TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

SEPTEMBER 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

Warren Buffett – The star investor recently sold parts of his extensive equity portfolio, including Apple shares worth around USD 90 billion. As a result, his conglomerate Berkshire Hathaway now has cash reserves of over USD 270 billion, a clear sign of the defensive stance of the "Oracle of Omaha".

MARKET OVERVIEW:
NOT FOR THE FAINT OF HEART...

Optimists retain the upper hand – After a disappointing US labour market report at the beginning of the month triggered recession fears among investors – with the S&P 500 losing around 6% within three trading days – the optimists regained the upper hand from mid-August at the latest. Once again, the US economy was able to shine in August with a robust growth pace, which, in combination with decreasing inflation pressure, already reawakened "Goldilocks" fantasies on Wall Street. In addition, the latest data from the US labor market showed that although the economy is likely to soften going forward, a recession still looks some way off. In addition, the highly anticipated earnings report from chip designer Nvidia showed that the structural megatrend of artificial intelligence is able to contribute strongly to economic growth in the coming quarters. After a very bumpy start to the month, US equity markets gained around 2.3% (S&P 500) and 1.1% (Nasdaq 100). In Europe, the broad EuroStoxx 50 index rose by around 1.8%, while the Swiss SMI index gained around 1.0% despite the abrupt departure of the CEO of heavyweight Nestlé.

US central bank preparing for the "Fed pivot" – Fed Chairman Powell's speech at the annual central bank conference in Jackson Hole (Wyoming) was unequivocal: the Fed will cut interest rates at the next meeting in September, putting an end to the historic normalization of monetary policy. As part of its dual mandate, the central bank will start to focus on the needs of the labor market and the real economy, while inflation is likely to take a back seat. Stabilizing the labour market is currently the top priority on the monetary policy agenda, which should come as no surprise as the labour market is definitely a crucial element in the Fed's soft landing ambitions. Be that as it may, Fed Chairman Powell did not really show his cards in Jackson Hole either and remained tight-lipped about the extent of interest rate cuts or the path of monetary easing. Based on the latest statements from leading US central bankers, however, a more gradual approach is to be expected, meaning that a "small" rate cut of 25 bps should be expected in September.

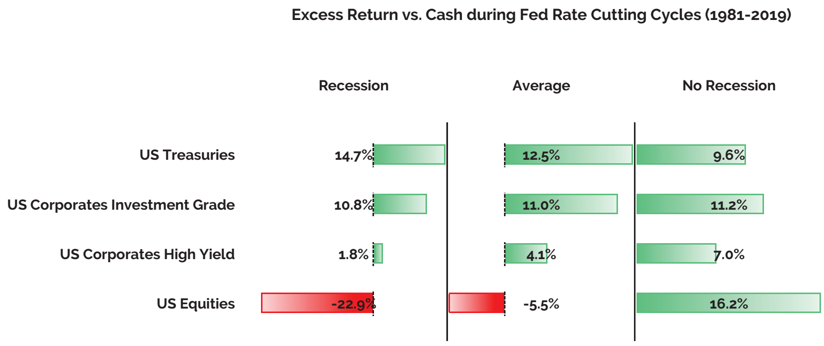
Strong Swiss franc – While the Swiss franc was one of the weakest global currencies in the first quarter of 2024, especially after the SNB's surprise interest rate cut in March, the tide has turned in the meantime. Since the end of April, the CHF has appreciated by around 7.5% against the USD and around 4.2% against the EUR. The stellar comeback of the "Swissie" has been strongly supported by the fact that investors are currently pricing in an aggressive easing cycle in the USA and the Eurozone. Due to the (already) low interest rates in Switzerland, the SNB is likely to follow suit to a limited extent.

SOON IN FOCUS

Central bank meetings - In September, the two leading global central banks, the ECB and the Fed, are likely to cut their key interest rates. For the US central bank, this rate cut would end the historic normalization of monetary policy that Fed Chairman Powell initiated in March 2022.

