TRAMONDO
INVESTMENT PARTNERS

MARKET COMPASS

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

05/2023

TACTICAL POSITIONING

Cash	○	●	○	○	○
Fixed Income	○	○	●	○	○
Equity	○	○	●	○	○
Alt. Assets	○	○	○	●	○

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

SPOTTED

Meta Platforms – After the social media company had to cope with declining revenue growth for the first time in its history last year, Meta Platforms has in the meantime emerged from the "valley of tears". With the latest set of figures, CEO Zuckerberg managed to enchant investors, as the group has found its way back to positive revenue momentum, while the immediate business outlook also managed to convince investors. The shares closed the month with a price gain of 13.4%.

MARKET REVIEW

EQUITY MARKETS DEFY THE ODDS

Banking stress slows credit and economic growth – After banks had already noticeably curbed lending in recent months, recent developments in the financial industry - the collapse of Silicon Valley Bank as well as the "near-death experience" of Credit Suisse - have reinforced this trend. This is likely to have significant implications for global economic momentum in the medium term, as recent history tells us that flattening credit growth is often accompanied by a significant slowdown in economic expansion. In this context, it is unsurprising that the vast majority of purchasing managers' indices in the US and Europe are now trading below the 50 threshold that portends a slowdown in the real economy. While the manufacturing sector has been experiencing considerable difficulties for some time now - due to an interest-rate-induced reluctance to undertake new investment projects - the latest figures from the service sector have come as a rather positive surprise. This sector of the economy continues to benefit from consumer sentiment that is extremely robust despite the economic drag.

Volatility index falls to year low – Contrary to the economic challenges, financial markets' fear barometer, the volatility index VIX, recently slipped to its lowest level in more than 16 months. In this context, the Q1 2023 reporting season, which has been ongoing for several weeks, is probably turning out to be a balm for investors' nerves, as "Corporate America" continues to impress with a high degree of resilience. In the technology sector in particular, some quarterly results have been much better than expected by the investment community, with shares of Meta Platforms (+13.9% after quarterly results), Microsoft (+7.2%) and Intel (+5.0%) swinging sharply higher. In addition to robust fundamentals, however, investors also seem to welcome the prospect of an imminent end to the monetary tightening cycle in the US. After inflation - and with that, the Federal Reserve's historic interest rate campaign - had kept investors on edge in recent quarters, a certain monetary policy "lethargy" would probably eliminate a significant source of uncertainty in financial markets.

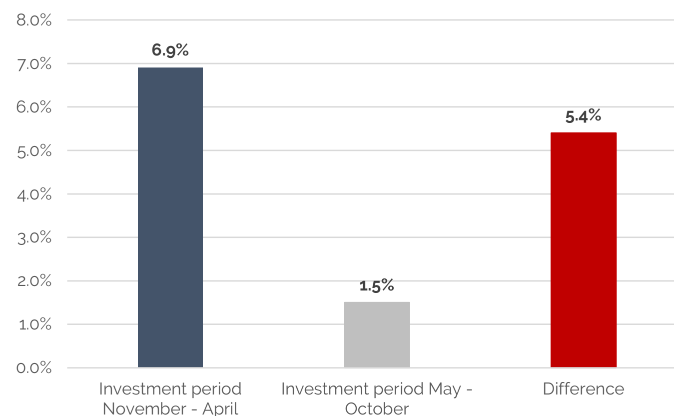
SOON IN FOCUS

Federal Reserve on pause – The US central bank is expected to complete its monetary tightening cycle soon and enter a "wait and see" mode, monitoring the (lagged) effects of monetary policy. Contrary to the current market consensus, we currently do not believe that Fed Chairman Powell is likely to ease interest rates as early as 2023 but expect such a monetary policy turnaround in Q1 2024 at the earliest.

