TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

AUGUST 2024

MARKET REVIEW:
TAKING A BREAK IN SILICON VALLEY

Sector rotation in US equity markets – After large-cap technology stocks had ensured that the well-known equity indices on Wall Street reached new record highs in recent months, profit-taking could be observed in the second half of July. Positioning towards the "Magnificent Seven" has probably peaked in the short term, prompting investors to favor other (previously neglected) sectors in equity markets. With that, it is not surprising that the Nasdaq 100 Index closed around 1.6% lower in July. By contrast, small- and midcap stocks enjoyed strong momentum in the US: the corresponding index, the Russell 2000, shot up by 10.1% in the month under review. The sector rotation described above is largely due to the (euphoric) positioning towards these "tech champions" rather than fundamental drivers. Data from the ongoing earnings season so far gives little cause for concern, even if certain investors are somewhat questioning the monetization of current AI investments. In Europe, equity markets were flat in July: the EuroStoxx 50 closed 0.4% lower last month and has been in a consolidation phase since the end of March. For once, the Swiss SMI index (+2.7% in July) was able to shine, benefiting significantly from a comeback of Roche (+14.6%).

Weakening economic momentum on both sides of the Atlantic – After the Eurozone appeared to have emerged from the valley of tears in the starting quarter – the monetary union recorded the strongest GDP growth since Q3 2022 – the economic engine is already stuttering again according to latest economic data. The purchasing managers' indices indicate that activity in the manufacturing sector is weakening again, especially in Germany and France. Only the service sector is able to make a positive contribution to economic growth and should ensure that the monetary union avoids another growth contraction in 2024. In the US, recent macro data paints a similar picture: industrial production is increasingly showing signs of exhaustion, while the service sector continues to provide solid growth impetus. According to initial estimates, US growth is likely to remain at 2.8% in Q2 2024, after around 1.4% in Q1 2024.

US central bank hints at rate cuts – At the meeting in July, Fed Chairman Powell left the key interest rate unchanged at 5.25 to 5.50%, as expected. However, Powell indicated that the US central bank would probably lower interest rates at its September meeting if inflation develops as forecasted. Recently, we have also seen clear signs of a slowdown in the US labour market, which grants decision-makers in Washington certain flexibility in terms of monetary policy. Accordingly, investors currently expect Powell to reduce the key interest rate by (at least) 0.25% at each of the remaining three meetings of the Federal Reserve in 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

Luxury goods manufacturers – During the latest earnings season, producers of luxury goods have attracted negative attention for once: Companies such as LVMH, Kering (parent company of the Gucci brand) and Burberry all failed to meet analysts' expectations. After consumers spent heavily on luxury goods, especially in 2023, it now appears that they will have to tighten their belts a little.

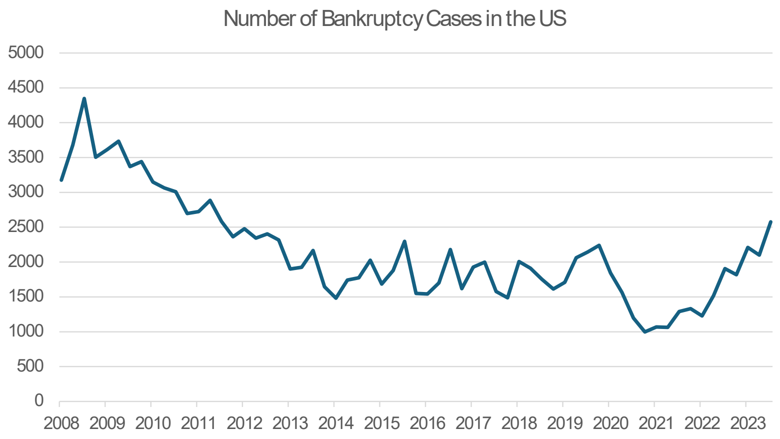
SOON IN FOCUS

Jackson Hole – After Fed Chairman Powell indicated that the central bank could cut key interest rates in its September meeting, the annual central bank conference in Jackson Hole (Wyoming), which takes place in the penultimate week of August, is once again likely to attract a great deal of attention.

