NEWSLETTER APRIL 2019

T&T International Group
Your 360° Wealth Partner

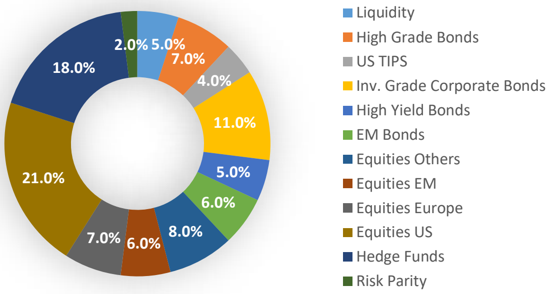
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Canadian Equities Emerging Market (EM) Equities Global Equities Japanese Equities (↗) Global Quality Stocks EM Value Stocks US Smart Beta "Buy Write" Strategy on US Equities Some protection via US equity put options	**Equities**	UK Equities (1-4 year horizon) Swiss Equities Eurozone Equities (↘)
EM Sovereign Bonds in USD (1-4 year horizon) Euro Investment Grade Corporate Bonds (↗) Global Green Bonds (↗) Mind the gap - Corporate "rising star" candidates	**Bonds**	Developed market high grade bonds (↘) 10-Year Japanese Gvt Bonds vs. JPY Cash 2-year Italian Govt. Bonds (↘) Mind the gap - Corporate "fallen Angel" candidates (↘)
Norvegian Krone Euro (↗) Japanese yen (1-4 year horizon)	**Foreign Exchange**	Swiss Franc Canadian Dollar (↘) Base Currency
	Hedge Funds	

ASSET ALLOCATION

Global economic data is showing increasing signs of stabilization. In particular latest Chinese figures support our base case of an economic reacceleration in the second half of the year. We are adding some relative positions within equities, currencies and bonds, which are increasing the tactical risk of our portfolios slightly. Meanwhile, global equity markets seem to already have priced in a improvement of the economic backdrop and the dovish shift in central bank policy since the beginning of the year, while risks around global trade conflicts persist. We thus keep an overall neutral stance on equities vs. bonds.

BALANCED USD MODEL PORTFOLIO



EQUITIES

We are underweight Swiss equities, which are among the world's most expensive, and prefer emerging market (EM) as well as Canadian stocks. In our base case, we are looking for global economic growth to stabilize around its long-term trend, the oil price to make further gains of 5-10% over the next six months, and the China-US trade conflict not to escalate further. Against such a backdrop, EM and Canadian stocks should outperform Swiss ones, given their more cyclical exposure as well as currently cheaper valuations. We are adding an overweight in Japanese equities vs Eurozone equities. Although EMU manufacturing data may improve in the months ahead, upside for Eurozone equities seems limited. Japanese consensus earnings continue to see downgrades, but should stabilize, given their exposure to the economic cycle in Asia. The threat of higher tariffs on US automobile imports lingers but we believe that risks are tilted to the upside, in particular compared to Eurozone equities.

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BONDS

While Euro investment grade (IG) corporate spreads have reached the lower end of our forecast range, we think EUR IG bonds will remain well supported over the next three months by the ECB's focus on dovish policy and potential further support for the banking sector. We are opening an overweight in EUR IG against higher-rated bonds, while underweighting 2-year Italian government bonds. This position offers mildly positive carry and interesting downside protection if Italian risks escalated again. We stay underweight 10-year Japanese government bonds versus JPY cash. We think the direction of global interest rates will be up rather than down over the next six months.

FOREIGN EXCHANGE

We are keeping the overweight in the Norwegian krone (NOK) against the Swiss franc (CHF) and opening two currency positions this month: an overweight in the Euro (EUR) against the CHF and an overweight in the NOK against the Canadian dollar (CAD). The long EUR vs short CHF is expected to benefit from a rebound in European economic data, which is starting to beat subdued expectations, a re-assessment of the ECB's policy bias, which should move slowly towards policy normalization, and improved risk taking due to stronger Chinese data and some success in Sino-US trade negotiations. The long NOK vs CAD should benefit from expected central bank divergence between Norway and Canada and brings some diversification, being less exposed to the oil price than NOKCHF.

