NEWSLETTER Oktober 2018

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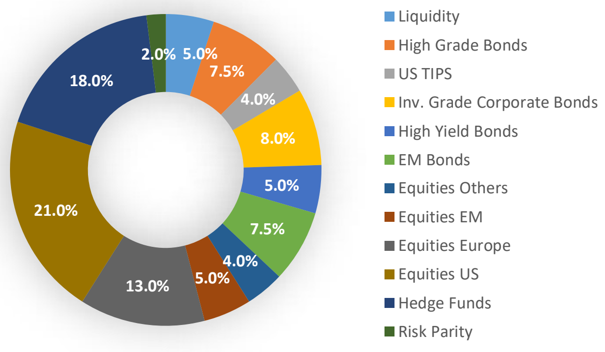
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Canadian Equities Global quality stocks US Smart Beta "Buy Write" Strategy on US Equities	**Equities**	Australian 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**	Developed market hig grade bonds 10-Year Japanese Gvt Bonds vs. JPY Cash
JPY vs ...	**Foreign Exchange**	TWD
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

Trade discussions remain centerstage, as the Trump admini-stration has announced tariffs on an additional USD 200bn of imports from China, and threatened tariffs on a further USD 267bn. However, the limited reaction to recent tariff announcements shows the market has already digested some of the trade concerns. Equity valuations are not particularly high, with the global earnings yield at around 6%. The global growth environment remains solid and inflation remains low. Leading US indicators signal continued good economic momentum, with the US ISM reaching its highest level this cycle, while the Eurozone and EM PMIs stabilized on aggregate. The Fed is set to raise rates later this month, and should continue to gradually raise rates. The ECB has announced it is likely to end QE at the end of the year, while we expect the first rate hike in September 2019. We keep a moderate overweight in global equities, which we are overweight against HG bonds.

BALANCED USD MODEL PORTFOLIO



EQUITIES

As we expected, further import tariffs were announced by the US and China. While these measures are likely to raise costs for the companies and therefore dampen earnings growth somewhat, the overall earnings generation looks robust. Therefore, we keep a modest overweight in global equities. We add an overweight in Canadian equities versus an underweight in Australian stocks. Canadian equities are attractively valued relative to Australian stocks and show stronger earnings growth. While not our base case, a breakdown in NAFTA talks poses a risk to this trade.

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BONDS

We close our underweight in euro high yield (HY) bonds. Euro HY spreads have widened 70bps year-to-date on the back of political uncertainty in Italy and moderating economic growth in the Eurozone, while risks relating to these factors have eased. We increase our overweight on EM sovereign bonds in USD against HG bonds. EM fundamentals and the attractive yield of 6.6% support the position. We are overweight 10-year US Treasuries versus USD cash, as we think this part of the curve has largely priced in the rate-hiking 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

WHY STOCKS STILL HOLD RELATIVE APPEAL

Our overweight in global equities remains because we think that the US – the world's largest equity market and the driving force in recent global growth – is still in good economic shape, relative equity-bond valuations are appealing in Europe, and Chinese equities are oversold.

The US remains in good shape

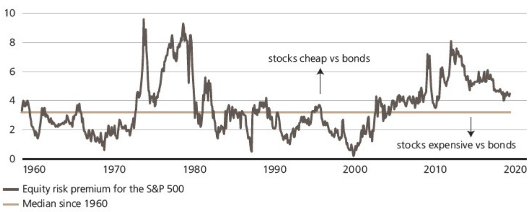
It's important to remember the underlying reason that bond yields are rising: a buoyant US economy. This month's US services ISM was the highest on record, while multi-decade-low US unemployment rates should boost consumer confidence. Importantly, higher yields are not stemming from higher inflation expectations, which could hurt stocks.

There is also little sign that higher rates are weighing on the US economy. The Chicago Fed National Financial Conditions Index (currently –0.89) indicates that conditions remain much looser than average. In the next 12 months, corporate bond redemptions will be equivalent to only 7.4% of outstanding (index-eligible) bonds.

Strong economic data is underpinning corporate profitability. While the market has reacted recently to a number of corporate profit warnings, overall the 3Q earnings season should be quite strong with earnings per share (EPS) growth of 23–24%, very similar to that of the first two quarters of this year. Yes, since the beginning of the year, 10-year yields have risen, but this has been more than offset by rising earnings, and the equity risk premium, a measure of equity valuations relative to bond valuations, still exceeds its historical average

10-year UST yields rising but equity risk premium holding up

Spread between S&P 500 earnings yield (last 12m profits) and real 10-year US Treasury yields, in %



Source: Bloomberg, UBS, as of 15 October 2018

Lower valuations in Europe

European growth is not as robust as the US's. But neither is it bad – we expect 2.1% growth this year and 1.8% next. And given the Eurozone's much lower interest rates and bond yields, it offers an even more compelling valuation case than in the US. Ten-year Bund yields are just 0.5%, while Eurozone cash rates remain negative, and the equity risk premium is 7.5% versus a 4.5% long-run average.

