TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

OCTOBER 2024

TACTICAL POSITIONING

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

SPOTTED

Intel – Once the world's largest chipmaker, Intel is currently facing a number of operational challenges and has lost over 50% of its market capitalization since the beginning of the year. The company's share price has recently recovered somewhat after rumors emerged that competitor Qualcomm and the investment company Apollo had expressed interest in a (partial) takeover of Intel.

MARKET REVIEW:

CHINA AND POWELL SEND MARKETS HIGHER

China with "stimulus bazooka" – And suddenly things went very fast: Chinese equity markets experienced a veritable boom in the second half of September, with the Hang Seng index and the CSI 300 index rising between 17.5% and 21.8%. A broad economic stimulus package combining monetary and fiscal measures with a range of other growth-supporting initiatives is designed to bring the faltering Chinese economy back on track. It seems that the Chinese government considers its official growth target of 5.0% as being under serious threat, and therefore has no choice but to come up with this "stimulus bazooka". Regardless of the size of the current economic package, however, we remain rather skeptical as to whether these latest measures will define the institutional framework necessary to solve the structural challenges in China. Be that as it may, investors warmly welcomed this news, although a large part of the most recent counterrally is probably due to "short covering". The coming weeks will prove to what extent these stimulus fireworks are an effective game changer or just another flash in the pan, as we have seen many times in recent years.

Fed Chairman Powell with "jumbo rate cut" – At its monetary policy meeting in mid-September, the US central bank surprised investors with its supportive stance. Despite a still robust economy, Fed Chairman Powell has favoured to lower interest rates by 0.5%, which will reduce the interest rate level to a target range of 4.75% - 5.00%. Contrary to previous comments just a few weeks before the meeting, the US central bank obviously opted for a very growth-friendly policy. This was probably on the back of a US labour market that has recently been a cause for concern for policy makers (and investors alike). The stabilization of the US economy, which would at best result in a "soft landing", currently appears to be the top priority on the central bank's agenda. As a result of this somewhat surprising move by the Fed, interest rates on global financial markets have fallen significantly in recent weeks. During the month under review, 10-year rates in the US fell by 0.13% and in Germany by as much as 0.18%, causing fixed income markets on both sides of the Atlantic to generate a monthly return of 1.7%. Equity markets also rose in September – the S&P 500 climbed 2.0% during the month, while the EuroStoxx 50 rose by 0.9%.

SNB cuts policy rates – The Swiss National Bank (SNB) cut its key interest rate by 0.25% for the third time this year. While the central bank surprised investors with its proactive easing in March, the latest move was well anticipated. By coincidence, the rate decision came just one day after the Swiss Economic Institute (KOF) reduced its growth forecasts for Switzerland – to 1.1% (from 1.2%) for 2024 and to 1.6% (from 1.8%) for 2025.

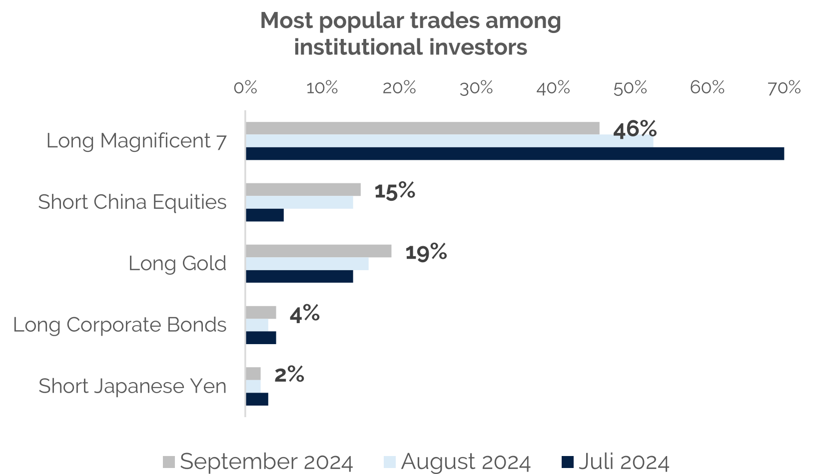
SOON IN FOCUS

Earnings Season – With the end of the third quarter, companies' fundamentals once again will be put into the spotlight. With regards to the upcoming earnings season for Q3 2024, analysts expect earnings for the US equity index S&P 500 to expand by 4.6%, which is significantly lower than in Q2 2024 (+12.9%).

