NEWSLETTER APRIL 2022

T&T International Group
Your 360° Wealth Partner

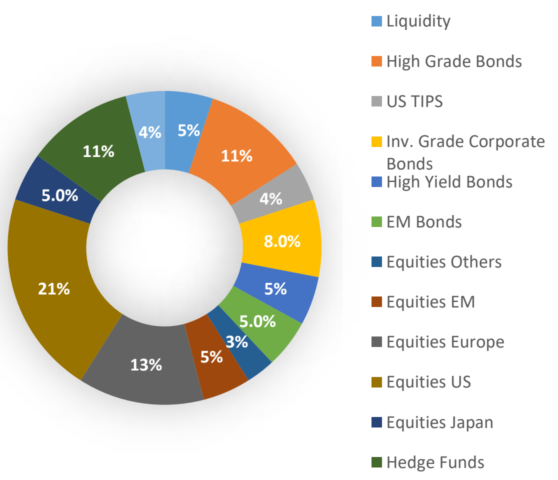
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Energy security (greentech, clean air and carbon reduction, energy efficiency) Food security (food revolution, agricultural yield) Cybersecurity Global healthcare Select quality stocks Global Value Chinese equities 5G and digital economy Automation & robotics, smart mobility, consumer experience	**Equities**	Limited upside list CIO Least preferred stocks Excess Eurozone stocks Cash
US senior loans Active credit inc. ESG) Private credit	**Bonds**	Expensive and sell-rated bonds Excess high grade bonds Excess investment grade bonds
USD, GBP, NOK, AUD, NZD	**Currencies**	CHF, EUR, SEK
Commodities Oil	**Precious Metals & Commodities**	

ASSET ALLOCATION

We face significant geopolitical and economic uncertainty today. The war in Ukraine has escalated and triggered a growing humanitarian crisis. Sanctions have been imposed, disrupting commodity flows and creating extreme volatility in some markets. Cease-fire talks have yet to yield results. Elsewhere, the Federal Reserve increased interest rates for the first time since 2018, responding in part to the effect of higher commodity prices on inflation. China, facing its biggest COVID-19 outbreak since the beginning of the pandemic, has signaled a potentially major shift in economic policy. How has the market been responding to this uncertainty cocktail? Recently, stocks have been going up, in part because rising bond yields and inflation have left many market participants believing that “There is no alternative” to equities given Fed policy. However, the flip side of that is, the same Federal Reserve is currently warning that further sanctions on Russian oil could lead to an “unavoidable” recession. In the near term, we believe that outcomes for markets will focus primarily on the question of when we will reach—or if we have already reached—peak sanctions and oil prices. The answer to this is uncertain, and political. Currently, European diplomats we speak to seem more upbeat than their American counterparts about the prospects of a resolution to the war.

BALANCED USD MODEL PORTFOLIO



EQUITIES

The In our global tactical asset allocation, we are neutral on equities. Within equities as a whole, we like global energy stocks. The MSCI All Country World Index had a rough start this year, driven by higher-thanexpected inflation readings, a more hawkish Federal Reserve, and geopolitical tensions. The war in Ukraine, along with a shift in central bank monetary policy, has weighed on investor sentiment. Geopolitical events rarely cause a recession. Traditionally, equity corrections around wars and oil-market disruptions can be sharp but are generally short-lived. However, the global earnings revisions index, which measures the net upgrades and downgrades in analysts' corporate earnings estimates, has turned negative for the first time since July 2020, indicating lower expected returns. In an environment of high inflation and less accommodative central banks, equity returns rely more on earnings, which we still expect to grow in the high-single-digit rates this year.

