TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

JULY 2024

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

Swiss National Bank (SNB) - In the month under review, the SNB cut the key interest rate for the second time this year. According to SNB economists, price stability currently prevails in Switzerland, which supports the central bank in loosening the monetary reins a little further.

MARKET REVIEW

ALL ABOUT AI

Apple and Nvidia fuel US equity market - Apple and Nvidia were the main drivers behind the positive momentum on the US equity markets in June. Apple shares gained around 9.6% in the month under review after the Cupertino-based company unveiled its AI initiative “Apple Intelligence” and announced a partnership with OpenAI. Nvidia briefly overtook Microsoft as the largest company in the world - with a market capitalization of over USD 3,300 billion. At the end of the month, the share price had risen by 12.7%, taking its year-to-date performance to 150%. As a result, the Nasdaq-100 Index rose by 6.0%, while the S&P 500 Index gained 3.6% in the month under review. In the first six months, the leading US index rose by 14.5%, making the first half of the year one of the seven best starts to a year in the last 35 years. By contrast, the European equity markets were unable to benefit from this positive trend. The EuroStoxx 50 fell by -1.7%. This was mainly due to the underperformance of French equities following the announcement of new elections to the French parliament and a political shift to the right in the Council of Europe elections. The Swiss SMI index remained largely unchanged in June compared to the previous month.

Market breath calls for caution - The US technology exchange Nasdaq has reached a new all-time high and is now almost 20% higher than at the beginning of the year. However, the upward trend is being driven by an even smaller number of stocks, led by AI specialist Nvidia. In the past, a decline in market breath was often seen as a sign of an impending market correction. Against the backdrop of monetary and geopolitical uncertainties and the typically weaker seasonality in the coming summer months, overly aggressive investor positioning is hardly appropriate. In addition, high interest rates are putting increasing pressure on the US economy. For example, retail sales, a reliable source of growth in the US in recent quarters, rose by just 0.1% in May, falling well short of the market consensus of 0.3%.

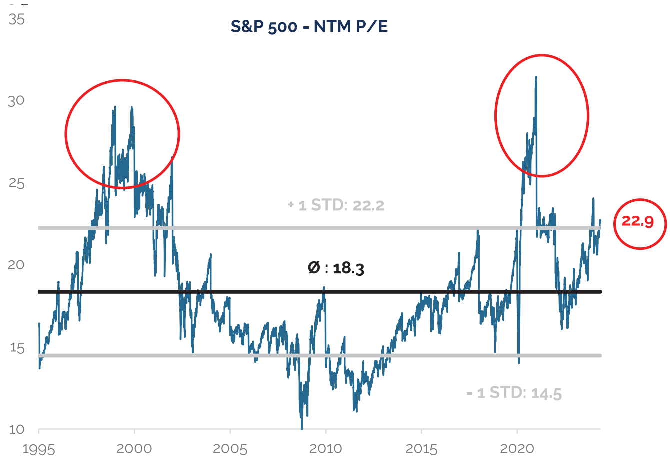
Chinese real estate market remains under pressure - Compared to the same period last year, property investment in China fell by -10.1% between January and May. In addition, declines have also been recorded in property sales by area, in the number of new builds and in the funds raised by property developers. This trend is very worrying for the Chinese economy, as the real estate market accounts for more than a quarter of national GDP. In response, the government has announced new measures aimed at rebalancing supply and demand in the property market.

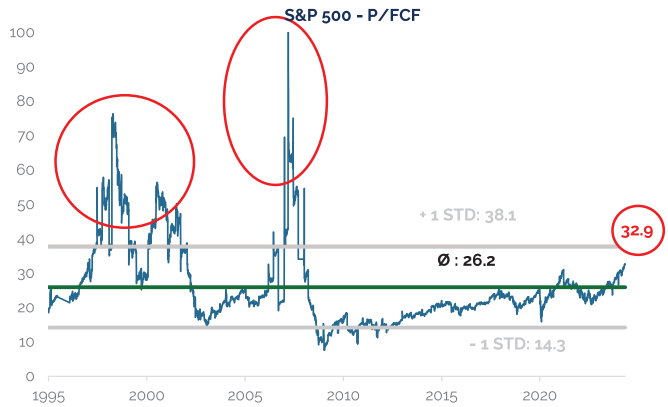
SOON IN FOCUS

Earnings Season - As Q2 2024 draws to a close, corporate fundamentals are once again gaining importance with the upcoming earnings season. Analysts are forecasting year-on-year earnings growth of 8.8% for the US S&P 500 equity index, the highest level since Q1 2022.

