TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

JUNE 2024

TACTICAL POSITIONING

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

SPOTTED

US consumers – Consumption has been one of the key sources of strong US economic growth in recent quarters. In May, however, consumer confidence fell to its lowest level since mid-2022. Besides sticky inflation, excess liquidity that could be accumulated during COVID-19 is finally dwindling forcing private individuals to be somewhat more cautious.

MARKET REVIEW

FINANCIAL MARKETS ON A HIGH (AGAIN)

May ironing out April's divers – The well-known equity market adage "Sell in May and go away" would have been an inappropriate trading strategy this year as equity markets demonstrated resilience in the face of a brief temporary correction in April. Investors' risk appetite has been stimulated by somewhat milder inflation figures in the US, an economic revival in the Eurozone and strong earnings results in the wake of the latest earnings season. Once again, the outstanding earnings momentum of technology companies from the Silicon Valley provided a significant boost to the S&P 500. Stocks such as Nvidia (461% growth in Q1 2024 compared to the previous year), Amazon (+216%), Meta Platforms (+78%), Alphabet (+53%) and Microsoft (+20%) played a pivotal role in preventing the US equity index from entering an earnings recession. Without these "tech champions," the index would have reported negative earnings growth of -6.0%. Overall, the S&P 500 advanced by 4.8% in May, while the Nasdaq rose by as much as 6.9%. European equity markets also enjoyed strong momentum. The EuroStoxx 50 closed the month under review 1.3% higher, while the Swiss SMI index (+6.6%) outperformed its overseas competitors for the first time in recent history.

Fed opposes further rate hikes – As anticipated, monetary authorities in Washington maintained the key interest rate at 5.25% in May. In light of a series of disappointing labour market and inflation data that proved to be more stubborn than expected, Fed-Chairman Powell had been somewhat more restrained about potential rate reductions than before. However, Powell explicitly rejected the possibility of further rate increases, a scenario that investors started to price in on the back of sticky inflation. Policy makers indicated that the current monetary conditions are sufficiently restrictive to allow inflation to head back to the 2.0% target in the near future.

Trade war 2.0 – The overall positive big picture on financial markets is currently clouded by geopolitical risks. In May, US President Biden announced new import tariffs on Chinese goods such as steel, aluminum, semiconductors, batteries and electric cars. As such, the long-standing trade conflict between the two superpowers is entering a new round. However, as the affected trade volume is rather insignificant, equivalent to roughly USD 18 billion, the short-term impact on economic growth and inflation looks to be negligible. However, with regards to the US presidential elections in November, both political parties are unlikely to abandon their aggressive stance towards China, which is why further trade policy measures should not be ruled out in the coming months.

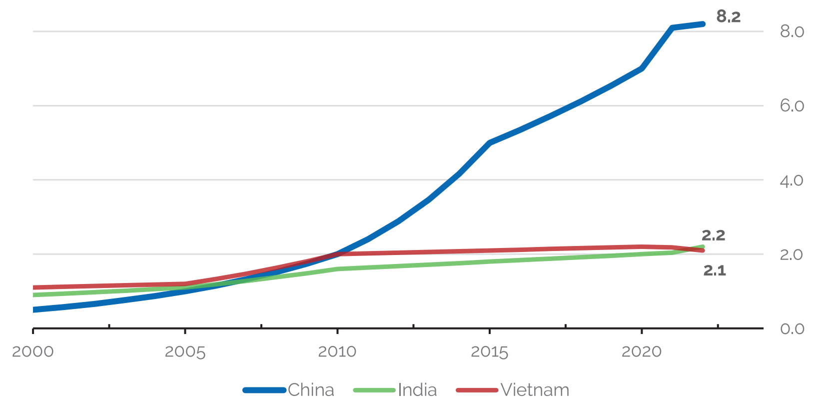
SOON IN FOCUS

European Central Bank (ECB) – The European monetary authorities in Frankfurt are likely to cut key interest rates for the first time at their meeting on 6 June. With that, the era of monetary policy normalization, which was initiated with a first rate hike in July 2022, will eventually come to an end.

VIETNAM AND INDIA HAVE SIGNIFICANTLY LOWER PRODUCTION COSTS THAN CHINA.

