NEWSLETTER AUGUST 2018

T&T International Group
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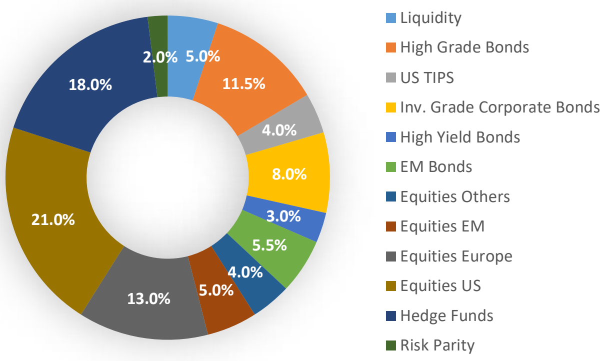
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Global Quality Stocks (↗) US Smart Beta "Buy Write" Strategy on US Equities Some Protection via Equity Put Options	**Equities**	
EM Sovereign Bonds in USD Selected EM Bonds European Leverage Loans (↗) 10-year US Treasuries vs. USD Cash Long-dated USD High Grade Bonds	**Bonds**	Euro High Yield 10-Year Japanese Gvt Bonds vs. JPY Cash
JPY vs ...	**Foreign Exchange**	TWD
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

The deteriorating situation in Turkey has led to weakness in emerging market (EM) assets and European financials over the month. Countries in the region have limited direct trade linkages or financial exposure to Turkey, and we see the contagion as being largely sentiment-driven. While global economic growth remains on a strong footing, trade tensions are still in focus, as the US has announced it is considering a 25% tariff on an additional USD 200bn of Chinese imports, raising the prospect of retaliatory measures. We expect trade tensions between the US and the rest of the world to increase further before new trade deals can be arranged. We maintain a largely neutral exposure to risk assets, as our moderate overweights in global equities and EM sovereign bonds are balanced by counter-cyclical positions.

BALANCED USD MODEL PORTFOLIO



EQUITIES

The US reporting season on second-quarter earnings delivered strong earnings growth of 25% y/y. These fundamentals, coupled with robust economic growth, supported US and global equities overall. Still, trade tensions linger. September is likely to bring more news flow on the imposition of additional US tariffs on 200bn of Chinese imports. With the USD being strong and Chinese economic data weakening somewhat lately, EM equities are facing a challenging environment. Against this backdrop, we hold a modest overweight on global equities and high grade bonds against euro high yield bonds.

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BONDS

We are underweight euro high yield bonds against a mix of equities and high grade (HG) bonds. We maintain our overweight on EM sovereign bonds in USD against HG bonds. The increase in spreads over the month has been largely sentiment-driven due to concerns on Turkey, which represents only 3.3% of the well-diversified EM sovereign bond index. The yield of 6.5% is attractive and EM economic surprises have recovered from their lows. We are overweight 10-year US Treasury bonds versus USD cash, as we think this part of the curve has largely priced in the ratehiking cycle and the carry is attractive. We are underweight 10-year Japanese government bonds versus JPY cash. We believe the Bank of Japan will allow yields to move further upwards as inflation picks up.

FOREIGN EXCHANGE

We are overweight the Japanese yen (JPY) versus the Taiwanese dollar (TWD). The long JPY position should benefit either from rising Japanese inflation prompting the BoJ to allow yields to move further upwards, or a downturn in global financial markets creating demand for the JPY's safehaven function. Meanwhile, Taiwan is exposed to risks arising from US trade policy disputes.

Source: UBS Research

TOPIC OF THE MONTH

THE TIME IS RIGHT TO INVEST IN USD MONEY MARKETS

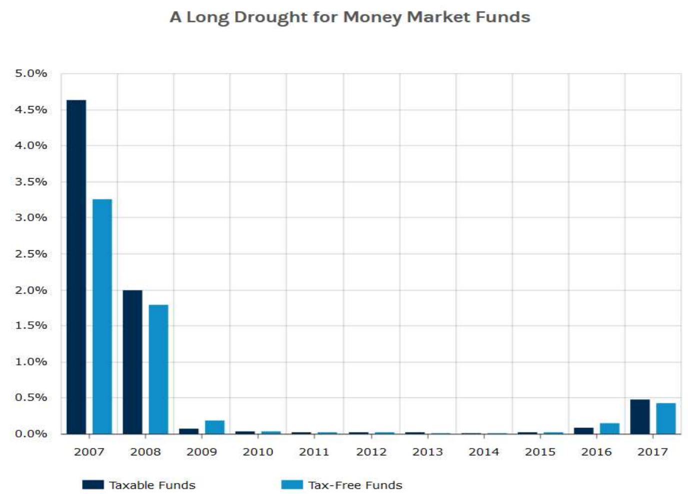
After years of paying almost no interest at all, money funds now pay something – and are likely to pay more as the year progresses. Increasing interest rates combined with an uncertain economic environment has resulted in USD Short Term Money Markets being an attractive asset class on its own for the first time in over a decade.

