NEWSLETTER SEPTEMBER 2018

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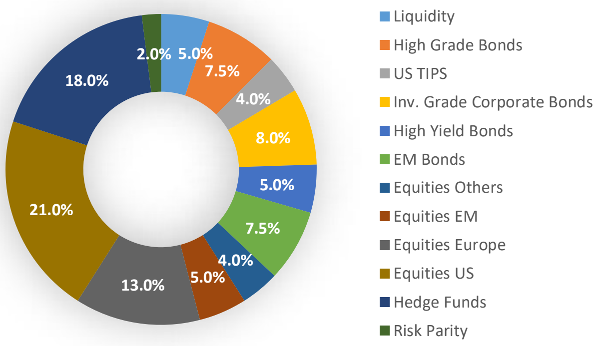
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Canadian Equities (↗) Global quality stocks US Smart Beta "Buy Write" Strategy on US Equities Some Protection via Equity Put Options	**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 "well worn" Bonds
JPY vs ...	**Foreign Exchange**	TWD
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

Trade discussions remain center-stage, as the Trump administration 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.

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.

CONTACT DETAILS T&T INTERNATIONAL GROUP

T&T International Wealth Management Ltd
Feldeggstrasse 80
CH-8008 Zürich - Switzerland
Tel: +41 (0) 44 844 0 844
Fax: +41 (0) 44 844 0 845
www.tt-international.ch

T&T International Advisors Ltd
Pareraweg 45
Willemstad - Curaçao
Tel: +599 (9) 434 3670
Fax: +599 (9) 434 3533
www.tt-international.com

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

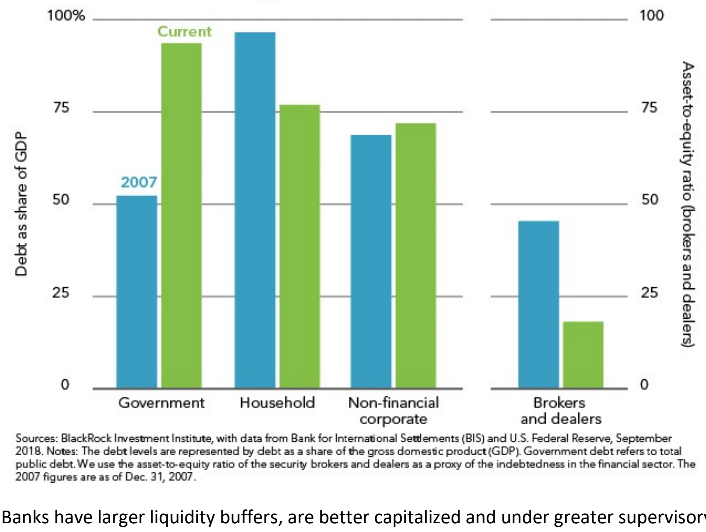
TOPIC OF THE MONTH

GAUGING CRISIS RISKS, 10 YEARS POST-GFC

The global economy appears to be humming along 10 years after the collapse of Lehman Brothers, a pivotal moment in the global financial crisis (GFC). Are we better prepared for a crisis today? We see the odds of a repeat of a similar crisis as low, as many problems exposed then have been addressed. Yet we believe new risks and some old ones deserve investors' attention.

We illustrate the dynamic by showing leverage in different parts of the U.S. economy in the chart above. Debt levels in the household and financial sectors have both declined from pre-crisis peaks. Recall that high leverage in those two sectors was at the center of the global crisis. But new risks have emerged. Sovereign debt is on the rise. Government debt has jumped to nearly 94% of U.S. GDP from 52% in 2007 – and is headed higher. Rising sovereign and non-financial corporate leverage is a global phenomenon. Debt levels of non-financial corporates have risen above the pre-crisis levels after a period of decline. And smaller financial sector balance sheets have reduced liquidity in credit markets. The silver lining: Lower interest rates make the cost of servicing this debt much cheaper than a decade ago, and maturities have been lengthened, providing resilience to rising rates.

U.S. debt and broker-dealer leverage, 2007 and 2018



Sources: BlackRock Investment Institute, with data from Bank for International Settlements (BIS) and U.S. Federal Reserve, September 2018. Notes: The debt levels are represented by debt as a share of the gross domestic product (GDP). Government debt refers to total public debt. We use the asset-to-equity ratio of the security brokers and dealers as a proxy of the indebtedness in the financial sector. The 2007 figures are as of Dec. 31, 2007.

