NEWSLETTER August 2019

T&T International Group
Your 360° Wealth Partner

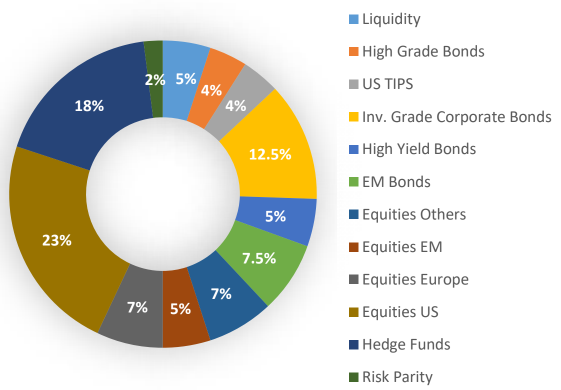
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global Equities Japanese Equities US equities Global Quality Stocks US Smart Beta "Buy Write" Strategy on US Equities Some protection via US equity put options	**Equities**	UK Equities (1-4 year horizon) Eurozone Equities
Emerging Markets Soverein Bonds in USD (↗) Euro Investment Grade Corporate Bonds (↗) Global Green Bonds Time to be more selective in EM Credit (↗)	**Bonds**	Developed market high grade bonds (↘) 2-year US Treasuries vs. USD cash
Norvegian Krone versus... Norvegian Krone versus... British Pound versus... EM FX (ZAR,INR,IDR) versus... (↗) Japanese yen (1-4 year horizon)	**Foreign Exchange**	...Euro (↘) ...Canadian Dollar ...USD Dollar (↘) ...DM FX (AUD,NZD,TWD) (↘)
	Hedge Funds	

ASSET ALLOCATION

Lower trade tariff uncertainty following the G20 meeting and expectations for further easing from global central banks are supporting risky assets. The G20 meeting between President Xi and Trump has led to a truce, with tariffs on hold for now. While this sets the scene for a restart to US China dialogue, neither side appears to be in any hurry to find a trade deal, and we expect a prolonged ceasefire period. Amid signs of continued weakness in global manufacturing and trade, and muted inflation expectations, global central banks have turned increasingly more dovish. The Fed's rates cut is likely to lead the ECB to cut rates too. A continued low interest rate environment should be favorable for carry positions. We hold a neutral allocation to equities. While earnings growth has weakened this year, the equity risk premium remains attractive, as bond yields have fallen to historically low levels.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Pre-emptive Fed rate cuts create a supportive backdrop for stocks, and, given low interest rates, equity valuations look attractive relative to bonds. While we still expect global economic growth to stabilize in the second half of the year, risk around China-US trade remain elevated. Assuming our risk scenarios do not materialize, we believe equities can advance moderately. We are closely monitoring the current earnings season for further downside risks to the earnings outlook. We have an overweight in Japanese and US equities vs Eurozone equities. While both the Eurozone and Japan are heavily geared to the global cycle, the former has priced in a macro recovery while the latter has not. Eurozone stocks look expensive compared to the Japanese market. In addition we prefer US versus Eurozone stocks as the former should deliver superior profits growth in 2019 and 2020. We also believe that the Fed has more ammunition than the ECB to combat slowing growth should trade tensions escalate.

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BONDS

We increase our overweight in EUR IG against higher-rated bonds. We expect the former to be supported by stabilizing Eurozone growth and accommodative ECB policy. We consider the carry attractive against healthy corporate fundamentals and our base case of no recession over the coming 12 months. We also add an overweight in EM sovereign bonds in USD against HG bonds, as the search for yield should provide continued support and valuations are fair. We hold a tactical short on the 2-year US Treasury note. While the Fed seems increasingly likely to further cut rates as economic data globally disappoints, we think that market pricing of around four rate cuts by the end of 2020 is too pessimistic.

FOREIGN EXCHANGE

Easier monetary policy globally should support safe-haven currencies, where central banks have limited room to ease policy further. We close our underweight positions in the CHF against the EUR and the NOK. We keep our NOK overweight against the CAD, while shifting the other position from CHFNOK to EURNOK. Both positions aim to benefit from central bank divergences. As the US and China agreed on a truce and the RBA has cut rates twice, downside risks to the AUD diminished. We thus close our underweight position in the AUD against the USD and shift our long GBP versus short AUD into a long GBP versus USD position. We increase our allocation to a basket of select EM currencies vs pro-cyclical developed market currencies to profit from the attractive interest rate advantage.