THE FEDERAL RESERVE´S HISTORIC INTEREST RATE HIKING CAMPAIGN HAS LED TO A MASSIVE INCREASE IN LENDING RATES OVER THE LAST TWO YEARS – WITH FAR-REACHING CONSEQUENCES FOR COMPANIES THAT HAVE TAKEN OUT FLOATING-RATE LOANS.

DID YOU KNOW THAT...

...BANKRUPTCY PROCEEDINGS IN THE US HAVE CLIMBED TO THEIR HIGHEST LEVEL IN OVER TEN YEARS?



SOURCE: BLOOMBERG, TRAMONDO

The number of US companies having to undergo court-ordered restructuring and reorganization proceedings ("Chapter 11") has recently climbed to its highest level since March 2012. While the majority of reported macro data in the US still points to solid economic momentum, first cracks are clearly visible beneath the surface. The Federal Reserve's historic interest rate hiking campaign has led to a massive increase in lending rates over the last two years – with far-reaching consequences for companies that have taken out floating-rate loans. These loans are mainly found among small- and midcap companies, which is why bankruptcy proceedings in this area of the economy are particularly pronounced. In addition, many companies in the US recently experienced difficulties to achieve solid revenue growth, as many consumers cut back on their spending. The cooling of the labour market certainly made a significant contribution to this development.

At Tramondo, we try to obtain a holistic picture of the state of the global economy by systematically obtaining a whole range of different macro and micro data. The corresponding interpretation of this data serves as an important input source for defining our tactical asset allocation. In anticipation of the developments defined above, we have, for example, successively reduced our exposure to cyclical equities and reaffirmed our underweighting in high-yield fixed income.

MARKET OUTLOOK

At first glance, the GDP growth data on the US economy published last month (growth rate of 2.8% for Q2 2024) points to a continued robust expansion. However, we are somewhat skeptical as to whether the world's largest economy can maintain this momentum for much longer, as the latest GDP figures have probably been distorted somewhat (positively). The past quarter benefited significantly from the fact that many companies increased their inventories, which boosted growth by a (one-off) 0.8%. In addition, consumers – as in previous quarters – once again made a strong contribution to economic growth. With regards to the noticeable slowdown in the labour market, however, we believe that consumption is likely to experience a setback in the course of the year, as employees will (for better or worse) tighten their belts somewhat.

WE CONTINUE TO SEE UNDERLYING FUNDAMENTALS FOR AI WINNERS AS VERY ATTRACTIVE, WITH COMPANIES ALSO OFFERING A CERTAIN DEGREE OF ECONOMIC RESILIENCE IN CASE OF AN ECONOMIC SLOWDOWN.

Overall, we have reaffirmed our tactical positioning in July. Following the recent setback in equity markets, which was mainly caused by overly constructive positioning towards AI winners, (at least) some hot air seems to have been released from certain sectors. Overall, we consider this development to be long overdue and as an important condition for equity markets to be able to grind higher in the medium term. We are maintaining our neutral rating on the equity market, but are identifying interesting opportunities in stock selection, especially after the recent market setback. We continue to see underlying fundamentals for AI winners as very attractive, with companies also offering a certain degree of economic resilience in case of an economic slowdown. It is unlikely that the leading Silicon Valley players will cut their budgets for AI chips, even if the economy suffers from a short-term growth dip.

Although we currently see a real risk of a growth slowdown in the US, we believe it is too early to further reduce the equity allocation. However, we would not completely rule out implementing this step in the second half of the year if this macro scenario is confirmed by further indicators. As a hedge against such a scenario, we have selectively built up exposure towards real estate and utility companies in recent months, which are likely to strongly benefit from falling yields.

In addition, we have already installed an overweighted position in long-term, high-quality corporate bonds (investment grade) in our wealth management mandates. In the event of a sharp slowdown in the US economy, interest rates are prone to fall by more than the market consensus currently expects, which should give these securities a strong boost. In this context, gold is also likely to play a very prominent role in portfolio construction, which is why we have maintained our constructive positioning towards the precious metal in July.

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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