DID YOU KNOW THAT...

...FIXED INCOME MARKETS TEND TO OUTPERFORM AFTER THE FIRST RATE CUT?



SOURCE: BLOOMBERG / TRAMONDO

SINCE 1981, FIXED INCOME MARKETS HAVE OUTPERFORMED EQUITY MARKETS BY AN AVERAGE OF AT LEAST 16.5% PER YEAR AS SOON AS THE FEDERAL RESERVE HAS LOOSENED ITS MONETARY POLICY.

Government and corporate bonds from high-quality issuers ("investment grade") are likely to benefit disproportionately from the expected reduction in US rates in September. Since 1981, fixed income markets have outperformed equity markets by an average of at least 16.5% per year as soon as the Federal Reserve has loosened its monetary policy – regardless of the prevailing economic environment (recession or no recession). Unsurprisingly, the return difference is particularly significant in a recession scenario, as the central bank typically aims to cushion this undesirable macro scenario with aggressive rate cuts – with positive consequences for high-quality bond issuers.

In this context, however, investors should give sufficient weight to a quality-oriented security selection, as bonds with a higher credit risk ("high yield") cannot quite keep pace with the rest of the fixed income universe.

At Tramondo, we consider the current risk/reward profile of high-quality corporate bonds to be attractive. Accordingly, we have reaffirmed our overweight allocation to this asset class in August, while identifying attractive opportunities especially at the long end of the yield curve. We continue to view the current market consensus as rather optimistic, which should lead to long-term bonds stepping into the spotlight again in case of a (surprisingly strong) economic slowdown.

MARKET OUTLOOK

Although market participants' growth concerns have dissipated in the meantime, we still consider the risk of an economic softening to be significant. Private households in the US most recently made another strong contribution to growth in the world's largest economy, but current data point to declining consumption momentum. At 2.9%, the savings rate of US private households has now fallen to its lowest level since the financial crisis, suggesting that people's income is no longer sufficient to cover current (above-average) spending. We expect the savings rate to normalize in the coming months – the longer-term average is around 6.2% – which is likely to restrict domestic consumption.

At present, the market consensus seems to be paying insufficient attention to this risk factor, as the "soft/no landing" narrative continues to dictate market dynamics. As long as underlying fundamentals remain supportive, this "Goldilocks" scenario is unlikely to change much. However, the elevated market volatility at the beginning of August has clearly shown that it does not take much for investors to revise their (optimistic) expectations – with significant implications for financial markets, especially equity investments.

THE ELEVATED MARKET VOLATILITY AT THE BEGINNING OF AUGUST HAS CLEARLY SHOWN THAT IT DOES NOT TAKE MUCH FOR INVESTORS TO REVISE THEIR (OPTIMISTIC) EXPECTATIONS – WITH SIGNIFICANT IMPLICATIONS FOR FINANCIAL MARKETS, ESPECIALLY EQUITY INVESTMENTS.

Overall, we maintain our neutral allocation towards global equity markets in September, whereby we confirm our preference for the US and the Asian Emerging Markets (India, Vietnam). In view of the situation described above, however, we have recently made a few adjustments to our sector strategy. Cyclical equity sectors such as Consumer Discretionary and Materials are now underweighted, while we see interesting rebound potential for companies in the Consumer Staples sector. We are sticking to our barbell strategy, in which we combine defensive quality names (primarily from the Consumer Staples, Healthcare and Utilities sectors) with more aggressive information technology stocks (preference for software and semiconductors).

As in the previous months, we have confirmed our overweight allocation to corporate bonds with high credit ratings (investment grade). In the portfolio context, we consider this position to be a hedge against an excessive downturn in the US economy (recession). In addition, we have adjusted the commodity exposure: the gold allocation was increased slightly over the course of the month, while the cyclical exposure was reduced somewhat.

Overall, we strongly believe that this portfolio construction approach enables us to master future challenges on financial markets, regardless of whether the global economy slips into recession or not.

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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