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BONDS

Since the start of the year, interest rate volatility has spiked as intensifying price pressures have led major central banks to ramp up their hawkish guidance and accelerate the speed at which they are unwinding policy support. This has resulted in an increase in the speed and magnitude of rate hikes expected in the front of yield curves. Additionally, these developments have seen some spillover into credit markets, with spreads on investment grade, high yield, and emerging market bonds widening. The war in Ukraine has now added another consideration. In the credit space, we upgrade our view on IG to neutral from least preferred as the recent widening of spreads has presented pockets of value and removed a potential source of underperformance. On HY, we remain neutral and believe fundamentals are in good shape and, like IG, we see some opportunities. Emerging market credit is a neutral recommendation, and the uncertainty regarding Russian credit, which is now trading at distressed levels, warrants a cautious bias. Finally, we have a most preferred recommendation on loans given strong corporate fundamentals, market technicals, and low sensitivity to rising rates.

CURRENCIES

Among G10 currencies, we prefer the US dollar and sterling and are least preferred the euro and the Swiss franc. The greenback should be supported as US inflation has risen to a level where the Federal Reserve is hurrying to raise rates and reduce its balance sheet. The British pound is supported for the same reason. Market enthusiasm about ECB rate hikes may eventually support both the euro and the franc, but this year we think that higher yields in the US and the Fed's commitment are the dominating factors. The war in Ukraine puts additional pressure on these two currencies. In our view, the USD is strong enough to cover any demand for safe havens, and the CHF and the EUR will be used increasingly to finance carry trades. The GBP should also be supported by a series of rate hikes. We keep the Japanese yen at neutral as the Bank of Japan has become more cautious about inflation pressure, and we think that it will stabilize after its recent weakening. We expect the Chinese yuan to weaken moderately against the USD amid diverging US-China monetary policy dynamics.

Source: UBS House View April 2022

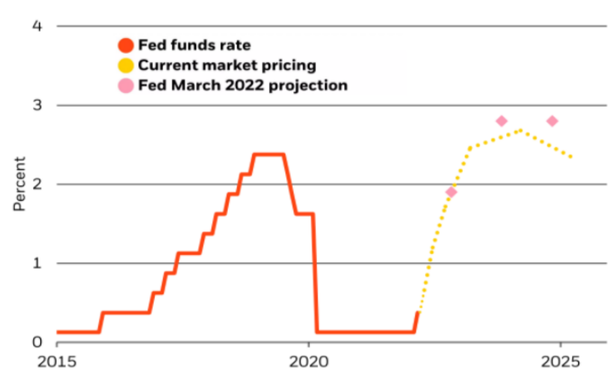
TOPIC OF THE MONTH

THOUGH FED TALK ON INFLATION, LITTLE BITE

The Fed last week signaled a large and rapid increase in its policy rate over the next two years and struck a surprisingly hawkish tone, indicating it's ready to go beyond normalizing to try to tame inflation. It's easy to talk tough, and we believe the Fed is unlikely to fully deliver on its projected rate path. The reason? It would come at too high a costto growth and employment. We do now see a higher risk of the Fed slamming the brakes on the economy as it may have talked itself into a corner.

The Federal Reserve has kicked off its hiking cycle with a quarter-point increase – the first since 2018. The decision was expected. What surprised was the Fed's stated goal to get the fed funds rate to 2.8% by the end of 2023 (see the pink dots on the chart). This level is in the territory of destroying growth and employment, in our view. At the same time, the Fed's latest economic projections pencil in persistently high inflation but low unemployment – even as it has called current labor conditions tight. We believe this means the Fed either doesn't realise its rate path's cost to employment or – more likely – that it shows its true intention: to live with inflation. This could be necessary to keep unemployment low because inflation is primarily driven by supply constraints and high commodities prices.

US federal funds rate, market pricing and Fed projections, 2015-2025



Sources: BlackRock Investment Institute, with data from Haver Analytics, March 2022.

BoE provides a glimpse ahead

The Bank of England (BoE), the first major developed market (DM) bank to kick off the current hiking cycle, increased its policy rate for the third time to 0.75%. Like the Fed, the BoE recognized additional inflation pressures from high energy and commodity prices.