With the stock market suddenly much more volatile and bond prices falling, investors looking for a less risky place to stash their cash may want to consider money market mutual funds. Investors can now earn some yield while they keep a portion of their portfolio readily available to reinvest should an opportunity arise.

Money market funds can be part of an investment portfolio, they are suitable for investors seeking liquidity. The money market is where financial instruments with high liquidity and very short maturities are traded. It is used by participants as a means for borrowing and lending in the short term, with maturities that usually range from overnight to six months. Among the most common money market instruments are eurodollar deposits, negotiable certificates of deposit (CDs), banker's acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos).

Many investors forgot all about money market funds about 10 years ago when interest rates plunged following the financial crisis. Between 2009 and 2015, the average annual money fund return was just 0.05%, or just five basis points, according to Morningstar. In 2014, the average yield was one basis point. That’s a $10 annual return on a $100,000 account.

However, in the past year, as the Federal Reserve raised interest rates three times, money market yields have begun to inch up. In 2017 the average taxable money fund return was around 1 – 1.50%. Some fund companies now offer money market funds with yields over 2%. With the Federal Reserve pointing toward three more interest rate hikes this year, money market fund yields are likely to go higher still.



Source: Pictet, Morgan Stanley, Morningstar

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	30.08.2018	% Chg YTD
Dow Jones Ind.	24'719.22	26'052.90	5.40%
S&P 500	2'673.61	2'914.04	8.99%
RUSSELL 2000	1'551.45	1'734.75	11.81%
NASDAQ COMP	6'903.39	8'109.68	17.47%
CANADA - TSX	16'209.13	16'390.29	1.12%
MEXICO - IPC	49'354.42	50'143.70	1.60%
BRAZIL IBOVESPA	76'402.08	78'388.83	2.60%
COLOMBIA COLCAP	1'513.65	1'543.68	1.98%
ASIA	**31.12.2017**	**30.08.2018**	**% Chg YTD**
JAPAN- NIKKEI	22'764.94	22'869.50	0.46%
H.K. HANG SENG	29'919.15	28'164.05	-5.87%
CHINA CSI 300	4'030.85	3'351.09	-16.86%
EUROPE	**31.12.2017**	**30.08.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'432.08	-2.05%
UK - FTSE 100	7'687.77	7'518.70	-2.20%
GERMANY - DAX	12'917.64	12'496.90	-3.26%
SWITZERLAND - SMI	9'381.87	9'040.33	-3.64%
SPAIN - IBEX 35	10'043.90	9'479.80	-5.62%
NETHERLANDS - AEX	544.58	562.73	3.33%
RUSSIA - RTSI	115'840.00	108'480.00	-6.35%

VOLATILITY

	31.12.2017	30.08.2018	% Chg YTD
SPX (VIX)	11.04	12.36	11.96%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	2.123	2.669	2.864
GERMANY	-0.579	-0.613	0.367
SWITZERLAND	-0.800	-0.752	-0.086
UK	0.748	0.759	1.469
JAPAN	-0.140	-0.111	0.109

CURRENCIES

	31.12.2017	30.08.2018	% Chg YTD
EUR/USD	1.2005	1.1679	-2.72%
USD/JPY	112.7010	111.3670	-1.18%
USD/CHF	0.9746	0.9703	-0.44%
GBP/USD	1.3510	1.3021	-3.62%
USD/CAD	1.2574	1.2982	3.25%
EUR/CHF	1.1700	1.1328	-3.18%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	30.08.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'205.05	-7.50%
SILVER USD/OZ	16.92	14.66	-13.36%
PLATINUM USD/OZ	931.00	794.50	-14.66%
ENERGY	**31.12.2017**	**30.08.2018**	**% Chg YTD**
WTI Crude Oil	60.42	69.51	15.04%
Brent Crude Oil	66.87	77.14	15.36%
Natural Gas	2.95	2.89	-2.13%

T&T INTERNATIONAL GROUP

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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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We remain at your disposal for any questions or further information.

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