NEWSLETTER September 2019

T&T International Group
Your 360° Wealth Partner

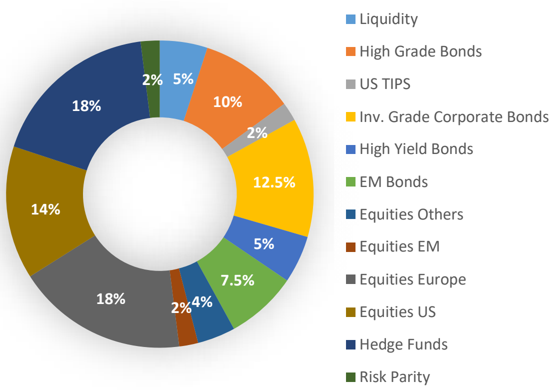
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Japanese Equities US 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) Emerging Market Equities (↘) Eurozone Equities
Emerging Markets Soverein Bonds in USD Euro Investment Grade Corporate Bonds Global Green Bonds Time to be more selective in EM Credit	**Bonds**	Developed market high grade bonds (↗) 2-year US Treasuries vs. USD cash
Norvegian Krone versus... Norvegian Krone versus... British Pound versus... EM FX (INR,IDR) versus... (↘) Japanese yen (1-4 year horizon)	**Foreign Exchange**	...Euro ...Canadian Dollar ...USD Dollar ...DM FX (AUD,TWD) (↗)
	Hedge Funds	

ASSET ALLOCATION

Risks to the global economy and markets have increased following a renewed escalation in US-China trade tensions. While we still don't expect the US economy to fall into recession, we think near-term risks, in particular to equity markets, have risen further. We are thus reducing our exposure to global equities and introducing an underweight in emerging market (EM) equities against high grade bonds. This is a moderate tactical risk reduction and we would caution against large equity underweights, given the longer-term value of stocks in an environment of ultralow rates, and also keeping in mind that risk is currently not primarily driven by a looming recession, but by geopolitics. Meanwhile we are keeping our carry positions unchanged. Global central bank easing still leaves investors reaching for yield.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Economic risks have risen in a way that is likely to lead the Fed and the ECB to respond. Recent data points to a slowing in global growth, driven by a downturn in the manufacturing sector. While equity valuations look attractive relative to bonds in the long run, near-term risks around China-US trade have increased. We are opening an underweight in EM equities against high grade bonds. EM firms are more exposed to heightened market volatility, a slowing global economy, and heightened trade tensions. We keep the overweight in Japanese and US equities vs Eurozone equities. While both the Eurozone and Japan are geared to the global cycle, the former has priced in a macro recovery while the latter has not. Eurozone stocks look expensive compared to Japanese. We prefer US versus Eurozone stocks as the former should deliver superior profit growth in 2019 and 2020. We also believe that the Fed has more ammunition than the ECB to combat slowing growth should trade tensions escalate

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 see:
www.tt-international.ch/locations/

BONDS

We keep our overweight in EUR IG against higher-rated bonds. We expect the former to be supported by stabilizing Eurozone growth and accommodative ECB policy. We consider the carry attractive against healthy corporate fundamentals and our base case of no recession over the coming 12 months. We keep our overweight in EM sovereign bonds in USD against HG bonds, as the search for yield should provide continued support and valuations have become more appealing. We think the market pricing of more than 1% of Fed cuts is too pessimistic and maintain our tactical short on the 2-year US Treasury note.

FOREIGN EXCHANGE

We are reducing the overweight of our basket of emerging market currencies and adjusting the composition. Specifically, we are closing the overweight ZAR and the underweight NZD. The remaining basket (overweight INR, IDR vs. AUD, TWD) aims to earn the interest rate advantage without being too strongly exposed to US–China trade tensions. We retain our NOK overweight position against the CAD and the EUR to benefit from central bank divergences - Norway's central bank is unique in its intention to continue raising rates. We keep our long GBP versus short USD position. Sterling has become very cheap against purchasing power parity and we think no-deal Brexit risks for October have been overpriced.

Source: UBS House View September 2019

TOPIC OF THE MONTH

LOOK BEYOND MARKET SELL OFF

The “risk-off” mood in global markets deepened last week – as global government bond yields plunged to historical lows and the inversion of part of the US Treasury curve sparked recession fears. Perceived safe-haven assets such as gold rallied. We still see limited near-term recession risks as central banks’ dovish pivot helps stretch the economic cycle, yet caution that trade and geopolitical tensions pose downside risks.

A resurgence in geopolitical tensions has raised concerns about downside risks to the economic outlook. These have been reflected in a sell off in equities and a rally in prices of developed market (DM) government bonds (corresponding to a decline in their yields). US 10-year Treasury yields have dropped to the lowest level in three years. German 10-year government bond yields hit all-time lows, deeper in the negative territory. See the chart aside. Yields on longer-maturity bonds also declined, with 30-year yields plunging to record lows in the US, UK, Germany and Switzerland. A US Treasury yield curve inversion – with two-year yields now exceeding their 10-year counterparts – further spooked markets. Such inversions in the past have often foreshadowed recessions, but we believe the signalling power of the yield curve has diminished amid changing market dynamics.

