NEWSLETTER November 2018

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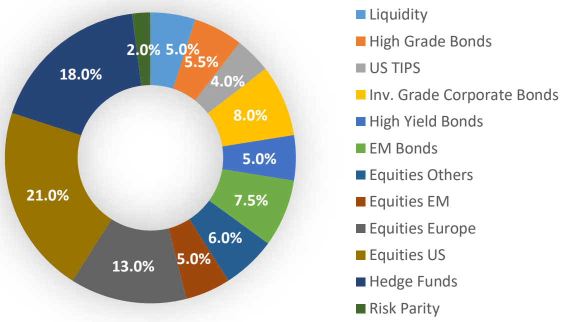
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Canadian Equities Global quality stocks US Smart Beta "Buy Write" Strategy on US Equities Some protection via US equity put options	**Equities**	Australian equities
EM Sovereign Bonds in USD Selected EM Bonds 10-year US Treasuries vs. USD Cash Long-dated USD High Grade Bonds European leveraged loans 2-year italian government bonds. Vs. EUR cash	**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

Global equities fell about 7% in October, representing one of the worst performing months since the global financial crisis. As of today November 26, the S&P 500 recovered by +1.18% and the MSCI World +0.75% in november, while the EuroStoxx 50 lost an additional -0.92% (ytd figures as usual please see at the end of this report). Still, global leading indicators – especially for the service sector – point at robust economic growth. The labor market in the US remains robust, and US earnings delivered slightly more than 25% year-over-year growth in the third quarter. This will slow in 2019 as the year-over-year lift from corporate tax cuts rolls off, but we continue to expect earnings growth to be positive at 4% in the US. In Europe we look for mid-single-digits growth, and in the emerging markets 8%. Against this benign fundamental backdrop we recently added back to global equities versus high grade bonds – a position which we reduced in summer.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Volatility picked up in October with US, EM, EMU and Japanese equities falling 6-9%. While the US and EMU recovered slightly in November, EM slid a little more. The defensive Swiss market held up better. Global leading indicators continue to signal robust economic growth. In the current 3Q earnings season, US companies delivered slightly more than 25% earnings growth. As earnings improved globally valuations became more attractive. We keep our preference for Canadian stocks over Australian equities due to more compelling valuations. Earnings dynamics are also stronger in Canada than in Australia.

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 hold an overweight on emerging market (EM) sovereign bonds in USD against HG bonds. EM fundamentals and the bonds' attractive yield of 6.9% support the position. We are overweight 2-year Italian government bonds against EUR cash. Short-term Italian rates look appealing (with yields 1.5% above those of similar maturity Bunds), given the low likelihood in our view of Italy defaulting over the coming years, and the attractive carry and roll-down. 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

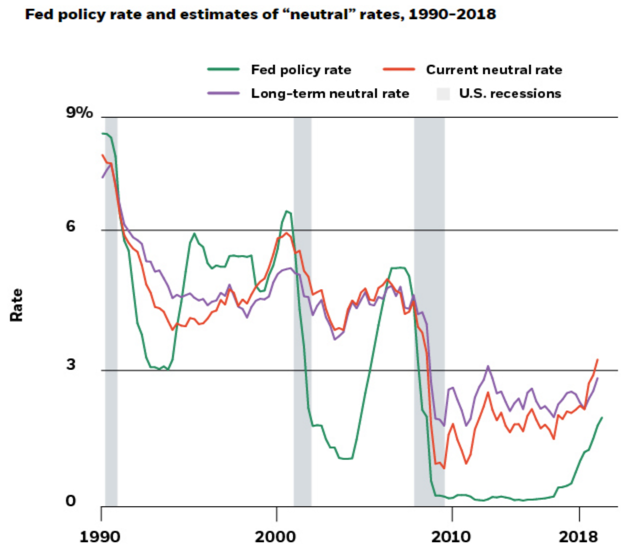
We are overweight the Japanese yen (JPY) versus the Taiwanese dollar (TWD). The long JPY position should benefit either from rising Japanese inflation prompting the BoJ to allow yields to move further upwards, or a downturn in global financial markets creating demand for the JPY's safehaven function.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

Source: UBS Research

TOPIC OF THE MONTH

A TAKE ON THE "NEUTRAL" RATE

A key input into the Fed's policy decision-making is its assessment of the "neutral" rate of interest – the rate at which monetary policy neither stimulates nor restricts growth. Our estimates show the Fed's policy rate is still below neutral – or slightly stimulative. Yet as neutral nears, new uncertainties on the Fed's rate outlook emerge.



The federal funds rate sits below our estimate of the neutral level, but is closing in, according to analysis. The below-neutral policy rate suggests U.S. monetary policy should still be providing some stimulus to the economy, though this boost is much smaller than several years ago when the gap to neutral was much wider. We present two estimates of the neutral rate: long-term and current. The long-term neutral rate is considered the equilibrium level that would prevail if financial leverage followed its long-run trend. It is guided by factors including the trend pace of economic growth and long-term demand for savings. The current neutral level factors in the additional impact of the financial cycle. A sustained period of credit growth serves to push the current level of neutral up because higher interest rates are needed to stabilize the economy. Conversely, the current neutral rate falls in a period of persistent deleveraging.

