CIO MARKET FLASH

AN AD-HOC UPDATE ON THE MARKETS

APRIL 7, 2025

TRAMONDO'S TAKE ON "LIBERATION DAY"

Following last week's major tariff announcements by US President Trump, financial markets remain in a fragile state. These tariffs significantly increase the risk of a stagflationary environment in the US and a broader global slowdown.

TACTICAL POSITIONING

Cash:	○	●	○	○	○
Bonds:	○	○	○	●	○
Equities:	○	● ←	○	○	○
Alt. Investments:	○	○	●	○	○

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

In light of recent developments, **Tramondo has proactively reduced equity exposure across its investment solutions**. The combination of elevated macro uncertainty, increasing stagflation risks, and asymmetric downside in US equities has led us to adopt a more cautious stance. Overall, we moved to an **underweight position in equities last week**, with a tilt away from the US and a preference for regions benefiting from supportive policy dynamics, such as the Eurozone. We kept our **overweight position in fixed income** as the high-quality part of the asset class should benefit from decreasing interest rates. Beyond that, we stick to our **constructive stance on precious metals (gold)**. We are maintaining a high degree of flexibility in our multi-asset portfolios to respond swiftly to changes in the political or macroeconomic outlook.

But let's start the analysis with a brief summary of the key decisions taken by the Trump administration in the wake of Liberation Day, before delving deeper into our asset allocation.

IN LIGHT OF RECENT DEVELOPMENTS, TRAMONDO HAS PROACTIVELY REDUCED EQUITY EXPOSURE ACROSS ITS INVESTMENT SOLUTIONS.

On Wednesday, US President Trump announced a major increase in tariffs on imports into the United States. The President introduced a (global) **baseline tariff rate of 10% on imports** from all other nations starting on 5 April, with **higher reciprocal tariff rates** on selected trading partners deemed to have excessive tariff or non-tariff barriers from 9 April. As an example, these reciprocal tariffs affect the following countries:

- 34% rate on China (54% including already announced tariffs)
- 20% on the European Union
- 31% on Switzerland
- 24% on Japan

Furthermore, President Trump also reiterated earlier announced 25% tariffs on auto imports. On the positive side, **USMCA compliant goods (from Canada and Mexico)** will be exempt for now.

In the meantime, two of the major trading partners of the US – China as well as the European Union – already retaliated with respective counter tariffs.

Following the announcements, we have reassessed the macro and market implications – and define the following conclusions:

1. **Growth resilience fading amid rising policy risks and weighing on equities**

   Tariffs are larger than expected: Trump's proposals are likely to raise the weighted average tariffs on US imports from 2.5% as of end 2024 to 24%, levels not seen since the 1920s. Both the magnitude of reciprocal tariffs imposed per country and the set of countries they were imposed on were larger than many had reasonably anticipated. That they come on top of a 10% universal tariff is an added shock. This has the potential to considerably worsen the growth inflation mix in the US and the global economy in the coming year. **Overall, it is plausible that US 2025 real GDP could be compromised by 1.5%-2.0% and inflation could rise to close to 5%** if these tariffs are not reversed soon. The S&P 500 index cratered more than -9% last week alone, and now sits deep in correction territory after having fallen -17.4% from its most recent record close (19th February 2025).

TARIFFS ARE LARGER THAN EXPECTED: TRUMP'S PROPOSALS ARE LIKELY TO RAISE THE WEIGHTED AVERAGE TARIFFS ON US IMPORTS FROM 2.5% AS OF END 2024 TO 24%, LEVELS NOT SEEN SINCE THE 1920S.

2. **Near-term volatility vs. long-term opportunity**

   For now, markets are driven more by political headlines than economic fundamentals. However, the longer tariffs stay in place, the more fundamentals will reassert themselves - likely weighing on US equities. Despite the recent pullback, with the S&P 500 now trading at around 5,000 points (as of Friday's close), we believe equity markets still do not fully price in the economic impact of the new tariff regime. Our sensitivity analysis shows that in a **soft-landing scenario** (earnings growth of 0–5%, P/E of 19x), the S&P 500 could fall further to **4'400 - 4'700** – implying another up to -10% downside from current levels. In a recessionary scenario (earnings growth -5% to 0%, P/E of 17x), we see potential downside toward **3'900 - 4'150**, or up to -20%.

FOR NOW, MARKETS ARE DRIVEN MORE BY POLITICAL HEADLINES THAN ECONOMIC FUNDAMENTALS.

	2025E EPS Growth					
P/E Ratio	-10%	-5%	0%	5%	**10%**	15%
21.0	4593	4848	5103	5359	5670	5869
20.0	4374	4617	4860	5103	5400	5589
18.8	4110	4339	4567	4795	**5074**	5252
18.0	3937	4156	4374	4593	4860	5031
17.0	3718	3925	4131	4338	4590	4751
16.0	3499	3694	3888	4083	4320	4472

However, periods of market stress have historically and consistently offered **long-term rewards** for diversified investors who look through near-term volatility and stay the course. Analyzing the 12 occasions that the S&P 500 has fallen by 20% from its peak since 1945, the index has subsequently delivered a positive return on 67% of occasions over a one-year horizon (mean return: 12.9%), rising to 91% over three years (mean return: 29.2%), and 100% over five years (mean return: 52.7%).

INVESTMENT CONCLUSION

TAKEN TOGETHER, FUNDAMENTALS WILL REMAIN A HEADWIND WHILE NEWS FLOW MAY INCREASE THE PROBABILITY OF A TACTICAL REBOUND.

Taken together, fundamentals will remain a headwind while news flow may increase the probability of a tactical rebound. As such, we need timely (positive) developments on the policy front to see the S&P 500 rebound, otherwise fundamentals will drag the S&P 500 down. For the time being, we prefer to have in place an **underweight position in equities** as valuations and earnings expectations do not yet adequately reflect a significant cooling of the real economy (stagflation or recession). From a regional point of view, we continue to prefer to allocate money outside of the US with a focus on Europe. We also keep our overweight position in fixed income with a focus on high-quality issuers (government bonds and investment-grade corporate bonds).

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
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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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