NEWSLETTER JUNE 2019

T&T International Group
Your 360° Wealth Partner

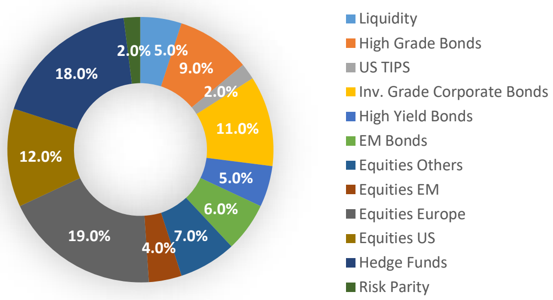
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Canadian Equities Global Equities Japanese Equities Global Quality 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	**Bonds**	Developed market high grade bonds 10-Year Japanese Gvt Bonds vs. JPY Cash 2-year Italian Govt. Bonds (↘)
Euro Norwegian Krone US Dollar Japanese yen (1-4 year horizon) EM FX (ZAR,INR,IDR) (↗)	**Foreign Exchange**	Swiss Franc Canadian Dollar Australian dollar Base Currency DM FX (AUD,NZD,TWD) (↘)
	Hedge Funds	

ASSET ALLOCATION

In our base case, global growth should stabilize in the second half of the year. However, the rhetoric around US-China trade has deteriorated recently, raising downside risk for the global economy and financial markets. In our base case, we expect a US China trade deal or truce over the next six months, though only after a bumpy negotiation process that potentially leads to spikes in market volatility. In a scenario of prolonged uncertainty with lower consumer confidence and slowing investments, we see risk of the global economy growing below trend rather than above it. Overall, we hold a broadly risk-neutral investment stance.

BALANCED USD MODEL PORTFOLIO



EQUITIES

While we still expect global economic growth to stabilize in the second half of the year, and the oil price to make further gains over the next six months, risk is increasing around China-US trade negotiations. Assuming the risk scenarios we are monitoring do not materialize, we believe equities can advance moderately. Equity valuations look fair rather than expensive and with an attractive equity risk premium stocks remain attractively valued relative to bonds. We overweight Canadian equities versus Swiss stocks. Swiss equity valuations are relatively unattractive while a firm oil price should sustain energy earnings. We also have an overweight in Japanese equities vs Eurozone equities. While both the Eurozone and Japan are heavily geared to the global cycle, the former has priced in a macro recovery while the latter has not. Eurozone stocks look expensive compared to the Japanese market.

CONTACT DETAILS T&T INTERNATIONAL GROUP

T&T International Wealth Mangement Ltd.
Feldeggstrasse 80
CH-8008 Zürich - Switzerland
Tel.: +41 (0) 43 844 0 844
Fax: +41 (0) 43 844 0 845
www.tt-international.ch
info@tt-international.ch

Local Contact Points in:

- Colombia
- Costa Rica
- Curaçao
- Mexico
- Panama
- Peru

For details please consult: www.tt-international.ch/locations/

BONDS	FOREIGN EXCHANGE
We hold an overweight in EUR IG against higher-rated bonds, while under-weighting 2-year Italian government bonds. This position is slightly carry positive, and offers 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.	We add a basket of select EM currencies (South African rand, Indian rupee, Indonesian rupiah) vs pro-cyclical developed market currencies (Australian dollar, New Zealand dollar, Taiwanese dollar) to harvest the interest rate advantage without being too strongly exposed to US-China trade tensions and other global risk-on vs. risk-off considerations.We keep our short AUD vs long USD. The AUD is a cyclical currency that tends to suffer when risk aversion rises and foreign investors repatriate assets. Australia is also heavily exposed to Chinese trade flows, and with a slowing Australian economy we think the RBA may be preparing for a rate cut. We maintain our overweights in the Norwegian krone against the Canadian dollar and the Swiss franc, and our overweight in the euro vs the Swiss franc.

