NEWSLETTER MARCH 2018

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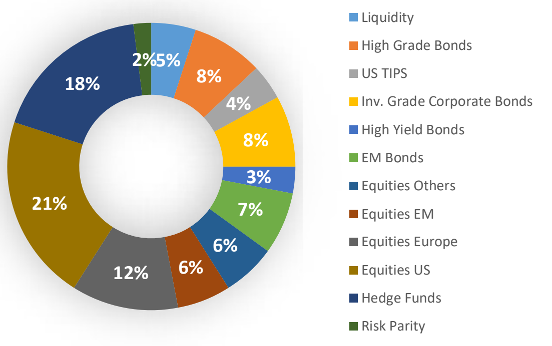
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Eurozone Equities Emerging Value Opportunities Emerging Market Equities Sustainable Value Creation in EM "Buy Write" Strategy on US Equities (↗) US Smart Beta Some Protection via Equity Put Options	**Equities**	UK 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 CAD (↘) EM FX (BRL, INR, RUB, TRY) GBP JPY	**Foreign Exchange**	USD (↘) DM FX (AUD, HUF, NOK, TWD) (↘) CHF NZD
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

Global equities have partially recovered their early February losses and market volatility measures have fallen, though still at levels higher than last year. 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. The ECB has dropped its pledge to increase its asset-purchase program in "size and/or duration" if needed, and we expect it to taper the program in the fourth quarter of this year. 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 equity put options. An escalation in trade tensions remains a risk, but our base case is for a combination of targeted tariffs and bilateral negotiations, with no significant economic impact.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Global equities are supported by solid earnings growth. US companies, which make up about half of the global stock market, are benefiting from tax relief and a new fiscal spending package. By price-to-earnings ratio, the global stock valuation is slightly below long-term average. We remain overweight Eurozone versus UK stocks. Given their cyclical sector composition and high operational leverage, Eurozone companies are well placed to benefit from robust global demand, while UK firms should lag other regions in terms of earnings growth. We are also overweight emerging market (EM) versus Australian stocks. Like their Eurozone peers, EM companies should benefit from the strong global growth given their operational leverage, while the expected weakness in the US dollar should enhance their stock performance in USD terms. Investors who don't own Australian stocks should underweight UK stocks. While not our base case, trade disruptions would hit export-oriented Eurozone and EM companies.

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BONDS

We are overweight EM sovereign bonds in USD against high grade bonds. We expect EM sovereign spreads to tighten amid improving fundamentals, 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 are reducing our long CAD versus USD position, given the near-term headwinds of market volatility and trade-related uncertainty. In general, our FX positions should benefit from a solid global economy that convinces investors to let go of safe-haven currencies. In addition, we are long EUR versus short USD, long GBP versus short CHF, long JPY versus short NZD, and overweight a diversified basket of EM currencies. 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. Our long GBP versus short CHF position should benefit from lower Brexit uncertainty, while the Bank of England is likely to hike rates at least once this year.

Source: UBS Research

TOPIC OF THE MONTH

HOW INVESTORS SHOULD RESPOND TO TRUMP'S CHINA TARIFFS

President Trump on Thursday signed a memorandum directing his administration to take a range of actions against China centered on technology industries in response to the nation’s “economic aggression”. The tariffs were triggered by the Section 301 Investigation that the Office of the US Trade Representative initiated on August 2017. The investigation found that China’s policies resulted in at least USD 50bn in annual harm to the US economy. This is the likely amount of Chinese imports that will be targeted with tariffs, or about 10% of total US imports from China. The detailed list of targeted products will be announced within 15 days and is expected to focus on 10 strategic sectors including robotics and aerospace.

After pairing initial losses following the announcement, the S&P 500 closed down -2.5% and the Dow fell -2.9% as sentiment soured throughout the afternoon. That being said, investors had expected tariff announcements between USD 30bn and 60bn, with tariffs potentially even higher than the 25% that the Trump Administration announced will be proposed for public comment. Consequently, much of the late day weakness may have been momentum-based and not driven by incremental news flow.

