NEWSLETTER APRIL 2018

T&T International Group
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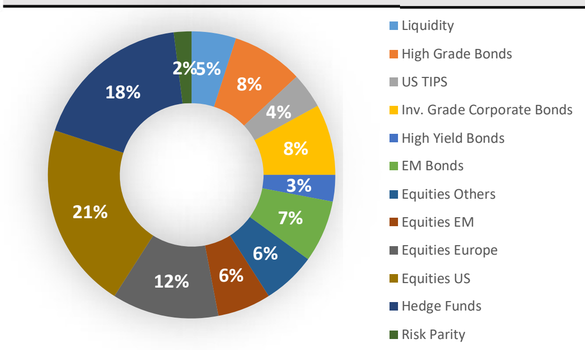
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Emerging Market Equities Sustainable Value Creation in EM US Smart Beta "Buy Write" Strategy on US Equities Some Protection via Equity Put Options	**Equities**	Australian Equities
Corporate Hybrids US Leveraged Loans EM Sovereign Bonds in USD Selected EM Bonds 10-year US Treasuries vs. USD Cash	**Bonds**	Developed Market High Grade Bonds 'Well-worn' Bonds Euro High Yield 10-Year Japanese Gvt Bonds vs. JPY Cash
EUR vs ... CAD vs ... JPY vs ... BRL vs ... INR vs ...	**Foreign Exchange**	USD USD NZD USD (↘) TWD
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

Market sentiment has improved as US-China tensions appeared to ease recently, as President Xi reiterated market access and tariff reduction promises. We keep a constructive view on global equities as the economic backdrop remains strong and expect global inflation to pick up only gradually. This should allow central banks to normalize monetary policy at a measured pace. We remain overweight global stocks versus euro high yield and high grade bonds. As we enter a phase in the business cycle where volatility tends to increase, we are protecting part of our pro-risk exposure through an equity put option. An escalation in trade tensions remains a risk, but our base case is for a combination of targeted tariffs and bilateral negotiations.

BALANCED USD MODEL PORTFOLIO



EQUITIES

We keep the overweight in global equities vs. bonds. Stocks are supported by solid earnings growth. US companies, which make up about half of the global market, are benefiting from tax relief and a fiscal spending package. Based on the price-to-earnings ratio, the global stock valuation is below long-term average. We also keep an overweight in emerging market (EM) versus Australian stocks. EM companies should benefit from strong global growth given their operational leverage, while the expected weakness in the US dollar should enhance their stock performance in USD terms. With MSCI China comprising close to 30% of the EM index, we monitor trade disputes carefully. Investors who don't own Australian stocks should underweight UK stocks.

CONTACT DETAILS T&T INTERNATIONAL GROUP

T&T International Wealth Management Ltd
Feldeggstrasse 80
CH-8008 Zürich - Switzerland
Tel: +41 (0) 44 844 0 844
Fax: +41 (0) 44 844 0 845
www.tt-international.ch

T&T International Advisors Ltd
Pareraweg 45
Willemstad - Curaçao
Tel: +599 (9) 434 3670
Fax: +599 (9) 434 3533
www.tt-international.com

BONDS

We are overweight EM sovereign bonds in USD against high grade bonds. We expect EM sovereign spreads to tighten amid improving fundamentals including relatively subdued inflation, stable commodity prices and a benign external backdrop. Also, their current yield pick-up of 2.6% in USD is attractive. Euro high yield bonds remain expensive and we continue to underweight these assets versus global equities. We are overweight 10-year US Treasury bonds against USD cash, a position that should benefit from the attractive carry. By contrast, we are underweight 10-year Japanese government bonds against JPY cash. The Bank of Japan is likely to raise the target of its yield-curve control later this year, while an interest rate cut looks unlikely.

FOREIGN EXCHANGE

We remain long EUR and CAD versus short USD and long JPY versus short NZD. The Eurozone runs a large trade surplus, at 4% of GDP, while the US has sizable trade and budget deficits, which should support the EURUSD exchange rate. We are closing our long GBP versus short CHF position, which has benefited from lower Brexit uncertainty, while the market has priced in a more hawkish Bank of England this year. Our EM FX basket has suffered from rising idiosyncratic risk related to the Russian Ruble and Turkish Lira, as sanctions against Russia and threats against Syria weakened those two currencies very quickly. We still see good prospects for the Brazilian Real and the Indian Rupee, and overweight these against the USD and the Taiwanese Dollar.

Source: UBS Research

TOPIC OF THE MONTH

THE RELEVANCE OF GOLD AS A STRATEGIC ASSET

Gold is a highly liquid yet scarce asset, and it is no one's liability. It is bought as a luxury good as much as an investment. As such, gold can play four fundamental roles in a portfolio:

- A source of long-term returns
- A diversifier that can mitigate losses in times of market stress
- A liquid asset with no credit risk that has outperformed fiat currencies
- A means to enhance overall portfolio performance

Our analysis shows that adding 2%, 5% or 10% in gold over the past decade to the average pension fund portfolio would have both increased returns and reduced volatility, resulting in higher risk-adjusted returns.