DID YOU KNOW THAT...

...TODAY'S EQUITY MARKET VALUATIONS DO NOT DEVIATE SIGNIFICANTLY FROM THE HISTORICAL AVERAGE?





SOURCE: TRAMONDO

Since October 2022, the US S&P 500 index has risen by around 50%. During this period, the price/earnings ratio (P/E ratio) has risen from 15.2 to 22.6. This is more than one standard deviation above the 30-year average of 18.3. Some investors are therefore expressing concern that these high values indicate that equities are overpriced.

However, it is crucial to bear in mind that the index is undergoing a significant change. The proportion of technology companies in the index has risen from 8% to 42%. These technology companies often have lower capital intensity and higher free cash flows, which generally justifies higher valuations. The price to free cash flow (P/FCF) ratio, which better reflects the true "value" of companies, is more in line with historical averages. This indicates that equities can be categorized as "fairly" valued.

THE CURRENT VALUATIONS SHOULD NOT BE SEEN AS EXTRAORDINARILY EXPENSIVE DUE TO THE HIGHER TECHNOLOGY WEIGHTING IN THE INDEX AND THE IMPROVED FREE CASH FLOWS.

At Tramondo, we are aware of the structural effects of these market changes. Accordingly, we try to analyze the equity market holistically in order to identify investment opportunities. In this context, our focus is on quality companies with strong free cash flows and low capital intensity that can significantly outperform the overall market in the longer term thanks to their outstanding market positioning.

We see tactical phases of weakness in these quality companies as attractive opportunities to expand our exposure, as we are convinced of the strong fundamentals of our investments.

MARKET OUTLOOK

There have recently been increasing signs that the US economy is likely to experience a slight slowdown in growth in the second half of the year. While high-spending consumers have provided strong support for US growth, particularly for the last two years, consumer sentiment appears to have already passed its peak and is therefore likely to make a noticeably diminishing marginal contribution in the coming months.

In terms of our investment tactics, we currently assume that the equity markets will remain in a sideways trend over the summer months. After the pleasing start to the year, the equity markets are likely to digest this price movement for the time being, and we do not see any additional catalysts in the short term that could give the markets new upward momentum. Accordingly, we confirm our neutral weighting of the equity markets for the coming months. While the overall market is unlikely to offer any outstanding potential for returns in the coming months, we currently see interesting opportunities in stock selection. Many companies have recently reacted very sensitively to news that has not quite met investors' expectations - a clear indication that a great deal of optimism is already priced into current valuations. Accordingly, we have identified interesting entry opportunities in a number of quality stocks from different sectors in recent trading weeks.

WHILE THE MARKET AS A WHOLE IS UNLIKELY TO OFFER ANY OUTSTANDING RETURN POTENTIAL OVER THE COMING MONTHS, WE CURRENTLY SEE EXCITING OPPORTUNITIES FOR STOCK SELECTION.

Within our balanced mandates, we are currently maintaining our overweight of fixed income securities, whereby we consider corporate bonds (investment grade) in particular to be attractive. The European Central Bank (ECB) cut interest rates in June, thereby concluding the monetary policy tightening of the last two years. Even though the monetary policy situation in the United States is currently still somewhat more challenging - the Federal Reserve's (Fed) easing efforts are noticeably limited by the ongoing inflationary pressure and the robust economy - Fed Chairman Powell is also likely to cut key interest rates in the foreseeable future, which should significantly reduce volatility on the bond markets. On this basis, some calm should return to the markets for government and corporate bonds, which should further brighten the risk/return profile.

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 2024

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.

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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