NEWSLETTER December 2018

T&T International Group
Your 360° Wealth Partner

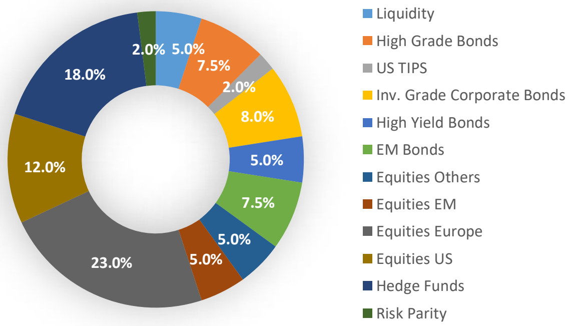
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Canadian Equities Emerging Market (EM) Equities (↗) Global Equities Global Quality Stocks EM Value Stocks (↗) US Smart Beta "Buy Write" Strategy on US Equities Some protection via US equity put options	**Equities**	Australian Equities Swiss Equities (↘)
EM Sovereign Bonds in USD Selected EM Bonds European leveraged loans	**Bonds**	Developed market hig grade bonds 10-Year Japanese Gvt Bonds vs. JPY Cash
Canadian Dollar (↗)	**Foreign Exchange**	Australian Dollar (↘)
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

Equity markets remain volatile due to lingering concerns on the US-China trade situation, US yield curve movements, and falling oil prices. While the outcome of the G20 meeting was better than expected, the 90-day truce between the US and China does not rule out the risk of further escalation. The closely watched spread between 2-year and 10-year US Treasury yields compressed to an 11-year low of 12 basis points, raising the threat of an "inversion" of the yield curve, sometimes considered a predictor of recessions. We believe fundamentals in the US remain good and see the risk of a recession next year as low. On average, it has taken around two years between curve inversion and the start of a recession. In 2019, we expect mid-single-digit earnings growth in the US and Europe, and around 9% in emerging markets. We maintain an overweight in global equities versus high grade bonds, while also adding a put spread on the S&P 500 to reduce downside risk.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Volatility in global equity markets persisted last month as trade worries and related uncertainty about the global economic outlook weighed on sentiment. Falling crude oil prices added to concerns. We keep our preference for Canadian stocks over Australian equities due to more compelling valuations. Earnings dynamics are also stronger in Canada than in Australia. We add an overweight in emerging market (EM) equities and an underweight in Swiss equities. EM equities are attractively valued compared to Swiss stocks. Moreover, earnings forecasts for emerging markets have gone down in recent months and now look more reasonable.

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 hold an overweight on EM sovereign bonds in USD against high grade bonds. EM fundamentals and the sovereign bonds' attractive yield of 7% support the position. We close our overweight in 10-year US Treasuries versus USD cash, taking profits, as the 10-year US Treasury yield has moved below 2.9%. We remain underweight 10-year Japanese government bonds versus JPY cash. We believe the Bank of Japan will allow yields to move further upwards as inflation picks up.

FOREIGN EXCHANGE

We add a long position in the Canadian dollar against the Australian dollar. We expect a stabilization of the Canadian economy that should allow the Bank of Canada to hike rates in line with the Federal Reserve. Australia faces many challenges with the housing market and exports to China and other Asian countries. We close our tactical overweight on the Japanese yen versus the Taiwan dollar. At the same time we unhedge the currency exposure of Japanese equities. Portfolios with exposure to Japanese equities will thus take a longer term currency position in the Japanese yen against the respective base currency. We see longer-term appreciation potential in the yen, mainly based on its attractive valuation.

Source: UBS Research

TOPIC OF THE MONTH

APOLLO vs. DIONYSUS

The interplay between considered analysis and emotional decision making at work in markets today brings to mind Friedrich Nietzsche's book The Birth of Tragedy. In it the German philosopher explains Greek tragedy plays by looking at the tension between Apollo, the god of rational thinking, and Dionysus, the god of instinct and emotion. These opposing forces battle for control of the narrative.

Will a self-described "Tariff Man" create his own political tragedy with a trade policy that sends the US into recession and kills his chance at reelection? Or is a "great deal" just around the corner? Will the Federal Reserve respond to muted inflation, market volatility, and presidential pressure by calling a temporary halt on its hiking path? Or will it push on, undoing the work of three Fed chairs to gradually achieve policy normalization? Will the markets refocus on solid fundamentals? Or remain driven by sentiment? The fear in markets right now is that the Dionysian is in the ascendency and that policy mistakes or the fear of policy mistakes will raise risk premiums, halt the expansion, and slay the bull market.