Source: UBS Research

TOPIC OF THE MONTH

END OR EXTEND?

How old is the business cycle?

After 10 years, economists might say the current business cycle looks old. But if the Federal Reserve is “done” hiking rates, are they seeing it all wrong?

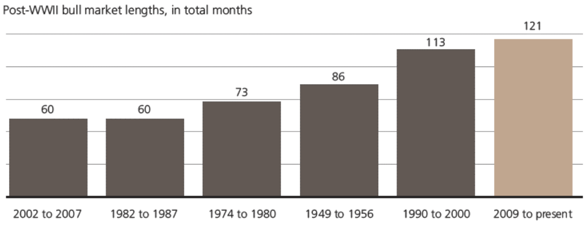
The traditional account of the business cycle is very familiar. An expanding economy eventually runs short of the resources needed to supply demand, prices rise, central banks hike rates to curtail inflation, and the economy slows. Then, inflationary pressures ease, central banks cut rates, demand grows, and the cycle starts afresh. Through this lens, it would be easy to conclude that the business cycle is entering a late stage. In the face of low unemployment and rising wages, the Fed has been tightening rates since December 2015, and, since the end of 2018, growth has been slowing. With this perspective, bond markets seem to concur that a slowdown is upon us, already pricing in that the Fed will cut rates next.

But we can also look at the same set of data and draw a different conclusion. Yes, the Fed has been hiking rates, but only to normalize policy toward “neutral” levels. With little inflationary pressure, the Fed has little reason to clamp down on demand. Through this lens, it might be months or years before the economy runs short of resources, requiring the Fed (or other central banks) to hike further. The fall in long-term bond yields might reflect a revised view about the long-term level of interest rates necessary to maintain stable inflation, rather than signal an impending recession.

In the base case, we think inflation will rise at only a modest pace, allowing for a continuation of the steady-growth, low-rate backdrop we have experienced over the past few years. But with higher valuations curtailing future investment returns, and the possibility of volatility as markets worry about policy errors, we keep a more balanced exposure to risky assets, and use hedges where appropriate.

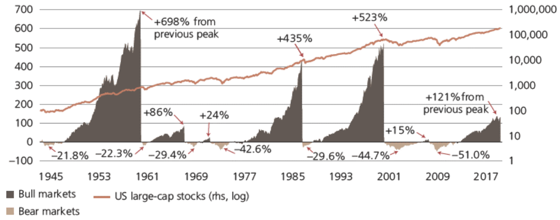
Has the Fed already tightened too much?
Bond markets seem to be saying the Fed has raised short-term rates too much, yet equity markets are buoyant. We think that the flat yield curve has more to do with a changing view of longer-term inflation than expectations of an economic slowdown, but we’ll look for confirmation of this view in the months ahead.

Figure 2
While this is the longest modern bull market...
Post-WWII bull market lengths, in total months



Source: Bloomberg, UBS, as of 1 April 2019

Figure 3
...the gains suggest the bull might be younger
Cumulative return since prior bull market peak, US large-cap stocks



Source: Morningstar Direct, R: PerformanceAnalytics, UBS, as of 31 March 2019

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CONTINUATION: END OR EXTEND?

Factors we will be looking at include:

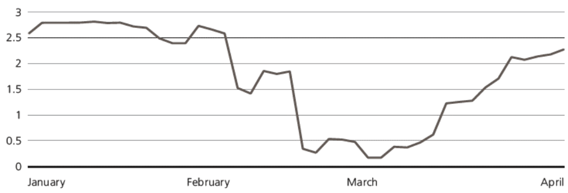
• *Credit conditions* . Financial conditions tightened amid the equity and credit market sell-off in 4Q, but following the Fed's recent dovish shift, conditions are now among the loosest since 1994, according to the Chicago Fed's index. We will watch to see if this is reflected in the 1Q Fed Senior Loan Officer Survey, a forward-looking indicator of lending behavior that has historically been better at flagging equity market downturns than yield curve inversions.

