NEWSLETTER JANUARY 2019

T&T International Group
Your 360° Wealth Partner

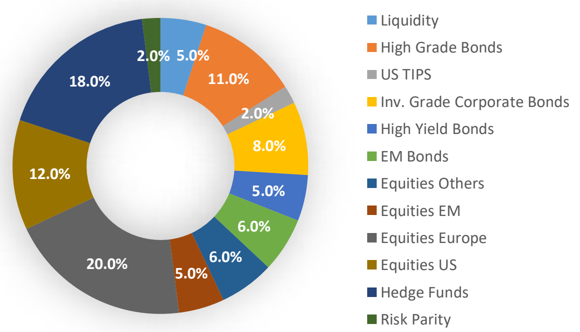
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Canadian Equities (↗) Emerging Market (EM) Equities Global Equities Global Quality Stocks EM Value Stocks US Smart Beta "Buy Write" Strategy on US Equities Some protection via US equity put options	**Equities**	Australian Equities Swiss Equities (↘)
EM Sovereign Bonds in USD (↘) European leveraged loans	**Bonds**	Developed market hig grade bonds (↗) 10-Year Japanese Gvt Bonds vs. JPY Cash
Canadian Dollar Norvegian krone (↗)	**Foreign Exchange**	Australian Dollar (↘) Swiss franc (↘)
Navigating rising US rates with Hedge Funds	**Hedge Funds**	

ASSET ALLOCATION

After sharply repricing in December, risk assets have rebounded this year on the back of more dovish Fed rhetoric, the announcement of further China policy stimulus and signs of progress on US-China trade talks. While the economic backdrop has weakened, the strong US labor market and China stimulus are among factors that should help support growth in the months ahead. We keep our overweight position in global equities, but reduce risk exposure by closing our overweight position in emerging market sovereign debt. We also continue to manage downside risks through a put spread on the S&P 500.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Equity markets have shown signs of a recovery after reaching a trough in late December 2018. We remain constructive, based on our expectation for a stabilization in economic data after last year's deceleration in global growth momentum. We keep our preference for emerging market (EM) equities over Swiss equities, based on attractive valuations, the expectation for Chinese stimulus measures to start feeding into the macro data and potential further weakness in the dollar after the Fed's shift in tone. Furthermore, we stick to our Canada overweight vs. Australian equities. Valuations look attractive, in particular given the favourable earnings dynamics and our forecast for a rise in the oil price. Lastly, we add an overweight in Canadian equities over Swiss equities, also based on valuations grounds.

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BONDS

We close our overweight on EM sovereign bonds in USD (EMBIGD) against high grade bonds. The near-term risk-return outlook has diminished as spreads have tightened towards our target level, while leading indicators suggest EM growth momentum has softened. We remain 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 add an overweight in the Norwegian krone against the CHF on the back of diverging economic momentum and central bank policies. We expect Norway to continue to hike rates, while the Swiss National Bank should wait for the ECB to eye a first hike. We are overweight the Canadian dollar against the Australian dollar. We expect higher oil prices and recovering Canadian growth to allow the Bank of Canada to hike rates. Australia faces many challenges including falling housing prices and curtailed bank lending, which should keep the Reserve Bank of Australia on hold until 2020. We see longer-term appreciation potential in the yen. We express this view by removing our currency hedge on Japanese equities, implementing a long yen position against the base currency in the portfolio since December.

Source: UBS Research

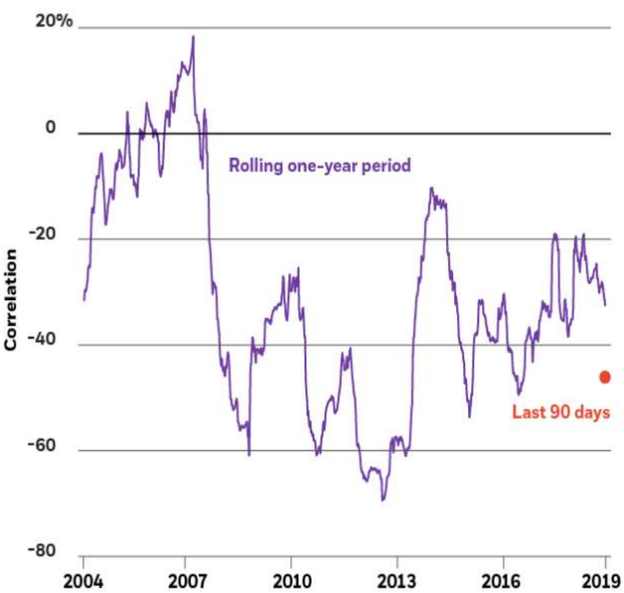
TOPIC OF THE MONTH

KEEPING BONDS AS A BUFFER

Last year was unusual: US equities and 10-year Treasuries both finished down, as heightened economic and geopolitical uncertainty and expectations for higher short-term rates drove markets. We see growth as the key market driver in 2019. This suggests Treasuries may offer more diversification benefits as a buffer to bouts of equity weakness.