Source: UBS House View August 2019

TOPIC OF THE MONTH

WHAT DOES LOWER FOR LONGER MEANS FOR INVESTORS

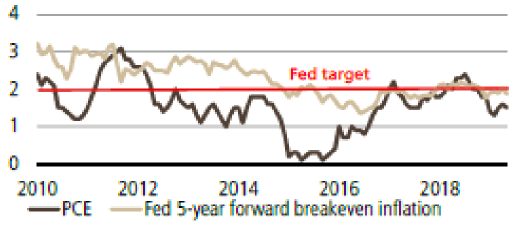
Lower for longer from central banks creates investor dilemma.

The top global central banks are back in easing mode, with the ECB opening the door to further loosening last week and the Federal Reserve cutting rates last week for the first time in more than a decade. The shift to 'lower for longer' poses challenges for investors by further eroding the likely returns on risk-free assets. Investors unwilling to accept lower or potentially negative returns face a choice between taking risk by increasing equity exposure or seeking income and yield. On balance we currently favor the latter strategy. While central banks are preparing additional stimulus, the market pricing for 100 basis points of Fed easing by the end of 2020 does not represent the most likely path, in our view. Given historically low unemployment, we expect only 50 basis points of easing. That reduces the chances of significant capital gains in equities if the Fed under delivers, in our view. We therefore presently see better risk-adjusted returns from yield enhancement strategies.

New UK prime minister, same Brexit uncertainty.

Boris Johnson, who took over last week as UK leader, appointed prominent Brexit supporters to most of the top jobs in his cabinet. The new prime minister has indicated he would seek significant concessions from EU negotiators and step up preparations for a no-deal exit on 31 October if an agreement cannot be reached. But while the prime minister has changed, the political barriers to a no-deal Brexit remain – at least in the short term. The majority of British MPs have expressed, and continue to express, their opposition to leaving the EU without a deal. Moreover, the speaker of the Commons has a shown a willingness to be flexible with parliamentary procedure in order to let MPs have their say on this topic. Should Prime Minister Johnson attempt to pursue a "no deal," we believe that this would, one way or another, lead to a general election. We do not believe investors should take strong positions based on forecasts of the final outcome of Brexit. But current market pricing overestimates the chances of a no-deal Brexit in the short term, in our view, and creates an opportunity. At USD 1.23, the pound is significantly below our fair value estimate of 1.59.

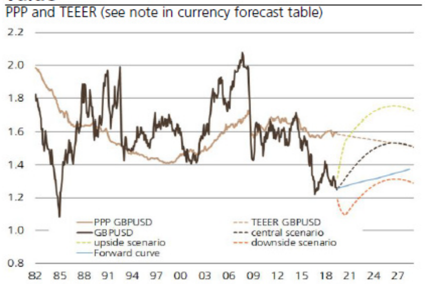
Inflation falls below the Fed's 2% target
PCE price index year-over-year change and Fed 5-year forward breakeven inflation, in %



Source: Bloomberg, UBS, as of 10 July 2019

Note: PCE = Personal Consumption Expenditures

GBPUSD long-term development and fair value
PPP and TEEER (see note in currency forecast table)



Source: Thomson Reuters, UBS

Continued on page 3

CONTINUATION: WHAT DOES LOWER FOR LONGER MEANS FOR INVESTORS

European Central Bank (ECB)

The European Central Bank (ECB) prepared the ground for further policy easing. Last week, the Federal Reserve has cut rates for the first time since December 2008. Central bank policy has reversed from "gradual policy normalization" toward further rate cuts. But a longer-term debate is also underway about how to shift stubbornly low (and in some cases falling) inflation expectations. Both trends have implications for investment positioning.