We think it’s important not to overstate the direct impact of these tariffs on the global economy or equity markets at this stage. Today's announcement should have little effect on the US economy. The USD 50 billion represents only about 2% of total US imports, while the tariffs will likely be on products that can be obtained outside of China to minimize the harm on the US. The global economy is also entering this period of increased trade tensions from a position of strong growth. 2018 is still expected to be the strongest year for the global economy since 2011. And central banks may yet temper their tightening bias given the threat to global growth from an escalating trade conflict. The Fed, ECB, and Bank of England have all warned of the risks to growth from a trade war in recent days and weeks. But we don’t downplay the potential risks. This latest action is likely to have a negative effect on Asian exports, which are currently growing at 12-13% a year.

We will be watchful in the coming days for more details on the specific actions by the Trump Administration and China’s reaction, which is key but as yet unknown. The outcome of these initial actions will only be determined after dozens of uncertainties have been resolved. We currently assign a 20-30% probability to a damaging retaliation. China has already expressed a willingness to make concessions on market access without technology transfer, and the tariff announcement is not definitive, as the recent steel tariffs illustrate. Thus, we view this as the beginning of a long process towards an eventual resolution.

At this time investors should also ensure portfolios are well-diversified, and could consider equity put options to reduce portfolio volatility. Our global tactical asset allocation remains pro-risk, to benefit from still-strong global economic growth, but we also hold counter-cyclical positions, including an overweight in 10-year US Treasuries, and an overweight in JPYNZD, that should perform if the market starts to price in a full scale trade war.

Source: UBS Research

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	23.03.2018	% Chg YTD
Dow Jones Ind.	24'719.22	23'551.20	-4.73%
S&P 500	2'673.61	2'590.02	-3.13%
RUSSELL 2000	1'551.45	1'510.09	-2.67%
NASDAQ COMP	6'903.39	6'508.08	-5.73%
CANADA - TSX	16'209.13	15'223.74	-6.08%
MEXICO - IPC	49'354.42	46'473.49	-5.84%
BRAZIL IBOVESPA	76'402.08	84'374.62	10.43%
COLOMBIA COLCAP	1'513.65	1'468.44	-2.99%
ASIA	**31.12.2017**	**23.03.2018**	**% Chg YTD**
JAPAN- NIKKEI	22'764.94	20'617.86	-9.43%
H.K. HANG SENG	29'919.15	30'309.29	1.30%
CHINA CSI 300	4'030.85	3'904.93	-3.12%
EUROPE	**31.12.2017**	**23.03.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'298.07	-5.88%
UK - FTSE 100	7'687.77	6'921.94	-9.96%
GERMANY - DAX	12'917.64	11'886.31	-7.98%
SWITZERLAND - SMI	9'381.87	8'569.08	-8.66%
SPAIN - IBEX 35	10'043.90	9'393.10	-6.48%
NETHERLANDS - AEX	544.58	521.45	-4.25%
RUSSIA - RTSI	115'840.00	126'100.00	8.86%

VOLATILITY

	31.12.2017	23.03.2018	% Chg YTD
SPX (VIX)	11.04	24.87	125.27%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	1.728	2.258	2.813
GERMANY	-0.749	-0.594	0.524
SWITZERLAND	-0.900	-0.898	0.059
UK	0.420	0.889	1.442
JAPAN	-0.135	-0.155	0.019

CURRENCIES

	31.12.2017	23.03.2018	% Chg YTD
EUR/USD	1.2005	1.2358	2.94%
USD/JPY	112.7010	104.84	-6.98%
USD/CHF	0.9746	0.9469	-2.84%
GBP/USD	1.3510	1.4139	4.65%
USD/CAD	1.2574	1.2876	2.40%
EUR/CHF	1.1700	1.1702	0.02%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	23.03.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'347.55	3.43%
SILVER USD/OZ	16.92	16.56	-2.13%
PLATINUM USD/OZ	931.00	948.00	1.83%
ENERGY	**31.12.2017**	**23.03.2018**	**% Chg YTD**
WTI Crude Oil	60.42	65.88	9.04%
Brent Crude Oil	66.87	68.91	3.05%
Natural Gas	2.95	2.59	-12.29%

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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