Source: UBS Research

TOPIC OF THE MONTH

US THREATENS MEXICO WITH TARIFFS

The dispute between the US and its major trading partners is widening. President Trump has announced his intention to impose tariffs on all imports from Mexico from 10 June. The tariffs would start at 5% and rise by 5% each month up to 25% "until the illegal immigration problem is remedied".

At this point it is uncertain whether the full scale of tariffs will be implemented. Businesses are unlikely to be in favor, and a decision to impose tariffs which ignored NAFTA and WTO rules would also likely be challenged. President Trump has cited the International Emergency Economic Powers Act (IEEPA) as the authority for his proposed tariffs. This has previously been used to impose sanctions or freeze assets, but never to implement tariffs. But while there might be a legal challenge, the Congressional Research Service has concluded that tariffs are probably allowed under the statute.

So Congress is the most likely check on the president's authority, but has never attempted to terminate a national emergency invoking IEEPA. The question is whether there is political will to challenge the president, which would require a concerted bipartisan effort. There is broad bipartisan support for the Trump administration's overarching goal of "fair trade," but support is a bit thinner when it comes to tactics, in particular for the imposition of tariffs. The target could also matter. US voters and politicians would be more likely to support action against China, viewed as a geopolitical and economic rival, than against Mexico.
If the tariffs were implemented, we see the following effects:

• **The impact on US GDP could be significant.** The US imported USD 352bn in goods from Mexico in 2018, more than the USD 250bn of imports from China currently subject to tariffs. We already estimate that if the US followed through on its threat to levy a 25% tariff on all Chinese imports (USD 550bn) in a prolonged trade dispute, this could reduce US GDP growth by 1 percentage point. A 25% tariff on Mexican goods as well would risk the US falling into recession.

• **Supply chains could be severely disrupted.** Two-thirds of US–Mexican trade is intra-company (compared with 40% for global trade). Those supply chains would be at risk. If investment is canceled and employment reduced, then the risk of a recession increases significantly. The imposition of US tariffs in 2018 led to business uncertainty and delayed investment decisions. This contributed to a slowdown in global manufacturing, particularly in Germany, in the first quarter of this year.

• **Tariffs would be difficult for consumers to avoid.** Mexico has been taking market share from China by selling products from the September 2018 US tariff list. It has taken share in a meaningful way in a number of areas including cameras, recording equipment, modems and computer components. US consumers will therefore find it harder to avoid import taxes if tariffs are imposed on both countries. For example, Mexico accounts for 35% of US imports of TVs. Tech hardware companies with exposure to computers, servers and TVs would therefore be most affected.

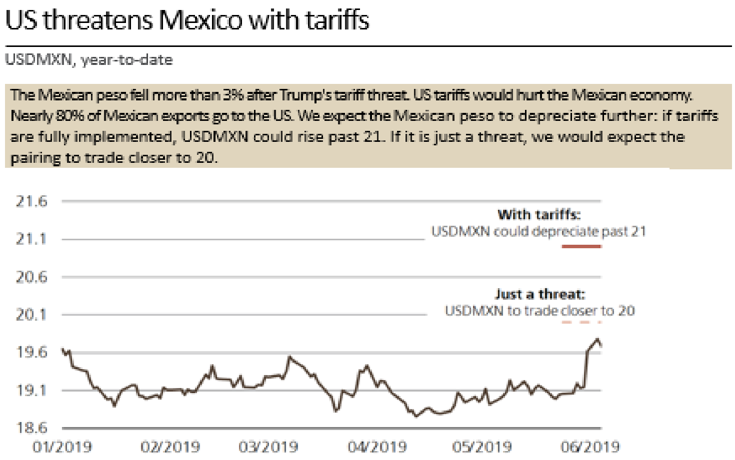
• **The auto sector would be hit particularly hard.** Autos and auto parts are the largest category of US imports from Mexico (USD 93bn in 2018). The impact would also be felt outside the US. For example, all major European car manufacturers and suppliers are active in Mexico. If 25% tariffs were implemented, we estimate that European auto industry earnings per share could be reduced by a mid-single digit percentage, even without taking into account the potential for tariffs on direct European imports.