Ten-year government bond yields, 2009-2019

Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, August 2019. Notes: The data are based on the 10-year government bond yields of the U.S., UK, Germany and Japan from July 1, 2009.

Examining market dynamics

The European Central Bank (ECB)’s aggressive dovish pivot, a surge in short-dated Treasuries issuance and heavy buying of longer-dated Treasuries from institutions such as pension funds have all contributed to a flattening yield curve. A collapse in the term premium – or the excess yield investors demand for holding longer maturities – and a global savings glut have also pushed down long-term interest rates. As a result, we caution against using the flattening yield curve in isolation as a signal. To be sure: We did downgrade our growth outlook, as trade and geopolitical frictions are stoking greater macro uncertainty. Yet we see little near-term risk of US recession. One sign of still resilient economic fundamentals: Financial conditions in the US, eurozone and Japan remain accommodative, even after having tightened noticeably over the last few weeks due to intensifying US-China tensions.

Continued on page 3

CONTINUATION: LOOK BEYOND MARKET SELL OFF

We are moderately constructive on equities, with the expansion intact and valuations still reasonable. It also shows equities have historically performed well in late-cycle periods. Yet geopolitical tensions are likely to trigger bouts of significant volatility. The market is vulnerable to sentiment swings: The bulk of global equity market returns this year has been driven by multiple expansion, rather than earnings growth. The resilience of US corporate earnings in the first half of 2019 underlines our preference to US equities. Earnings were roughly in line with year-ago levels, and surprised to the upside, albeit against sharply lowered expectations. This is no small feat, as early-2018 earnings were boosted by tax cuts. European corporates are expected in aggregate to post earnings declines for the second quarter – but not as steep as in the first quarter.

Source: Blackrock Aug 19, 2019

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2018	28.08.2019	% Chg YTD
Dow Jones Ind.	23'327.46	26'036.10	11.61%
S&P 500	2'506.85	2'887.94	15.20%
RUSSELL 2000	1'344.83	1'472.71	9.51%
NASDAQ COMP	6'635.28	8'109.09	22.21%
CANADA - TSX	14'322.86	16'271.65	13.61%
MEXICO - IPC	41'685.05	40'941.96	-1.78%
BRAZIL IBOVESPA	87'887.26	98'193.53	11.73%
COLOMBIA COLCAP	1'325.96	1'536.69	15.89%
ASIA	**31.12.2018**	**28.08.2019**	**% Chg YTD**
JAPAN- NIKKEI	20'014.77	20'479.42	2.32%
H.K. HANG SENG	25'845.70	25'614.48	-0.89%
CHINA CSI 300	3'010.65	3'802.58	26.30%
EUROPE	**31.12.2018**	**28.08.2019**	**% Chg YTD**
EURO STOXX 50	3'001.42	3'365.38	12.13%
UK - FTSE 100	6'728.13	7'114.71	5.75%
GERMANY - DAX	10'558.96	11'701.02	10.82%
SWITZERLAND - SMI	8'429.30	9'758.19	15.77%
SPAIN - IBEX 35	8'539.90	8'747.10	2.43%
NETHERLANDS - AEX	487.88	548.38	12.40%
RUSSIA - RTSI	107'700.00	126'580.00	17.53%

VOLATILITY

	31.12.2018	28.08.2019	% Chg YTD
SPX (VIX)	25.42	18.28	-28.09%

CURRENCIES

	31.12.2018	28.08.2019	% Chg YTD
EUR/USD	1.1482	1.1084	-3.47%
USD/JPY	109.6600	106.0100	-3.33%
USD/CHF	0.9827	0.9813	-0.14%
GBP/USD	1.2745	1.2215	-4.16%
USD/CAD	1.3647	1.3311	-2.46%
EUR/CHF	1.1283	1.0877	-3.60%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2018	28.08.2019	% Chg YTD
GOLD USD/OZ	1'279.45	1'538.95	20.28%
SILVER USD/OZ	15.49	18.36	18.53%
PLATINUM USD/OZ	796.50	903.75	13.47%
ENERGY	**31.12.2018**	**28.08.2019**	**% Chg YTD**
WTI Crude Oil	45.41	55.78	22.84%
Brent Crude Oil	53.80	60.49	12.43%
Natural Gas	2.94	2.22	-24.49%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	1.992	1.504	1.468
GERMANY	-0.719	-0.883	-0.718
SWITZERLAND	-0.990	-1.09	-1.083
UK	0.752	0.344	0.444
JAPAN	-0.150	-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 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.

UNSUBSCRIBE

If you do not wish to receive our Newsletter, you may unsubscribe at any time.
Simply reply by email with "Unsubscribe" to bbaettig@tt-international.ch

DISCLAIMER