NEWSLETTER FEBRUARY 2022

T&T International Group
Your 360° Wealth Partner

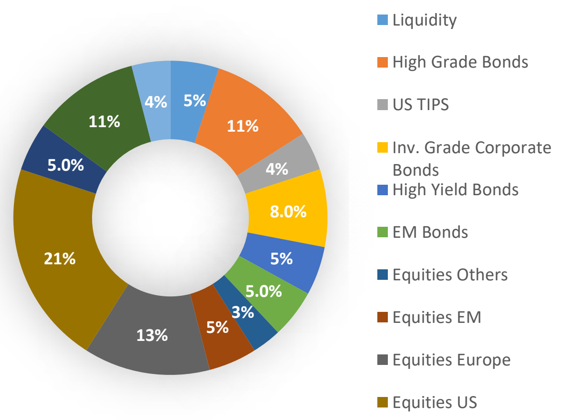
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Eurozone equities Global Financials Value Commodities and Energy Stocks Disruptive technologies (ABCs of tech, 5G, Digital assets and fintech) Greentech, clean air and carbon reduction Global healthtech, medical devices, genetic therapies	**Equities**	Global industrials Global real estate Global consumer staples Excess mega-cap tech Least Preferred Stocks
Alternative yield (US senior loans, private credit, synthetic credit, active strategies inc. ESG) Investing in the crossover zone Sustainable bonds	**Bonds**	Expensive and sell-rated bonds High grade bonds
USD, GBP, NOK, NZD, AUD Hawks vs. Doves	**Currencies**	CHF, EUR, SEK
Commodities Oil	**Precious Metals & Commodities**	

ASSET ALLOCATION

In 2022, we face a transition from an environment of high growth and high inflation to one of more moderate growth and inflation. Now, uncertainty about whether the Federal Reserve can still steer us to a soft landing has driven market volatility to its highest level in more than a year. Since omicron cases spiked in December, fears of slower growth and higher inflation have weighed on equities. Tensions between Russia and Ukraine are worsening these concerns.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Equities have entered in a period of heightened volatility as the Fed turned hawkish, and the omicron variant raised concerns about global growth and supply chain disruptions again. COVID-19, inflation and policy uncertainty will likely shape financial markets and could produce episodes of risk-off behavior. However, we believe that earnings growth remain supportive of equities. Overall, resilient end demand and easing inflation bode well for top line growth. Also, China is showing signs of bottoming out, with manufacturing PMIs ticking up and the credit impulse levelling out. In this environment, we remain positive on global equities, although we expect higher volatility ahead.

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BONDS

As economies reopen, inflation has spiked and remains at elevated levels. We expect price pressures to ease as global supply chains overcome pandemic-related interruptions and energy prices stabilize. Fiscal stimulus of the magnitude enacted has gone beyond replacing incomes lost to the pandemic. The consequent excess savings and pent-up demand as the US economy reopens are resulting in a strong growth impulse. The combination of strong growth, a March end to Fed asset purchases followed directly by policy rate hikes, and low market implied terminal policy rates lead us to believe that rates should move slowly higher. Within credit, we are neutral DM high yield as the upside appears limited from current levels. US investment grade remains least preferred due to tight valuations and its vulnerability to rising yields. At the same time, we recently moved Asia high yield bonds from most preferred to neutral as a result of continuing liquidity stress in China's USD property bond space, tight valuations for non-China Asia credits, and very negative secondary credit market technical.

CURRENCIES

Among G10 currencies, we prefer the USD and the GBP and have the least preference for EUR and CHF. USD should be supported as US inflation has risen to a level where the Fed will hurry up with rate hikes. Even a reduction of the Fed's balance sheet is likely in the course of 2022. The GBP should also be supported by a series of rate hikes. The Swiss franc and the EUR are our least preferred currencies as the USD is strong enough to cover any potential demand for safe havens and CHF and EUR will be used increasingly to finance carry trades. We change the JPY from least preferred to neutral as the Bank of Japan has become more cautious about inflation pressure. The CNY is expected to weaken moderately versus the USD amid diverging US-China monetary policy dynamics.

Source: UBS House View February 2022

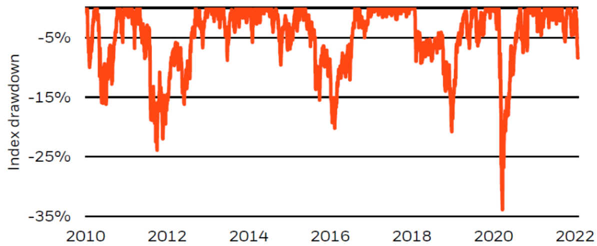
TOPIC OF THE MONTH

KEEPING MODEST EQUITY OVERWEIGHT

Context is crucial. The equity retreat is far from magnitudes that warrant a wholescale reassessment. The chart aside shows the major drawdowns – calculated as the peak-to-trough moves over a rolling one-year period – for the MSCI All-Country World index. The takeaway: This pull-back is modest compared with some of the drops seen over the past decade. It also comes after a particularly strong run for risk assets. We believe the drawdown is consistent with our expectation for confusion and heightened volatility. The market has front-loaded pricing of Fed rate hikes over the next two years. Yet importantly, the sum total of Fed rate hikes hasn't changed – only the timing. That's why we think the move in equities cannot be explained by this repricing alone. The US equity risk premium – the preferred valuation gauge as it takes into account both earnings expectations and the interest rate environment – has moved up. It reflects confusion about whether the Fed will go further than priced and deliberately destroy demand to get inflation down, as well as worries on the geopolitical front.