The BoE provides a glimpse of what other DM central banks may do once they get back to pre-pandemic rate levels and the effect of rate rises on growth become apparent. The Fed's tone may change as the consequences for growth become more apparent after aggressively hiking this year. The Fed last week perhaps wanted to appear tough by implying even more rate increases in future years to keep inflation expectations anchored, in our view, without expecting to deliver those hikes. To be sure: The Fed will normalize policy because the economy no longer needs pandemic-induced stimulus. It has also signaled it will start reducing its balance sheet, marking the start of quantitative tightening. Finally, we expect the Fed to raise the fed funds rate to around 2% this year – close to pre-pandemic neutral levels – and then pause to evaluate the effects.

Market backdrop

Stocks rallied and government bond yields climbed last week after the Fed raised rates and Chinese policymakers soothed beaten-down Chinese markets. Chinese equities rebounded after officials suggested an end to the crackdown on tech companies and announced a relaxation of Covid restrictions to hit growth targets. It is probable that China's ties to Russia have created a risk of geopolitical stigma, including potential sanctions.

KEY FIGURES 2022

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2021	24.03.2022	% Chg YTD
Dow Jones Ind.	36'338.30	34'707.94	-4.49%
S&P 500	4'766.18	4'520.16	-5.16%
RUSSELL 2000	2'245.31	2'075.44	-7.57%
NASDAQ COMP	15'644.97	14'191.83	-9.29%
CANADA - TSX	21'294.64	31'937.89	49.98%
MEXICO - IPC	53'272.44	55'829.86	4.80%
BRAZIL IBOVESPA	104'822.44	119'052.91	13.58%
COLOMBIA COLCAP	1'415.79	1'587.40	12.12%
ASIA	**31.12.2021**	**24.03.2022**	**% Chg YTD**
JAPAN- NIKKEI	27'444.17	28'110.39	2.43%
H.K. HANG SENG	27'231.13	21'945.95	-19.41%
CHINA CSI 300	5'211.29	4'251.31	-18.42%
EUROPE	**31.12.2021**	**24.03.2022**	**% Chg YTD**
EURO STOXX 50	4'298.41	3'863.39	-10.12%
UK - FTSE 100	7'384.54	7'467.38	1.12%
GERMANY - DAX	15'884.86	14'273.79	-10.14%
SWITZERLAND - SMI	12'875.66	12'131.45	-5.78%
SPAIN - IBEX 35	8'713.80	8'305.10	-4.69%
NETHERLANDS - AEX	797.93	720.85	-9.66%
RUSSIA - RTSI	159'390.00	157'500.00	-1.19%

VOLATILITY

	31.12.2021	24.03.2022	% Chg YTD
SPX (VIX)	22.75	23.57	3.60%

CURRENCIES

	31.12.2021	24.03.2022	% Chg YTD
EUR/USD	1.1374	1.1007	-3.23%
USD/JPY	115.15	122.39	6.29%
USD/CHF	0.911	0.9299	2.07%
GBP/USD	1.3543	1.3191	-2.60%
USD/CAD	1.2633	1.2527	-0.84%
EUR/CHF	1.0361	1.0236	-1.21%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2021	24.03.2022	% Chg YTD
GOLD USD/OZ	1'821.50	1'958.50	7.52%
SILVER USD/OZ	23.18	25.55	10.22%
PLATINUM USD/OZ	960.5	1027.5	6.98%
ENERGY	**31.12.2021**	**24.03.2022**	**% Chg YTD**
WTI Crude Oil	75.21	112.34	49.37%
Brent Crude Oil	79.32	121.60	53.30%
Natural Gas	3.73	5.40	44.80%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	0.5584	2.124	2.341
GERMANY	-0.673	-0.199	0.5270
SWITZERLAND	-0.66	-0.255	0.5070
UK	0.64	1.36	1.648
JAPAN	-0.075	-0.025	0.23

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.

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