Going Loco?

President Donald Trump blamed the Fed for October's sharp equity market slide, claiming it was "going loco" by raising rates too high, too fast. So far economic data is not showing that Fed rate hikes have slowed the economy, and there is certainly some merit to the Fed moving short-term interest rates higher to reduce the risk of overheating.

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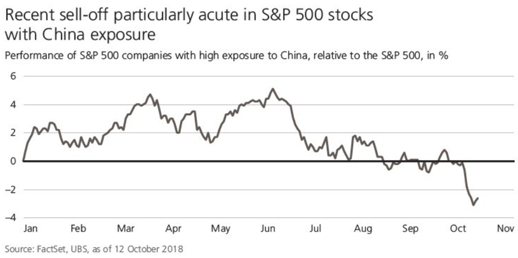
CONTINUATION: WHY STOCKS STILL HOLD RELATIVE APPEAL

But the Fed doesn't control the administration's tariff policy or its economic impact. Company guidance indicating that the tariffs are starting to bite will remain a source of volatility, and could lead the administration and the Fed into a standoff. If the tariffs slow the economy and/or raise inflation, investors will wonder who will blink first and act to prevent a recession. If neither change course, both tariffs and higher rates could be the result. Both institutions may claim "it wasn't me," but investors will lose. We can see something of this dynamic at work in the recent sell-off. Rising rates were making equities relatively less attractive, but concerns about the impact of tariffs between the US and China, and a slowing Chinese economy, also played a role. A few companies exposed to China have highlighted pockets of sluggish demand, and some warned that the latest round of US/China tariffs will affect their operations. October's sell-off was particularly acute among companies with high exposure to China



Source: UBS Research

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	25.10.2018	% Chg YTD
Dow Jones Ind.	24'719.22	24'984.58	1.07%
S&P 500	2'673.61	2'705.57	1.20%
RUSSELL 2000	1'551.45	1'500.40	-3.29%
NASDAQ COMP	6'903.39	7'318.33	6.01%
CANADA - TSX	16'209.13	14'924.08	-7.93%
MEXICO - IPC	49'354.42	46'107.97	-6.58%
BRAZIL IBOVESPA	76'402.08	84'083.51	10.05%
COLOMBIA COLCAP	1'513.65	1'395.49	-7.81%
ASIA	**31.12.2017**	**25.10.2018**	**% Chg YTD**
JAPAN- NIKKEI	22'764.94	21'268.73	-6.57%
H.K. HANG SENG	29'919.15	24'997.46	-16.45%
CHINA CSI 300	4'030.85	3'194.30	-20.75%
EUROPE	**31.12.2017**	**25.10.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'164.40	-9.69%
UK - FTSE 100	7'687.77	7'004.10	-8.89%
GERMANY - DAX	12'917.64	11'307.12	-12.47%
SWITZERLAND - SMI	9'381.87	8'706.40	-7.20%
SPAIN - IBEX 35	10'043.90	8'785.20	-12.53%
NETHERLANDS - AEX	544.58	513.16	-5.77%
RUSSIA - RTSI	115'840.00	111'600.00	-3.66%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	2.335	2.863	3.136
GERMANY	-0.670	-0.649	0.397
SWITZERLAND	-0.800	-0.721	0.001
UK	0.711	0.747	1.443
JAPAN	-0.275	-0.114	0.146

CURRENCIES

	31.12.2017	25.10.2018	% Chg YTD
EUR/USD	1.2005	1.1373	-5.27%
USD/JPY	112.7010	112.3900	-0.28%
USD/CHF	0.9746	0.9994	2.55%
GBP/USD	1.3510	1.2815	-5.15%
USD/CAD	1.2574	1.3071	3.96%
EUR/CHF	1.1700	1.1366	-2.85%

VOLATILITY

	31.12.2017	25.10.2018	% Chg YTD
SPX (VIX)	11.04	24.22	119.38%

CONTINUATION: KEY FIGURES (CURRENT & YEAR TO DATE)

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	25.10.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'232.11	-5.43%
SILVER USD/OZ	16.92	14.63	-13.53%
PLATINUM USD/OZ	931.00	827.00	-11.17%

ENERGY	31.12.2017	25.10.2018	% Chg YTD
WTI Crude Oil	60.42	67.33	11.44%
Brent Crude Oil	66.87	76.89	14.98%
Natural Gas	2.95	3.20	8.36%

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 has investment teams in Zürich and Curaçao and 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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We remain at your disposal for any questions or further information.

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