Equity market momentum continues – Global financial markets continued to record moderate gains in the past month, with the Swiss market performing exceptionally well at the regional level. With a monthly return of 3.0%, the index clearly outperformed the MSCI World (+1.6% in April), the S&P 500 (+1.5%) and the EuroStoxx 50 (1.0%). Accordingly, the convincing quarterly earnings figures of the pharmaceutical companies Novartis (+8.8% in April) and Roche (+7.4%) contributed strongly to the outperformance. Similar to Switzerland, defensive stocks also celebrated a strong comeback at a global level, after these "safe havens" have not been in the favor of investors. This shift in market leadership towards defensive stocks may indicate investors positioning themselves somewhat more defensively in anticipation of a challenging second half of the year.

DID YOU KNOW THAT..

...THE STOCK MARKET ADAGE "SELL IN MAY AND GO AWAY" GENERALLY DOES NOT PAY OFF?



RETURNS OF THE S&P 500 IN DIFFERENT INVESTMENT PERIODS;
SOURCE: BLOOMBERG, TRAMONDO

HOWEVER, WE HAVE TO STATE THAT THE SUMMER MONTHS ALSO GENERATE A POSITIVE RETURN AND THAT SELLING ("SELL IN MAY") WOULD HARDLY HAVE PAID OFF IN RETROSPECT.

The famous stock market adage "Sell in May and go away" refers to a seasonal pattern that says that in the summer months (from May to October) the return on equity markets is rather disappointing. In fact, empirically speaking, the summer months are not really lucrative: since 1970, the US equity market index S&P 500 has gained an average of only about 1.5% in the six months between May and October, while the remaining months (November to April) produced an above-average return of 6.9%. However, we have to state that the summer months also generate a positive return and that selling ("Sell in May") would hardly have paid off in retrospect.

The most recent past supports this thesis: since 2013, a return of around 4.9% could be generated in the six summer months, whereby in 80% of cases even the period from November to April could be outperformed. Beyond that, a negative performance was only generated in two years. The stock market adage "Sell in May and go away" would therefore not have generated any added value in this context either.

At Tramondo, we monitor such seasonality patterns very closely as they help us define our tactical asset allocation.

However, we strongly caution investors against making investment decisions based solely on market anomalies, as they do not capture the market picture holistically enough.

Besides seasonality effects, the interpretation of fundamental data, chart analysis and the study of market dynamics remain indispensable factors for the sustainable success of equity investors. At Tramondo, we spend every day identifying the right market indicators and to interpret them correctly so that we can adjust our investment solutions to the current market conditions in the best possible way.

MARKET OUTLOOK

WE OPPORTUNISTICALLY USED THE LOW VOLATILITY LEVEL IN THE REPORTING MONTH TO POSITION OUR EQUITY ALLOCATION SOMEWHAT MORE DEFENSIVELY.

In terms of tactical asset allocation, the US equity market currently trades within striking distance of an important resistance level defined by the February highs of the S&P 500 at 4'195. On this basis, the short-term upside potential looks rather limited, although a (at least temporary) breakout of equity markets should by no means be ruled out. We opportunistically used the low volatility level in the reporting month to position our equity allocation somewhat more defensively. In this context, we took initial profits in cyclical and growth-oriented sectors and selectively built up put options to hedge the portfolio against adverse market developments. Overall, however, we reaffirm our neutral stance towards equities as an asset class, with a preference for the information technology, healthcare and industrial sector.

With regards to fixed income markets, we continue to consider high quality corporate bonds as attractive. In addition, we believe that government bonds offer an interesting risk/return scenario, as the advanced monetary policy cycle and current economic challenges provide an attractive fertile ground for this asset class. We remain cautiously positioned towards bonds with increased credit risks («high yield»), as we continue to consider underlying credit spreads as not attractive enough.

We remain constructively positioned towards alternative investments. In this context, we continue to focus on commodity investments - especially gold - as well as market-neutral investment strategies being able to diversify the portfolio in a stormy market environment.

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 third 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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