• *Growt* h. Recent growth data has been supportive, with the US ISM index comfortably in expansionary territory, and the Atlanta Fed GDP nowcast increasing to 2.3%, from less than 0.5% (see Fig. 4), at the beginning of March. We will closely monitor high frequency indicators and company outlook statements for signs that growth is recovering.

Figure 4

US GDP expectations have recovered from a recent low

Atlanta Fed GDPNow forecast, in %



Source: Bloomberg, UBS, as of 9 April 2019

• *The labor marke* t. After one weak US payroll report this year (February) we will be watching for signs that the overall pace of job creation is slowing. But with a recovery in March, and unemployment below 4%, the labor market doesn't appear to be suffering from interest rates being too high. If anything, it appears more at risk of overheating.

Or is the Fed making a mistake by pausing?

While we expect incoming data to confirm that the Fed has not gone too far in hiking rates, we also need to be cognizant that keeping rates on hold increases medium-term risks. With annual wage growth at 3.2% and close to 5% for workers in the retail sector, we'll be watchful for signs that higher labor costs are feeding into prices. We don't expect this to happen in the coming months, but any evidence that the Fed is "falling behind the curve" on inflation would likely lead markets to price a resumption of rate hikes, and have a negative impact on markets.

Source: UBS House View / April 2019

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2018	24.04.2019	% Chg YTD
Dow Jones Ind.	23'327.46	26'597.05	14.02%
S&P 500	2'506.85	2'927.25	16.77%
RUSSELL 2000	1'344.83	1'588.13	18.09%
NASDAQ COMP	6'635.28	8'101.02	22.09%
CANADA - TSX	14'322.86	16'586.52	15.80%
MEXICO - IPC	41'685.05	45'045.33	8.06%
BRAZIL IBOVESPA	87'887.26	95'045.43	8.14%
COLOMBIA COLCAP	1'325.96	1'600.17	20.68%
ASIA	**31.12.2018**	**24.04.2019**	**% Chg YTD**
JAPAN- NIKKEI	20'014.77	22'200.00	10.92%
H.K. HANG SENG	25'845.70	29'805.83	15.32%
CHINA CSI 300	3'010.65	4'030.09	33.86%

EQUITY INDICES (LOCAL CURRENCIES)

EUROPE	31.12.2018	24.04.2019	% Chg YTD
EURO STOXX 50	3'001.42	3'502.63	16.70%
UK - FTSE 100	6'728.13	7'471.75	11.05%
GERMANY - DAX	10'558.96	12'313.16	16.61%
SWITZERLAND - SMI	8'429.30	9'655.67	14.55%
SPAIN - IBEX 35	8'539.90	9'456.40	10.73%
NETHERLANDS - AEX	487.88	568.41	16.51%
RUSSIA - RTSI	107'700.00	123'890.00	15.03%

VOLATILITY

	31.12.2018	24.04.2019	% Chg YTD
SPX (VIX)	25.42	13.14	-48.31%

CURRENCIES

	31.12.2018	24.04.2019	% Chg YTD
EUR/USD	1.1482	1.1157	-2.83%
USD/JPY	109.6600	112.0900	2.22%
USD/CHF	0.9827	1.0206	3.86%
GBP/USD	1.2745	1.2902	1.23%
USD/CAD	1.3647	1.3495	-1.11%
EUR/CHF	1.1283	1.1386	0.91%

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CONTINUATION KEY FIGURES (CURRENT & YEAR TO DATE)

COMMODITIES (USD)

PRECIOUS METALS	31.12.2018	24.04.2019	% Chg YTD
GOLD USD/OZ	1279.45	1275.36	-0.32%
SILVER USD/OZ	15.49	14.95	-3.52%
PLATINUM USD/OZ	796.50	884.00	10.99%
ENERGY	**31.12.2018**	**24.04.2019**	**% Chg YTD**
WTI Crude Oil	45.41	65.89	45.10%
Brent Crude Oil	53.80	74.57	38.61%
Natural Gas	2.94	2.46	-16.33%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	2.447	2.32	2.522
GERMANY	-0.549	-0.606	-0.013
SWITZERLAND	-0.900	-0.718	-0.315
UK	0.756	0.752	1.177
JAPAN	-0.145	-0.129	0.128

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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