NEWSLETTER December 2019

T&T International Group
Your 360° Wealth Partner

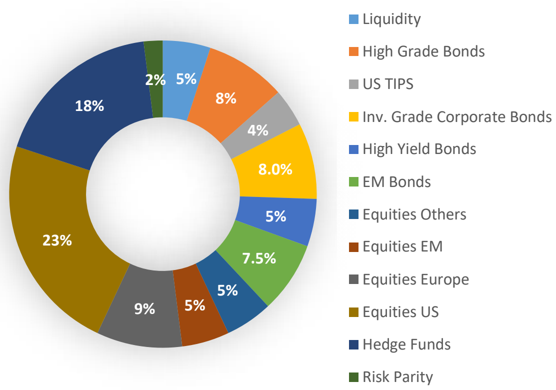
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Japanese Equities US equities Global Quality Stocks US Smart Beta "Buy Write" Strategy on US Equities Some protection via US equity put options	**Equities**	Eurozone Equities
Emerging Markets Soverein Bonds in USD Global Green Bonds Time to be more selective in EM Credit	**Bonds**	Developed market high grade bonds (↗)
US Dollar versus EM FX (INR,IDR) versus... Japanese Yen (1-4 year horizon) versus... British Pound (1-4 year horizon) versus...	**Foreign Exchange**	...Australien Dollar ... DM FX (AUD, TWD) ... Base Currency ... Base Currency (↘)
	Hedge Funds	

ASSET ALLOCATION

While economic data suggest that the weak global growth backdrop will persist into 2020, investor sentiment has turned more constructive, supporting rising stock markets and bond yields. We remain skeptical on the prospect of a meaningful trade deal between China and the US anytime soon, but incrementally positive news may well continue to support equity markets in the near term. We are therefore closing our underweight to emerging market (EM) equities, taking our tactical equity allocation to neutral. We keep our overweight positions in EM sovereign bonds and a basket of EM currencies, as the environment remains supportive of carry trades. To become more constructive, we are looking for signs of a sustainable economic recovery and a significant trade agreement. Likewise, a breakdown of trade negotiations would worsen our outlook again. This very binary nature of the current backdrop, driven by political decisions, warrants a neutral equity allocation for now.

BALANCED USD MODEL PORTFOLIO



EQUITIES

As headwinds from trade uncertainty and the slowdown of the Chinese economy may be fading, at least in the near term, EM equities could continue to be a main beneficiary of better investor sentiment. EM equities have underperformed developed market peers this year, so they have a significant catch-up potential if our upside scenario of a comprehensive trade deal and economic recovery are to materialize. We are thus closing our underweight on EM equities. We overweight US over Eurozone stocks. Should economic data weaken, we think the Federal Reserve has more leeway to act than the European Central Bank (ECB). Consensus expectations for earnings growth look more realistic in the US than in the Eurozone. We also overweight Japanese over Eurozone equities. While both regions are geared toward global growth and exports, Eurozone stocks have outperformed and are already pricing in a significantly better outcome compared to the Japanese market.

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BONDS

We are closing our overweight in euro-denominated investment grade bonds, taking profits. The investment case has played out as spreads have tightened significantly, reaching their year-to-date lows recently. The ECB's new bond purchase program provides a backstop to the asset class, but is unlikely to drive significant further spread tightening from current levels. We keep an overweight position in EM sovereign bonds in USD over high grade bonds. The current yield of 5% remains attractive, as central banks keep interest rates low and the growth differential between emerging and developed markets is likely to widen in the quarters ahead.

FOREIGN EXCHANGE

We keep an overweight in the US dollar against the Australian dollar (AUD) as deteriorating economic conditions in Australia are likely to keep the country's central bank on an easing path, while the AUD remains exposed to US-China trade tensions. Our EM currency basket (overweight Indian rupee and Indonesian rupiah versus the AUD and Taiwan dollar) aims to earn the interest rate advantage without being too strongly exposed to US-China trade tensions.

Source: UBS House View December 2019

TOPIC OF THE MONTH

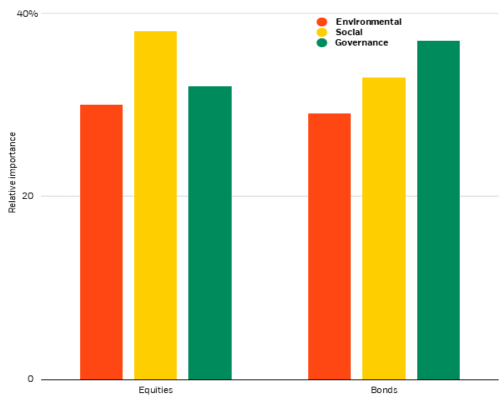
GETTING SUSTAINABLE IN FIXED INCOME

Sustainable investing is the combination of traditional investment approaches with environmental, social and governance (ESG) insights. The “E” includes climate risks, “S” covers labor issues and product liability risks, and “G” refers to topics such as corporate board quality and effectiveness. What ESG factors really move the dial in financial performance? Organizations such as the Sustainability Accounting Standards Board (SASB) have taken the lead in investigating which sustainability topics are most relevant across industries. Our quantitative work builds on such studies, extending the analysis to global equities and credit. A key conclusion: Market pricing suggests each of the three ESG pillars are of roughly similar levels of importance in both credit and equity markets, as the chart shows.