Why gold, why now

Gold is becoming more mainstream. Since 2001, investment demand for gold worldwide has grown 18% per year, on average. This has been driven in part by the advent of new ways to access the market, such as physical gold-backed exchange-traded funds (ETFs), but also by the expansion of the middle class in Asia, and a renewed focus on effective risk management following the 2008-2009 financial crisis in the US and Europe.

Today, gold is more relevant than ever for institutional investors. While central banks in developed markets are starting to normalise monetary policies – leading to higher interest rates – we believe the effect of quantitative easing and the prolonged period of low interest rates can have a long-term effect. In response, institutional investors have embraced alternatives to traditional assets such as stocks and bonds.

The share of non-traditional assets among US pension funds has increased from 17% in 2006 to 27% in 2016. Many investors are drawn to gold's role as a diversifier – due to its low correlation to most mainstream assets – and as a hedge against systemic risk and strong stock market pullbacks. Some use it as a store of wealth and as an inflation and currency hedge.

As a strategic asset, gold has historically improved the risk-adjusted returns of portfolios, providing returns while reducing losses and providing liquidity to meet liabilities in times of market stress.

A source of returns

Gold is not only useful in periods of higher uncertainty. Its price has increased by an average of 10% per year since 1971, when gold began to be freely traded following the collapse of Bretton Woods. And gold's long-term returns have been comparable to stocks and higher than bonds or commodities. There is a good reason behind gold's price performance: it trades in a large and liquid market, yet it is scarce.

Large yet scarce

The gold market has two attractive features for investors: scarcity supports its long-term appeal. But the size of the market is large enough to make it relevant for a wide variety of institutional investors – including central banks

Source: UBS Research

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	23.04.2018	% Chg YTD
Dow Jones Ind.	24'719.22	24'523.74	-0.79%
S&P 500	2'673.61	2'675.51	0.07%
RUSSELL 2000	1'551.45	1'564.90	0.87%
NASDAQ COMP	6'903.39	7'165.33	3.79%
CANADA - TSX	16'209.13	15'519.60	-4.25%
MEXICO - IPC	49'354.42	48'431.58	-1.87%
BRAZIL IBOVESPA	76'402.08	85'173.42	11.48%
COLOMBIA COLCAP	1'513.65	1'561.45	3.16%
ASIA	**31.12.2017**	**23.04.2018**	**% Chg YTD**
JAPAN- NIKKEI	22'764.94	22'088.04	-2.97%
H.K. HANG SENG	29'919.15	30'254.40	1.12%
CHINA CSI 300	4'030.85	3'766.32	-6.56%
EUROPE	**31.12.2017**	**23.04.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'502.83	-0.03%
UK - FTSE 100	7'687.77	7'390.18	-3.87%
GERMANY - DAX	12'917.64	12'540.56	-2.92%
SWITZERLAND - SMI	9'381.87	8'801.42	-6.19%
SPAIN - IBEX 35	10'043.90	9'898.90	-1.44%
NETHERLANDS - AEX	544.58	552.77	1.50%
RUSSIA - RTSI	115'840.00	113'410.00	-2.10%

VOLATILITY

	31.12.2017	23.03.2018	% Chg YTD
SPX (VIX)	11.04	16.65	50.82%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	1.818	2.474	2.975
GERMANY	-0.681	-0.54	0.627
SWITZERLAND	-0.790	-0.775	0.137
UK	0.513	0.855	1.521
JAPAN	-0.148	-0.129	-0.059

CURRENCIES

	31.12.2017	23.04.2018	% Chg YTD
EUR/USD	1.2005	1.2232	1.89%
USD/JPY	112.7010	108.4050	-3.81%
USD/CHF	0.9746	0.9764	0.19%
GBP/USD	1.3510	1.3960	3.33%
USD/CAD	1.2574	1.2833	2.06%
EUR/CHF	1.1700	1.1944	2.09%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	23.04.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'324.50	1.67%
SILVER USD/OZ	16.92	16.70	-1.30%
PLATINUM USD/OZ	931.00	922.25	-0.94%
ENERGY	**31.12.2017**	**23.04.2018**	**% Chg YTD**
WTI Crude Oil	60.42	68.40	13.21%
Brent Crude Oil	66.87	74.06	10.75%
Natural Gas	2.95	2.73	-7.55%

T&T INTERNATIONAL GROUP

T&T International is a globally active boutique firm with Swiss origins established in 1999. The group offers global wealth management and multi-family office services. T&T International has investment teams in Zürich and Curaçao and advises an international clientele of Wealthy Individuals and Families in Switzerland and internationally.

Over the last 20 years T&T International has built an extensive and highly reputable network to support the requirements of our Partners and Clients. We work together with prestigious financial institutions as well as insurance companies, tax and legal professionals and fund managers.

Independence, commitment and trust constitute the fundamental values of T&T International. We cultivate personal relationships with each Client and offer them availability, flexibility and efficiency. We take on an approach that is instigated by dialogue, and executed with uncompromising commitment and responsibility.

We remain at your disposal for any questions or further information.

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