Putting the equity selloff in context

Global equities rolling one-year price drawdown, 2010-2022



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, Jan. 28, 2022. Notes: The chart shows the price fall from the maximum level of the MSCI All-Country World Index over the previous one-year period.

It might be possible that the markets will deliver a second successive year of equity gains and bond losses. The underlying drivers are unchanged. Yet the risk is that central banks and markets might misinterpret the unusual restart and supply-driven inflation. The confusion is playing out via a swift market repricing of Fed policy expectations and surging short-term yields.

What might be the reason for an overweight in equities? For an upgrade, there would be need to see a deeper retreat or the Fed acknowledging that it will live with some inflation to keep the restart going in a trade-off of its objectives. For a downgrade, we would look to see if the Fed prioritizes fighting inflation over activity – with or without acknowledging a trade-off between its objectives. We got a hint of a tougher inflation stance last week but would need to see more evidence of a more forceful shift in tactics on inflation.

But there is uncertainty lingering for a few reasons. First, policy confusion can persist. The Fed is rightly intent on normalising policy quickly. The restart does not need stimulus, so the Fed should take its foot off the accelerator. Our worry: The Fed likens the current normalisation to a previous episode in 2015. We think such logic could lead the Fed to overtighten policy. This is a restart, not a typical recovery. The restart will quickly slow down on its own. Inflation is driven by supply constraints following a huge shift in demand during the pandemic, not an overheating economy – so the traditional policy playbook does not apply. The Fed will eventually back off but are prepared for a bumpy ride in markets. Second, geopolitical risks – while typically not long-lasting market events – could weigh on investor sentiment, including the stand-off over Ukraine and the Iran nuclear deal. Third, equity valuations by our measure are only modestly cheaper and reflect some of the confusion we describe. With market attention on the Fed repricing, companies beating estimates have not yet been rewarded this earnings season. Yet we think fundamentals will prevail, and that's one reason why we are not downgrading our modest equities overweight.

Source: Blackrock 01.02.2022

KEY FIGURES 2022

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2021	01.02.2022	% Chg YTD
Dow Jones Ind.	36'338.30	35'405.24	-2.57%
S&P 500	4'766.18	4'546.54	-4.61%
RUSSELL 2000	2'245.31	2'050.74	-8.67%
NASDAQ COMP	15'644.97	14'346.00	-8.30%
CANADA - TSX	21'294.64	21'319.92	0.12%
MEXICO - IPC	53'272.44	51'782.67	-2.80%
BRAZIL IBOVESPA	104'822.44	112'143.50	6.98%
COLOMBIA COLCAP	1'415.79	1'538.02	8.63%
ASIA	**31.12.2021**	**01.02.2022**	**% Chg YTD**
JAPAN- NIKKEI	27'444.17	27'001.00	-1.61%
H.K. HANG SENG	27'231.13	23'802.26	-12.59%
CHINA CSI 300	5'211.29	4'563.77	-12.43%
EUROPE	**31.12.2021**	**01.02.2022**	**% Chg YTD**
EURO STOXX 50	4'298.41	4'224.45	-1.72%
UK - FTSE 100	7'384.54	7'535.78	2.05%
GERMANY - DAX	15'884.86	15'619.39	-1.67%
SWITZERLAND - SMI	12'875.66	12'359.80	-4.01%
SPAIN - IBEX 35	8'713.80	8'726.70	0.15%
NETHERLANDS - AEX	797.93	765.22	-4.10%
RUSSIA - RTSI	159'390.00	145'610.00	-8.65%

VOLATILITY

	31.12.2021	01.02.2022	% Chg YTD
SPX (VIX)	22.75	21.96	-3.47%

CURRENCIES

	31.12.2021	01.02.2022	% Chg YTD
EUR/USD	1.1374	1.1234	-1.23%
USD/JPY	115.15	114.7	-0.39%
USD/CHF	0.911	0.9212	1.12%
GBP/USD	1.3543	1.3523	-0.15%
USD/CAD	1.2633	1.2683	0.40%
EUR/CHF	1.0361	1.0385	0.23%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2021	01.02.2022	% Chg YTD
GOLD USD/OZ	1'821.50	1'821.50	0.00%
SILVER USD/OZ	23.18	23.18	0.00%
PLATINUM USD/OZ	960.5	960.5	0.00%
ENERGY	**31.12.2021**	**01.02.2022**	**% Chg YTD**
WTI Crude Oil	75.21	88.20	17.27%
Brent Crude Oil	79.32	89.16	12.41%
Natural Gas	3.73	4.75	27.35%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	0.216	1.165	1.8
GERMANY	-0.669	-0.471	0.034
SWITZERLAND	-0.74	-0.673	0.075
UK	0.357	1.064	1.302
JAPAN	-0.095	-0.049	0.174

T&T INTERNATIONAL GROUP

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