<u>The Fed</u>

Good economic, employment, and earnings growth have enabled the Fed to justify hiking rates toward more normal levels. But oil prices have since fallen, credit spreads have widened, market volatility has increased, and politics are complicating the economic outlook. Job growth remains good but economic data from the most rate-sensitive sectors, like housing, has been weakening. At this point, the rational course of action now looks to be a slower pace of rate hikes. Indeed, Fed Chair Jerome Powell has likened the current situation to walking into your living room when the lights suddenly go out. "What do you do? You slow down…"

Figure 1

Rate hike expectations have fallen as the S&P 500 has declined

US stocks and Eurodollar spreads based on Dec 18 and Dec 19 futures

Source: Bloomberg, UBS, as of 11 December 2018

The rates market has taken him at his word. As recently as October it was pricing more than two hikes by the end of next year. It is now pricing less than one (see Fig. 1). But the Fed easing off is not a given. Recently, the president said "if the Fed is going to act reasonably and rationally, I think we are a rocket ship going up." But following Mr. Trump's criticism of higher rates, the central bank may feel the need to display its independence, and signal its confidence in the economy through higher rates. And ending the hiking cycle with rates still below 3% could also make the Fed nervous about its scope to counteract any future downturn. This month's meeting will give us a first indication of what the Fed now fears most.

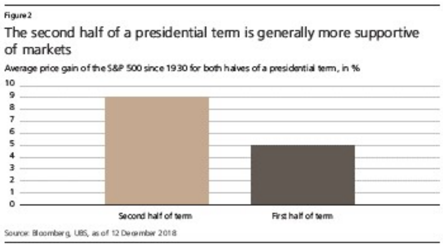
Continued on page 3

CONTINUATION: APOLLO vs. DIONYSUS

Politics

The end of this year marks the halfway point of the US presidential term, with campaigning for the next election likely to start soon. Cold electoral logic usually dictates a shift of focus away from lofty strategic goals and toward immediate economic concerns. Indeed, since 1930, the S&P 500 has risen an average of 5% annually in the first two years of presidential terms, and 9% per year in the latter two. The president knows that if the US economy falls into recession before the next election, his career is likely finished. Indeed, the Wall Street Journal reports that Mr. Trump is now closely watching the impact of his China policy on markets.

But when a tweet pledging "very positive change, on trade and far beyond, between our two great nations" can be followed a day later with a CFO in handcuffs and a reminder that the tweeter is "Tariff Man" we know that cold rationality is not guaranteed in these negotiations. The public disagreement about a government shutdown has also demonstrated that US domestic policy remains contentious.



Source: UBS Chief Investment Office GWM

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	17.12.2018	% Chg YTD
Dow Jones Ind.	24'719.22	23'592.98	-4.56%
S&P 500	2'673.61	2'545.94	-4.78%
RUSSELL 2000	1'551.45	1'378.14	-11.17%
NASDAQ COMP	6'903.39	6'753.73	-2.17%
CANADA - TSX	16'209.13	14'362.65	-11.39%
MEXICO - IPC	49'354.42	40'340.51	-18.26%
BRAZIL IBOVESPA	76'402.08	86'399.68	13.09%
COLOMBIA COLCAP	1'513.65	1'335.64	-11.76%
ASIA	**31.12.2017**	**17.12.2018**	**% Chg YTD**
JAPAN- NIKKEI	22'764.94	21'506.88	-5.53%
H.K. HANG SENG	29'919.15	26'087.98	-12.81%
CHINA CSI 300	4'030.85	3'161.20	-21.58%
EUROPE	**31.12.2017**	**17.12.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'063.65	-12.57%
UK - FTSE 100	7'687.77	6'773.24	-11.90%
GERMANY - DAX	12'917.64	10'772.20	-16.61%
SWITZERLAND - SMI	9'381.87	8'602.61	-8.31%
SPAIN - IBEX 35	10'043.90	8'812.50	-12.26%
NETHERLANDS - AEX	544.58	500.08	-8.17%
RUSSIA - RTSI	115'840.00	110'940.00	-4.23%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	2.412	2.7	2.857
GERMANY	-0.775	-0.604	0.257
SWITZERLAND	-0.850	-0.742	-0.087
UK	0.744	0.738	1.266
JAPAN	-0.230	-0.129	0.128

CURRENCIES

	31.12.2017	17.12.2018	% Chg YTD
EUR/USD	1.2005	1.1348	-5.47%
USD/JPY	112.7010	112.8230	0.11%
USD/CHF	0.9746	0.9932	1.91%
GBP/USD	1.3510	1.2615	-6.63%
USD/CAD	1.2574	1.3413	6.68%
EUR/CHF	1.1700	1.1271	-3.67%

VOLATILITY

	31.12.2017	17.12.2018	% Chg YTD
SPX (VIX)	11.04	24.52	122.10%

CONTINUATION: KEY FIGURES (CURRENT & YEAR TO DATE)

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	17.12.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'245.88	-4.37%
SILVER USD/OZ	16.92	14.66	-13.36%
PLATINUM USD/OZ	931.00	795.00	-14.61%

ENERGY	31.12.2017	17.12.2018	% Chg YTD
WTI Crude Oil	60.42	49.88	-17.44%
Brent Crude Oil	66.87	59.61	-10.86%
Natural Gas	2.95	3.52	19.20%

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.

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

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