Last week we saw the first Fed rate cut of 25 basis points (bps) in more than 10 years. The US is at full employment and economic growth is close to trend, but recent communication from senior Fed officials has downplayed strong data, and the Fed appears to want to deliver an insurance cut to stave off the risk that trade uncertainty weighs on business investment and growth. We expect the ECB to follow suit in September, implementing a 10bps rate cut with a further 10bps reduction in October. Alongside rate cuts, we expect the ECB to announce a tiered deposit rate system, which would partly exempt banks from paying negative rates on their excess reserves. The ECB is also looking at options for additional quantitative easing (QE), but given the risks of such a program we think that pressure would have to increase materially for it to be launched. A QE program large enough to be effective would likely require breaking either the capital key or the issue limit rules, and could push Bund yields deeper into negative territory.

While we expect lower rates to be central to near-term central bank action, other structural changes to boost low inflation expectations could represent the next leg of financial repression. The Fed is conducting a strategic review of its mandate, including one option to switch from its current 2% target to an average inflation target, meaning inflation would be allowed to run above target to compensate for previous shortfalls. Meanwhile, there are signs of change in the ECB approach too. In last week's ECB statement, the usual reference to an inflation target "below but close to 2%" was dropped in favor of a "commitment to symmetry in the inflation aim." ECB President Mario Draghi reinforced the point stating that "basically we don't like what we see on the inflation front and symmetry means there is no 2% cap. Inflation can deviate on both sides".

Source: UBS House View Aug 2019

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2018	02.08.2019	% Chg YTD
Dow Jones Ind.	23'327.46	26'485.01	13.54%
S&P 500	2'506.85	2'932.05	16.96%
RUSSELL 2000	1'344.83	1'533.66	14.04%
NASDAQ COMP	6'635.28	8'109.09	22.21%
CANADA - TSX	14'322.86	16'377.04	14.34%
MEXICO - IPC	41'685.05	39'977.52	-4.10%
BRAZIL IBOVESPA	87'887.26	100'605.17	14.47%
COLOMBIA COLCAP	1'325.96	1'562.13	17.81%
ASIA	**31.12.2018**	**02.08.2019**	**% Chg YTD**
JAPAN- NIKKEI	20'014.77	21'087.16	5.36%
H.K. HANG SENG	25'845.70	26'918.58	4.15%
CHINA CSI 300	3'010.65	3'747.43	24.47%

VOLATILITY

	31.12.2018	02.08.2019	% Chg YTD
SPX (VIX)	25.42	17.61	-30.72%

EQUITY INDICES (LOCAL CURRENCIES)

EUROPE	31.12.2018	02.08.2019	% Chg YTD
EURO STOXX 50	3'001.42	3'376.12	12.48%
UK - FTSE 100	6'728.13	7'407.06	10.09%
GERMANY - DAX	10'558.96	11'872.44	12.44%
SWITZERLAND - SMI	8'429.30	9'803.69	16.30%
SPAIN - IBEX 35	8'539.90	8'897.60	4.19%
NETHERLANDS - AEX	487.88	554.32	13.62%
RUSSIA - RTSI	107'700.00	129'820.00	20.54%

CURRENCIES

	31.12.2018	02.08.2019	% Chg YTD
EUR/USD	1.1482	1.1121	-3.14%
USD/JPY	109.6600	106.5800	-2.81%
USD/CHF	0.9827	0.9824	-0.03%
GBP/USD	1.2745	1.2159	-4.60%
USD/CAD	1.3647	1.3228	-3.07%
EUR/CHF	1.1283	1.0928	-3.15%

Continued on page 4

CONTINUATION KEY FIGURES (CURRENT & YEAR TO DATE)

COMMODITIES (USD)

PRECIOUS METALS	31.12.2018	02.08.2019	% Chg YTD
GOLD USD/OZ	1'279.45	1'440.70	12.60%
SILVER USD/OZ	15.49	16.20	4.58%
PLATINUM USD/OZ	796.50	845.00	6.09%
ENERGY	**31.12.2018**	**02.08.2019**	**% Chg YTD**
WTI Crude Oil	45.41	55.66	22.57%
Brent Crude Oil	53.80	60.50	12.45%
Natural Gas	2.94	2.12	-27.89%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	2.118	1.71	1.843
GERMANY	-0.546	-0.788	-0.488
SWITZERLAND	-0.950	-1.02	-0.842
UK	0.745	0.431	0.550
JAPAN	-0.105	-0.129	0.128

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 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.

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