Gross Total Return Index (SMIC), in contrast, includes the dividend payments of the underlying companies in addition to the price development.

SOURCE: BLOOMBERG / TRAMONDO

Contribution to total return

	1 year	5 years	10 years	25 years
Share of dividends	21.3%	48.0%	61.1%	73.0%
Share of price development	78.7%	52.0%	38.9%	27.0%

A LARGE PROPORTION OF THE TOTAL STOCK MARKET RETURN COMES FROM DIVIDEND PAYMENTS.

For a large proportion of global equity investors, growth stocks remain the preferred form of equity investment. It is generally expected that these companies, whose earnings typically lie well in the future, should benefit disproportionately, especially in times of falling interest rates. However, focusing exclusively on growth stocks in the face of falling interest rates is risky – especially since a glance at the past shows that a large proportion of long-term stock market returns have indeed been generated by dividend income.

As a study by Franklin Templeton shows, dividends have accounted for around one-third of the total return on US equities since 1926. Dividend income was particularly important in the low interest rate environment

of 1980-2019, when it represented around 75% of the total return of the S&P 500. In Switzerland, which by international standards is home to an above-average number of high-dividend stocks with solid balance sheets and high, stable cash flows, the contribution of dividends to total return is also considerable. Since 2000, the SMI has achieved a price gain of around 71.8%. Including reinvested dividends, the increase is as high as 239.8%, as a glance at the SMIC total return index shows. This illustrates the strength of the compounding effect: the longer the investment horizon, the more significant the impact of dividends becomes.

For income-oriented investors who have been on the lookout for alternative sources of income since the beginning of the monetary easing cycle by national banks on this side of the Atlantic last spring, dividend stocks represent a veritable source of income.Although dividend stocks also provide stable returns when prices fluctuate, it should be noted that they are without a doubt more volatile than bonds. Hence, focusing on the dividend yield alone is insufficient. After all, there is no guarantee that a high payout will continue in the future. Therefore, when selecting dividend-paying stocks, particular attention should also be paid to the regularity of the distributions. So-called dividend aristocrats, which have continuously increased their dividends over many years, usually have a robust business model, high profit margins and a solid balance sheet.

Historically, dividends have even grown disproportionately to inflation and thus also represent a kind of inflation protection. In addition, dividends are significantly less volatile than corporate earnings. In contrast to earnings figures, which are often 'manipulated', dividend payments are paid out of cash on hand, which cannot (or only with difficulty) be manipulated. As such, dividends are reflective of the underlying profitability and hence correlate strongly with the quality of a business. After all, paying a dividend requires a certain level of profitability and consistency in cash flow generation. This makes them a meaningful metric for gauging the quality of a company.

For patient investors seeking stable returns over a long time horizon, dividends are a veritable source of income – especially in times of weaker economic growth and low interest rates. Ongoing geopolitical tensions imply that stock markets are likely to experience increased volatility in the coming months. In such environment, dividend stocks can have a particularly stabilising effect on portfolios.

However, investors who focus too heavily on dividend stocks, which are often in defensive industries, risk being too one-sided in their investments. In our barbell approach, we ensure a healthy balance between dividend-paying and growth stocks within a diversified portfolio. The two do not necessarily have to be mutually exclusive. After all, so-called growth companies (such as Alphabet, Meta Platforms and Microsoft) have already proven in the past that paying a regular dividend is not an obstacle to investing in further growth or innovation.

MARKET OUTLOOK

There's life in the old dog yet – this also seems to apply to the global financial markets. After both Europe and China were hardly able to inspire stock investors in recent years, the tide has since turned, at least temporarily. Since the beginning of the year, both the European EuroStoxx 50 (+11.6%) and the Chinese Hang Seng (+14.4%) have clearly outperformed the US S&P 500 stock index (+1.2%). At this point, however, it should be noted that the coming weeks could well have a decisive influence on whether or not the recent comeback of the much-maligned equity regions of Europe and China is sustainable.

In the largest economy in the eurozone, Germany, the political priorities set during the coalition negotiations are likely to have a major influence on the economic fate of the country and the entire monetary union. In China, on the other hand, the coming weeks will be dominated by the National People's Congress, which (once again) is likely to endeavour to slow the country's economic decline. Unfortunately, the Chinese political elite's track record in this regard is not particularly encouraging – in retrospect, the measures adopted in recent years have all proved to be damp squibs. While investors are sensing fresh opportunities among the losers of the past few years, Wall Street is surprisingly in the doldrums at present. Investor sentiment has also changed somewhat in the meantime. In recent weeks, investors on the US trading floor have increasingly been seen to be 'selling the rally', which means that they have used short counter-movements to (once again) take profits. Definitely not a good breeding ground for a sustainable trend reversal on the US stock market.

WHILE INVESTORS ARE SENSING A CHANGE FOR THE BETTER AMONG THE LOSERS OF THE PAST FEW YEARS, THE MOOD ON WALL STREET IS RATHER GLOOMY.

In summary, we reaffirm our neutral view on the global equity markets for the coming investment month. In an investment environment characterised by a high degree of uncertainty, we currently attach particular importance to a balanced portfolio construction across sectors and countries, as well as a disciplined focus on quality in the selection of securities. Since even the short-term visibility in the financial markets is currently limited due to the Trump administration, we consider the two factors mentioned above to be important success factors for 2025 – the time of big bets on individual sectors and countries seems to be over (at least in the short term).

The latest US macro data has pointed to a slowdown in consumer spending, with various indicators of the most important element of the US economy all falling short of expectations. This has led to a certain amount of revaluation in the bond markets, especially at the long end of the yield curve (which is sensitive to growth). The current combination of growth concerns and geopolitical risks, which are likely to remain ever-present under the Trump administration, leads us to confirm our constructive allocation to quality bonds for the coming month.

Gold continues to shine in the new investment year. After a historic rally in 2024, the precious metal is already 10% higher again this year. In terms of investment tactics, we consider the risk of a (temporary) consolidation in the coming weeks to be high. However, we would undoubtedly take advantage of any price setbacks to USD 2800/2750 to expand our exposure to gold. Based on current conditions, we consider it very likely that gold will continue to be one of the top performers in the global financial markets.

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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