IN ADDITION TO STUDYING FUNDAMENTAL DATA, WE AT TRAMONDO ALSO TRY TO PAY CLOSE ATTENTION TO INVESTOR POSITIONING, AS THESE DATA OFTEN REVEAL THE VULNERABILITY OF CERTAIN MARKET SEGMENTS.

DID YOU KNOW THAT...

...CHINA WAS SO FAR A POPULAR TARGET FOR "SHORT INVESTORS"?



SOURCE: BANK OF AMERICA

Chinese equities have enjoyed a spectacular comeback in recent weeks after the Chinese authorities presented an extensive stimulus package. The massive rally that we have seen in recent trading days is certainly also due to the fact that professional investors have given this region a wide berth in recent quarters – or have even built up a short position on the Chinese stock market, i.e. have bet on falling prices. According to a monthly Bank of America survey, this trade is one of the three most popular bets among institutional investors.

Extreme positioning in relation to individual sectors, countries or even regions – in either direction – naturally also has the potential to be quickly closed out. In this case, the extensive efforts of the Chinese government caught many investors off guard, triggering massive "short covering" activities – with positive consequences for the Chinese stock markets.

In addition to studying fundamental data, we at Tramondo also try to pay close attention to investor positioning, as these data often reveal the vulnerability of certain market segments. Positive as well as negative outliers in investor preferences are often warning signals that make us rather cautious. Based on chart-technical as well as fundamental factors, we aim to understand investor positioning and would – should our proprietary analyses come to a different conclusion – also position ourselves contrary to the market consensus.

MARKET OUTLOOK

Global equity markets have continued to reach new highs this month, despite unfavorable seasonality, the upcoming presidential election and a slew of fundamental challenges that are slowly emerging. In this context, the supportive stance of the US Federal Reserve – which surprised investors with a "big" rate cut last month – and the strong economic stimulus from China have encouraged investors to further increase their risk positions. While we certainly take these positive factors into account in our investment considerations, we believe that the current market consensus is now pricing in a "blue sky" scenario, i.e. "the best of all worlds". We consider earnings estimates for 2025, which are currently at 15.1%, as relatively ambitious, to say the least. These expectations reflect market participants' growing conviction that the Federal Reserve will be able to achieve a "soft landing" next year. We would even argue that underlying expectations are pricing in a "no landing" scenario, in which the current above-average growth will be extrapolated into the future.

EARNINGS EXPECTATIONS ARE PRICING IN A "NO LANDING" SCENARIO, IN WHICH THE CURRENT ABOVE-AVERAGE GROWTH WILL BE EXTRAPOLATED INTO THE FUTURE.

We keep our reservations about this market consensus, which is why we are reiterating our neutral equity allocation this month. Although we would not entirely rule out the possibility of equity markets to grind higher in the coming months, we consider the current risk/return constellation to be insufficiently attractive to justify a more constructive stance on equities. Even if Fed chief Powell were able to navigate the US economy towards a "soft landing", we consider the further upside potential for global equity markets to be rather limited. In the recent past, equity market gains following the Fed's first interest rate cut have been characterized by a "multiple expansion", i.e. an increase in the underlying valuations. Based on a current valuation (price-earnings ratio) of 21.6x for the S&P 500, we do not foresee much potential for a further valuation expansion in 2025 – accordingly, we also see rather constrained upside potential for respective equity markets.

In light of the current monetary policy landscape, we have recently confirmed our overweight allocation towards high-quality corporate bonds (investment grade). In the portfolio context, we see this position as a hedge against a severe downturn in the US economy (recession). In terms of tactical asset allocation, however, we would not be surprised if we would see some kind of a short-term consolidation, given that bond yields have fallen so sharply since the beginning of May. However, we still consider the medium-term outlook for the asset class to be attractive, especially for the currencies USD and EUR.

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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