Neutral and the financial cycle

The extent to which the current neutral rate deviates from its long-term equilibrium level over a financial cycle has important implications for monetary policy. In the depths of the financial crisis, depressed animal spirits and rapid private sector deleveraging pushed the current neutral rate below its long-term equilibrium level. In such an environment, the Fed had to cut its policy rate even further below the long-term neutral level. Over time, the wounds of the crisis have healed and the situation has reversed. The current period of sustained re-levering has pushed the neutral rate back up above its long-term level. This implies the Fed would have to "lean against the wind" and push rates higher in order to prevent overheating pressures from building up.

The closer the Fed gets to neutral, a milestone it has been pursuing gradually for nearly three years, the greater the uncertainty over the interest rate outlook. For one, there is inherent uncertainty around the Fed's assessment of "neutral" given that it is an unobservable metric that can only be estimated statistically.

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CONTINUATION: A TAKE ON THE "NEUTRAL" RATE

Fed Chairman Jerome Powell has signaled he prefers to place less emphasis on the neutral rate in Fed communication given the difficulty in pinning it down. The Federal Open Market Committee, the central bank’s policy-setting group, may become increasingly cautious as it “feels” its way toward neutral.

The narrowing gap between the Fed policy rate and the neutral level, and the rising uncertainty likely to accompany it, has implications for financial markets. The policy rate is ultimately likely to settle at levels far below pre-crisis averages. Yet for the first time in a decade, markets would no longer be under the auspices of stimulative monetary policies. This shift toward tightening financial conditions presents a hurdle for risk assets, underscoring our call for building greater resilience into investment portfolios. This implies a focus on quality and liquidity. We favor stocks of companies with strong balance sheets, ample cash flow and a healthy earnings outlook, and we find these companies predominantly in the U.S. In fixed income, we prefer an up-in-quality bent in credit.

Source: www.blackrock.com

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2017	26.11.2018	% Chg YTD
Dow Jones Ind.	24'719.22	24'640.24	-0.32%
S&P 500	2'673.61	2'673.45	-0.01%
RUSSELL 2000	1'551.45	1'505.96	-2.93%
NASDAQ COMP	6'903.39	7'081.85	2.59%
CANADA - TSX	16'209.13	15'012.65	-7.38%
MEXICO - IPC	49'354.42	39'427.27	-20.11%
BRAZIL IBOVESPA	76'402.08	85'546.51	11.97%
COLOMBIA COLCAP	1'513.65	1'393.78	-7.92%
ASIA	**31.12.2017**	**26.11.2018**	**% Chg YTD**
JAPAN- NIKKEI	22'764.94	21'812.00	-4.19%
H.K. HANG SENG	29'919.15	26'376.18	-11.84%
CHINA CSI 300	4'030.85	3'141.24	-22.07%
EUROPE	**31.12.2017**	**26.11.2018**	**% Chg YTD**
EURO STOXX 50	3'503.96	3'172.71	-9.45%
UK - FTSE 100	7'687.77	7'036.00	-8.48%
GERMANY - DAX	12'917.64	11'354.72	-12.10%
SWITZERLAND - SMI	9'381.87	8'931.37	-4.80%
SPAIN - IBEX 35	10'043.90	9'091.20	-9.49%
NETHERLANDS - AEX	544.58	518.91	-4.71%
RUSSIA - RTSI	115'840.00	108'830.00	-6.05%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	2.412	2.834	3.070
GERMANY	-0.687	-0.635	0.363
SWITZERLAND	-0.900	-0.752	-0.058
UK	0.740	0.771	1.410
JAPAN	-0.280	-0.129	0.128

CURRENCIES

	31.12.2017	26.11.2018	% Chg YTD
EUR/USD	1.2005	1.1329	-5.63%
USD/JPY	112.7010	113.5700	0.77%
USD/CHF	0.9746	0.9983	2.43%
GBP/USD	1.3510	1.2813	-5.16%
USD/CAD	1.2574	1.3253	5.40%
EUR/CHF	1.1700	1.1310	-3.33%

VOLATILITY

	31.12.2017	26.11.2018	% Chg YTD
SPX (VIX)	11.04	18.90	71.20%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2017	26.11.2018	% Chg YTD
GOLD USD/OZ	1'302.80	1'222.52	-6.16%
SILVER USD/OZ	16.92	14.24	-15.87%
PLATINUM USD/OZ	931.00	844.50	-9.29%

ENERGY	31.12.2017	26.11.2018	% Chg YTD
WTI Crude Oil	60.42	51.63	-14.55%
Brent Crude Oil	66.87	60.48	-9.56%
Natural Gas	2.95	4.24	43.58%

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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