The need for sustainable fixed income solutions is growing: Bonds are in high demand – against a backdrop of aging populations in search of income and geopolitical volatility that has sparked greater demand for “safe” assets. We believe fixed income investors can draw on many of the insights that equity-focused research has produced on ESG. Companies or issuers with strong ESG performance are likely to be better at managing operational and reputational risks. Yet there are nuances to sustainable investing in bonds. Sovereign debt requires a different approach. And in contrast to equities, fixed income investors’ main focus is often on mitigating downside risk, rather than capturing upside potential. We believe ESG metrics can help identify new risk factors.

The materiality of each of the ESG pillars varies across industries. Take financials. The “E” pillar appears to have more sway on market pricing than commonly thought. We found a meaningful link between returns on banks’ corporate debt and “E” factors such as low carbon transition. Why is this the case even though bank operations have little direct exposure to environmental factors? Bank loans to fossil fuel producers may be at risk of future losses in a scenario in which carbon taxes are introduced, for example. We believe such analysis on an industry level can help inform investment decisions. Investors may want to consider tilting toward (or away from) ESG exposures that are most financially relevant in each industry, for example.

Financial materiality of E, S and G in equities and credit, 2015-2019



Source: BlackRock Investment Institute, with data from MSCI, Sustainalytics and Refinitiv, October 2019. Notes: The chart shows BlackRock’s estimate of the financial materiality (or relative importance, in percentage terms) of E, S and G factors in driving performance in global equities and credit market over January 2015 through June 2019. We use regression analysis to estimate the relationship between each ESG pillar and monthly excess returns over the period. Equities analysis is based on the MSCI World Developed index. Bonds are based on credit spread returns of the Bloomberg Barclays Global Aggregate credit index. For illustrative purposes only.

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CONTINUATION: GETTING SUSTAINABLE IN FIXED INCOME

Drilling deeper on ESG metrics – and utilizing new data sources – can also inform risk management. Previous work we have done shows that "E" factors, such as extreme weather, pose tangible risks to long dated assets – from electric utilities and commercial real estate to municipal bonds.

The "why not?" moment in sustainable investing has arrived in fixed income as well. Investors can now use sustainable building blocks to integrate sustainability across equities and fixed income allocations. Our analysis suggests that ESG indexes offer similar risk/return properties to traditional benchmarks, while adding a dose of portfolio resilience. ESG-related risks such as the rising frequency and intensity of hurricanes are likely to compound over time. The flip side is potential opportunities in areas such as renewable energy.

Source: BlackRock 20.11.2019

KEY FIGURES (CURRENT & YEAR TO DATE)

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2018	28.11.2019	% Chg YTD
Dow Jones Ind.	23'327.46	28'164.00	20.73%
S&P 500	2'506.85	3'153.63	25.80%
RUSSELL 2000	1'344.83	1'634.10	21.51%
NASDAQ COMP	6'635.28	8'704.17	31.18%
CANADA - TSX	14'322.86	17'114.52	19.49%
MEXICO - IPC	41'685.05	43'100.12	3.39%
BRAZIL IBOVESPA	87'887.26	108'290.09	23.21%
COLOMBIA COLCAP	1'325.96	1'587.33	19.71%
ASIA	**31.12.2018**	**28.11.2019**	**% Chg YTD**
JAPAN- NIKKEI	20'014.77	23'409.14	16.96%
H.K. HANG SENG	25'845.70	26'893.73	4.05%
CHINA CSI 300	3'010.65	3'862.30	28.29%
EUROPE	**31.12.2018**	**28.11.2019**	**% Chg YTD**
EURO STOXX 50	3'001.42	3'704.48	23.42%
UK - FTSE 100	6'728.13	7'416.43	10.23%
GERMANY - DAX	10'558.96	13'245.58	25.44%
SWITZERLAND - SMI	8'429.30	10'529.14	24.91%
SPAIN - IBEX 35	8'539.90	9'359.00	9.59%
NETHERLANDS - AEX	487.88	597.87	22.54%
RUSSIA - RTSI	107'700.00	142'860.00	32.65%

VOLATILITY

	31.12.2018	28.11.2019	% Chg YTD
SPX (VIX)	25.42	11.75	-53.78%

CURRENCIES

	31.12.2018	28.11.2019	% Chg YTD
EUR/USD	1.1482	1.1012	-4.09%
USD/JPY	109.6600	109.5100	-0.14%
USD/CHF	0.9827	0.9984	1.60%
GBP/USD	1.2745	1.2908	1.28%
USD/CAD	1.3647	1.3281	-2.68%
EUR/CHF	1.1283	1.0994	-2.56%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2018	28.11.2019	% Chg YTD
GOLD USD/OZ	1'279.45	1'456.15	13.81%
SILVER USD/OZ	15.49	16.95	9.39%
PLATINUM USD/OZ	796.50	892.50	12.05%
ENERGY	**31.12.2018**	**28.11.2019**	**% Chg YTD**
WTI Crude Oil	45.41	58.11	27.97%
Brent Crude Oil	53.80	63.77	18.53%
Natural Gas	2.94	2.50	-14.97%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	1.608	1.626	1.767
GERMANY	-0.619	-0.639	-0.364
SWITZERLAND	-0.790	-0.783	-0.627
UK	0.763	0.521	0.677
JAPAN	-0.205	-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.

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