We have come a long way since 2008. Banks have larger liquidity buffers, are better capitalized and under greater supervisory scrutiny, though European banks have made less progress than their U.S. peers. The global financial system in general is on a firmer footing thanks

CONTINUATION: GAUGING CRISIS RISKS, 10 YEARS POST-GFC

to post-crisis regulation that has bolstered the ability of financial institutions to absorb shocks. The lack of extremes in markets, such as very high valuations and very low risk premia, is even more encouraging. We do not see excessive investor crowding in risky assets. The last financial crisis amplified an aversion to taking risk, resulting in higher precautionary savings.

The caveats to this rosier picture? The Federal Reserve and European Union (EU) authorities now face legal limits in their ability to rescue troubled banks. Monetary policy has less room to maneuver with global interest rates still at historically low levels and some major central banks yet to start winding down their post-crisis asset purchase programs. Sovereign debt loads have ballooned, curtailing the scope for fiscal stimulus. There has been greater concentration of assets in the largest banks, and those with cross-border operations would be no easier to resolve in a doomsday scenario. Central counterparty clearing houses have helped boost transparency in derivatives trades – the lack thereof was blamed as a trigger of the last crisis – yet their ability to weather a crisis is untested. Reduced market liquidity creates the risk of spillovers if investors are forced to sell the more liquid parts of portfolios. High corporate sector debt and opaque lending in China are potential sources of financial vulnerability. And the concerted global efforts required to contain the last crisis may be harder to come by for the next one amid a global wave of populist and nationalist sentiment.

Bottom line: The vulnerabilities that plagued the global financial system a decade ago have been reduced – but have not disappeared. Coupled with rising macro uncertainty, we believe this warrants a heightened focus on portfolio resilience. Yet overall we retain a pro-risk bias – and believe investors are being compensated for the equity risk they take in today's environment of steady growth and strong corporate earnings.

Source: Pictet, Morgan Stanley, Morningstar

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	26.09.2018	% Chg YTD
Dow Jones Ind.	24'719.22	26'385.28	6.74%
S&P 500	2'673.61	2'905.97	8.69%
RUSSELL 2000	1'551.45	1'691.61	9.03%
NASDAQ COMP	6'903.39	7'990.36	15.75%
CANADA - TSX	16'209.13	16'169.28	-0.25%
MEXICO - IPC	49'354.42	49'606.07	0.51%
BRAZIL IBOVESPA	76'402.08	78'656.16	2.95%
COLOMBIA COLCAP	1'513.65	1'487.07	-1.76%
ASIA	**31.12.2017**	**26.09.2018**	**% 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**	**26.09.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'433.15	-2.02%
UK - FTSE 100	7'687.77	7'511.49	-2.29%
GERMANY - DAX	12'917.64	12'385.89	-4.12%
SWITZERLAND - SMI	9'381.87	9'080.14	-3.22%
SPAIN - IBEX 35	10'043.90	9'524.80	-5.17%
NETHERLANDS - AEX	544.58	552.35	1.43%
RUSSIA - RTSI	115'840.00	114'850.00	-0.85%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	2.212	2.827	3.061
GERMANY	-0.588	-0.514	0.534
SWITZERLAND	-0.800	-0.7	-0.6
UK	0.736	0.810	1.595
JAPAN	-0.110	-0.112	0.120

CURRENCIES

	31.12.2017	26.09.2018	% Chg YTD
EUR/USD	1.2005	1.1744	-2.18%
USD/JPY	112.7010	112.6800	-0.02%
USD/CHF	0.9746	0.9655	-0.93%
GBP/USD	1.3510	1.3165	-2.56%
USD/CAD	1.2574	1.304	3.71%
EUR/CHF	1.1700	1.1328	-3.18%

VOLATILITY

	31.12.2017	26.09.2018	% Chg YTD
SPX (VIX)	11.04	12.89	16.76%

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CONTINUATION: KEY FIGURES (CURRENT & YEAR TO DATE)

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	26.09.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'194.68	-8.30%
SILVER USD/OZ	16.92	14.33	-15.34%
PLATINUM USD/OZ	931.00	823.00	-11.60%

ENERGY	31.12.2017	26.09.2018	% Chg YTD
WTI Crude Oil	60.42	71.57	18.45%
Brent Crude Oil	66.87	81.34	21.64%
Natural Gas	2.95	3.02	2.27%

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.

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.

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

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