The correlation between US equity and US government bond returns has been negative since the early 2000s, meaning the two asset classes generally move in opposite directions. Yet the magnitude of the negative correlation varies over time. It has recently turned more negative, as shown in the chart. We see this relationship being sustained as economic growth becomes a key driver of market returns. One corollary: bonds may offer a more formidable ballast to equity exposures. These diversification benefits were particularly evident in December, a gruelling month for risk assets: US equities sold off by 9.2%, while 10-year US Treasury yields fell below 2.7% from around 3%, sending 10-year Treasury prices up.

Correlation between US equity and 10-year Treasury returns, 2004-2019



Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.

Staying Neutral

We see the correlation between equity and bond returns remaining significantly negative in 2019 as the economic cycle enters its latter stages. Growth, not Federal Reserve policy, is now the dominant market driver, in our view. A scenario where both US stocks and 10-year Treasuries sell off, as in 2018, requires a big pickup in inflation leading to a more hawkish Fed. We see this as unlikely in 2019.

Fears of a sharp economic slowdown over the past couple of months have spurred a rally in US Treasury prices and caused markets to dial down their expectations of potential Fed rate increases this year. Markets have moved from pricing in two 2019 Fed rate increases as of November to now flirting with the possibility of a rate cut. Yet market fears about economic weakness may have overshot, in our view. We see global growth slowing in 2019, and the US economy entering a late-cycle phase, but view the risk of a recession this year as low. We see core inflation in the US hovering near the Fed's target, and the absence of meaningful inflationary pressures giving the Fed flexibility. We expect a pause in the Fed's tightening cycle in the first half of 2019.

Against this backdrop, we maintain our neutral stance on US government bonds. Increasing macro uncertainty is likely to stoke.

Continued on page 3

CONTINUATION: KEEPING BONDS AS A BUFFER

We advocate flanking Treasury exposures with high-conviction allocations in areas that offer attractive compensation for risk, as part of our barbell approach for 2019. We would wait for a rise in yields before adding to US government bond positions. One potential catalyst that could send US yields higher in the short-term: an outcome from the latest US-China trade negotiations that lowers trade tensions. Yet we see a full resolution of this trade dispute as unlikely in 2019 and, therefore, do not see a sustained rise in global yields this year. Also likely to suppress bond yields: We view the European Central Bank's growth estimates as optimistic, and see a 2019 rate rise from the ECB as unlikely. We do, however, see yields gradually moving higher over the medium term as policy and the yield curve eventually normalise.

Source: www.blackrock.com

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2018	24.01.2019	% Chg YTD
Dow Jones Ind.	23'327.46	24'553.24	5.25%
S&P 500	2'506.85	2'642.30	5.40%
RUSSELL 2000	1'344.83	1'464.41	8.89%
NASDAQ COMP	6'635.28	7'073.46	6.60%
CANADA - TSX	14'322.86	15'280.78	6.69%
MEXICO - IPC	41'685.05	43'566.11	4.51%
BRAZIL IBOVESPA	87'887.26	97'677.19	11.14%
COLOMBIA COLCAP	1'325.96	1'416.76	6.85%
ASIA	**31.12.2018**	**24.01.2019**	**% Chg YTD**
JAPAN- NIKKEI	20'014.77	20'574.63	2.80%
H.K. HANG SENG	25'845.70	27'120.98	4.93%
CHINA CSI 300	3'010.65	3'158.78	4.92%
EUROPE	**31.12.2018**	**24.01.2019**	**% Chg YTD**
EURO STOXX 50	3'001.42	3'126.31	4.16%
UK - FTSE 100	6'728.13	6'818.95	1.35%
GERMANY - DAX	10'558.96	11'130.18	5.41%
SWITZERLAND - SMI	8'429.30	8'937.23	6.03%
SPAIN - IBEX 35	8'539.90	9'150.00	7.14%
NETHERLANDS - AEX	487.88	510.88	4.71%
RUSSIA - RTSI	107'700.00	118'620.00	10.14%

GOVERNMENT BOND YIELDS %

	3 Months	2 Years	10 Years
USA	2.382	2.562	2.712
GERMANY	-0.572	-0.592	0.179
SWITZERLAND	-0.810	-0.798	-0.208
UK	0.711	0.776	1.266
JAPAN	-0.185	-0.129	0.128

CURRENCIES

	31.12.2018	24.01.2019	% Chg YTD
EUR/USD	1.1482	1.1304	-1.55%
USD/JPY	109.6600	109.8800	0.20%
USD/CHF	0.9827	0.9968	1.43%
GBP/USD	1.2745	1.3072	2.57%
USD/CAD	1.3647	1.3355	-2.14%
EUR/CHF	1.1283	1.1265	-0.16%

VOLATILITY

	31.12.2018	24.01.2019	% Chg YTD
SPX (VIX)	25.4200	18.89	-25.69%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2018	24.01.2019	% Chg YTD
GOLD USD/OZ	1'279.45	1'281.14	0.13%
SILVER USD/OZ	15.49	15.32	-1.10%
PLATINUM USD/OZ	796.50	803.50	0.88%

COMMODITIES (USD)

ENERGY	31.12.2018	24.01.2019	% Chg YTD
WTI Crude Oil	45.41	53.13	17.00%
Brent Crude Oil	53.80	61.09	13.55%
Natural Gas	2.94	3.09	5.10%

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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