DID YOU KNOW THAT...

...MANUFACTURING COSTS IN CHINA ARE NOW ALMOST 4 TIMES HIGHER THAN IN OTHER ASIAN EMERGING MARKETS?



MANUFACTURING UNIT LABOUR COST, $ PER HOUR
SOURCE: TRAMONDO

There is no doubt that the rise of the Chinese economy is one of the greatest economic miracles of the 21st century. Since China's admission to the World Trade Organization (WTO) in 2001, Chinese companies often have been able to outperform their competitors from the West thanks to low production costs, among other things. It is therefore unsurprising that China has established itself as the "workbench of the world" over the last two decades, with major international companies such as ABB and VW being unable to operate without it.

As a consequence, Chinese labour and production costs have risen significantly in recent years, which is more and more holding back the local industry in international competition. To make matters worse, many companies have been trying to diversify their supply chains since COVID-19, especially as political risks in the People's Republic of China have not diminished in recent years, to say the least.

At Tramondo, we have been cautious regarding Chinese markets for several quarters now, as underlying investment risks are difficult to quantify prompting us to increase the risk premium to invest in these markets. At the moment, we consider other countries in Asian Emerging Markets to be much more attractive. Vietnam and India, two economies that most recently have been able to push their way to the forefront, have significantly lower production costs than China. Various international heavyweights such as Apple, Siemens and Boeing have been building up extensive production capacities in these countries and identify them as important strategic trading partners.

We believe that both countries offer an attractive investment case, underpinned by a series of supportive fundamentals. Even though both equity markets have experienced strong momentum in the recent past, we would use tactical market breathers to build up exposure.

MARKET OUTLOOK

Most recently, there has been growing evidence that the US economy is likely to experience a decent growth slowdown in the second half of the year. While consumption-hungry private households have been driving forward US growth, particularly in the last two years, consumer sentiment appears to have peaked and is expected to deliver a diminishing marginal contribution to growth in the months ahead.

Overall, the fundamental picture can still be described as robust, with the Eurozone even managing to surprise with positive economic data most recently. The manufacturing sector, which is more strongly anchored in Europe, experienced a noticeable upturn in spring, with the reaccelerating industrial activity in China also delivering a strong contribution to this welcome turnaround. As such, we would not rule out that there will be a growth convergence between Europe and the US, while base effects obviously play a crucial role.

WHILE THE MARKET AS A WHOLE IS UNLIKELY TO OFFER ATTRACTIVE RETURN POTENTIAL OVER THE COMING MONTHS, WE SEE A NUMBER OF EXCITING OPPORTUNITIES IN STOCK SELECTION.

Regarding tactical asset allocation, we expect equity markets to be trapped in a consolidation pattern over the coming summer months. After the outstanding start to the investment year, equity markets will have to absorb these significant price movements. At the moment, we do not foresee any short-term catalysts being able to provide equity markets with new impetus. Accordingly, our tactical positioning for the coming month remains neutral. We would only reconsider our positioning if the US equity index S&P 500 were to deviate from our anticipated trading range of 5'000 to 5'400. While the market as a whole is unlikely to offer attractive return potential over the coming months, we see a number of exciting opportunities in stock selection. Some companies most recently demonstrated a high degree of sensitivity to news that did not meet investor expectations – a clear indication that current asset valuations already price in a high degree of optimism. With that, we have identified a number of high-quality stocks in the communication service and information technology sectors during the last weeks that offered promising entry points.

Within our balanced mandates, we maintain an overweight position in fixed income while having a distinctive preference for high-quality corporate bonds (investment grade). It seems likely that the European Central Bank (ECB) will reduce interest rates in June, defining an end to the monetary policy normalization that has been in place for the last two years. Even though the environment for US monetary policy is somewhat more challenging at the moment – the Federal Reserve's (Fed) easing efforts have been tied back by persistent inflationary pressure and a robust economy – Fed Chairman Powell is likely to cut policy rates in the foreseeable future which should reduce volatility on fixed income markets. Consequently, the market for government and corporate bonds is likely to become somewhat more calm, which should further enhance the risk-return-relationship.

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 fourth 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.

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