Continued on page 3

CONTINUATION: US THREATENS MEXICO WITH TARIFFS

• **We would expect the Mexican peso to depreciate further**. In the event of the full scale of tariffs being implemented we would expect USDMXN to trade at 21.5 (vs. 20.0 in the event this proves to be just a threat).

This latest potential widening of the scope of tariffs illustrates the current fragility of US trade relations, and the importance of holding a diversified portfolio, both across geographic regions and sectors, to mitigate idiosyncratic risks. Against this backdrop, we have reduced risk in our tactical asset allocation over the past month, and also recommend countercyclical positions to help protect portfolios from downside risks.



Source: UBS House View / June 2019

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2018	03.06.2019	% Chg YTD
Dow Jones Ind.	23'327.46	24'965.82	7.02%
S&P 500	2'506.85	2'744.45	9.48%
RUSSELL 2000	1'344.83	1'469.98	9.31%
NASDAQ COMP	6'635.28	6'978.02	5.17%
CANADA - TSX	14'322.86	16'015.89	11.82%
MEXICO - IPC	41'685.05	42'801.69	2.68%
BRAZIL IBOVESPA	87'887.26	97'020.48	10.39%
COLOMBIA COLCAP	1'325.96	1'487.00	12.15%
ASIA	**31.12.2018**	**03.06.2019**	**% Chg YTD**
JAPAN- NIKKEI	20'014.77	20'410.88	1.98%
H.K. HANG SENG	25'845.70	26'893.86	4.06%
CHINA CSI 300	3'010.65	3'632.01	20.64%

VOLATILITY

	31.12.2018	03.06.2019	% Chg YTD
SPX (VIX)	25.42	18.68	-26.51%

EQUITY INDICES (LOCAL CURRENCIES)

EUROPE	31.12.2018	03.06.2019	% Chg YTD
EURO STOXX 50	3'001.42	3'300.22	9.96%
UK - FTSE 100	6'728.13	7'184.80	6.79%
GERMANY - DAX	10'558.96	11'792.81	11.69%
SWITZERLAND - SMI	8'429.30	9'602.73	13.92%
SPAIN - IBEX 35	8'539.90	9'022.80	5.65%
NETHERLANDS - AEX	487.88	540.72	10.83%
RUSSIA - RTSI	107'700.00	129'300.00	20.06%

CURRENCIES

	31.12.2018	03.06.2019	% Chg YTD
EUR/USD	1.1482	1.1244	-2.07%
USD/JPY	109.6600	108.0600	-1.46%
USD/CHF	0.9827	0.9923	0.98%
GBP/USD	1.2745	1.2662	-0.65%
USD/CAD	1.3647	1.3441	-1.51%
EUR/CHF	1.1283	1.1158	-1.11%

Continued on page 4

CONTINUATION KEY FIGURES (CURRENT & YEAR TO DATE)

COMMODITIES (USD)

PRECIOUS METALS	31.12.2018	03.06.2019	% Chg YTD
GOLD USD/OZ	1279.45	1325.17	3.57%
SILVER USD/OZ	15.49	14.79	-4.52%
PLATINUM USD/OZ	796.50	823.00	3.33%
ENERGY	**31.12.2018**	**03.06.2019**	**% Chg YTD**
WTI Crude Oil	45.41	53.25	17.26%
Brent Crude Oil	53.80	61.28	13.90%
Natural Gas	2.94	2.40	-18.37%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	2.641	1.84	2.081
GERMANY	-0.588	-0.641	-0.207
SWITZERLAND	-0.800	-0.806	-0.470
UK	0.731	0.571	0.862
JAPAN	-0.150	-0.129	0.128

T&T INTERNATIONAL GROUP

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