NEWSLETTER MAY 2020

T&T International Group
Your 360° Wealth Partner

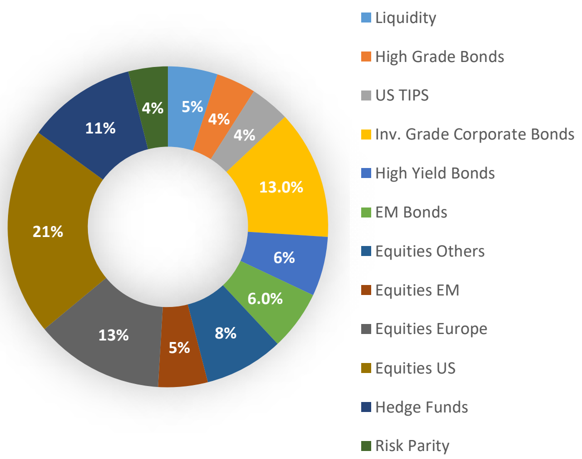
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global quality stocks Sustainable value creation in emerging markets	**Equities**	
Global Green Bonds US TIPS USD investment grade bonds (↗) USD high yield bonds EM Sovereign Bonds (USD)	**Bonds**	Developed market high grade bonds (↘)
British pound versus...	**Foreign Exchange**	...USD dollar
	Hedge Funds	

ASSET ALLOCATION

Social distancing measures aimed at containing COVID-19 are driving one of the sharpest economic slowdowns in history. However, strong global monetary and fiscal measures to counter the economic fallout should ultimately help. Policymakers have acted aggressively to prevent a widespread and prolonged tightening of financial conditions. We think the rapid policy response has been large enough to help companies that were viable prior to the pandemic avoid a situation where liquidity issues evolve into solvency problems and thus is particularly supportive of credit. Positive leaked news on the antiviral drug Remdesivir indicate that it could help in reducing strain on hospitals in future coronavirus outbreaks, but more complete trial results, expected in the coming weeks, are needed to confirm this. We are taking risk in segments that we find attractively valued, such as USD investment grade, USD high yield, and USD emerging market sovereign bonds.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Even though governments around the world are mounting aggressive monetary and fiscal responses, corporate profits will suffer a huge near-term blow. We forecast global earnings to fall by 21% this year. Given the negative outlook for corporate profits, we also expect dividends to suffer as companies focus on balance-sheet and cash preservation. After the recent market rebound, valuations are back to their long-term averages and still well above the trough levels of March 2009. However, record-low bond yields and unlimited central bank liquidity provide a backstop to equity valuations.

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BONDS

We are increasing our overweight in USD investment grade bonds against high grade bonds. At current levels, USD investment grade spreads still compensate for a severe economic downturn and negative earnings growth. We hold an overweight in USD high yield bonds against high grade. Current spread levels are pricing in a substantial rise in default rates and/or a significant illiquidity premium. We hold an overweight in USD emerging market sovereign bonds over high grade bonds. With the virus's economic impact and oil price uncertainty remaining high, spreads will likely stay elevated in the near term. In our base case, we expect affected countries to bring the disease under control, oil prices to grind higher toward the year-end, and spreads to begin to normalize over the next six months.

FOREIGN EXCHANGE

We recently closed our basket consisting of the Indian rupee, Indonesian rupiah, and Brazilian real on the long side, and the Australian dollar, Taiwan dollar, and Swedish krona on the short side, after it underwent a correction as investors were forced to unwind carry trades. Uncertainties related to the spread of COVID-19, as well as the varying capabilities of the health systems and policymakers of each market to cope with the virus and its effect on their economies, create a risk that the selected long currencies will continue to underperform relative to the short currencies. We keep our overweight in the British pound versus the US dollar. We expect sterling to continue its recovery after being hit hard by risk aversion and the USD funding squeeze.

Source: UBS House View May 2020

TOPIC OF THE MONTH

GAUGING THE VIRUS SHOCK TO ECONOMY

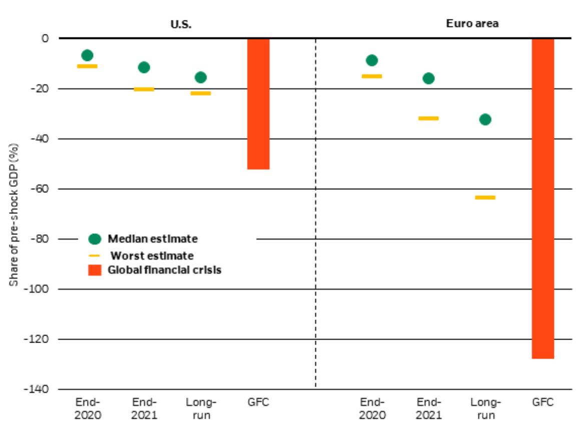
Global economic activity is being frozen to stem the coronavirus pandemic. Yet implications for asset prices will depend on the cumulative impact of the growth shortfall over time. We believe that policy actions to cushion the impact of virus shock are nothing short of a revolution. Execution is a risk, but if successful, the cumulative impact of the virus should be well below that seen in the wake of the 2008 global financial crisis (GFC) — despite the historic scale of the initial shock.

A banking crisis and overextended household balance sheets led to a "lost decade" of deleveraging after the GFC. This time, the immediate shock is much deeper, but the financial system is not in crisis for the moment. The propagation of the shock is directly linked to the evolution of the virus and the duration of containment measures, in our view. Long-run economic forecasts, including the most pessimistic, imply economic consequences that are much less severe than the post-GFC impact in both the US and euro area, as the chart shows. The cumulative GDP shortfall in the years that followed was ultimately equivalent to 50% of 2007 GDP in the US For the current shock to be on a similar scale, it would have to morph into a financial crisis, in our view. For now, we see the much swifter and greater fiscal and monetary response this time stemming this risk.

The pandemic has triggered an abrupt, deliberate stop to economic activity. We believe the concept of "recession" doesn't' apply here because this is not resulting from the evolution of a usual business cycle.

The current shock is more akin to a large-scale natural disaster that severely disrupts near-term activity, but eventually results in an economic recovery. The large and immediate loss of income needs to be addressed with a comprehensive policy response, including a new suite of policy measures designed to help bridge cash flow pressures by backstopping household incomes and small businesses – without which the economy could suffer permanent damage. We have seen these measures – both monetary and and fiscal – coming quickly and on unprecedented scale

Estimated cumulative GDP shortfalls from virus shock vs. financial crisis



Sources: BlackRock Investment Institute, with data from Reuters News, April 2020. Notes: We show the estimated cumulative shortfall of GDP in the US and euro area as a share of 2019 GDP levels as implied by the median (green dots) and most pessimistic forecasts (yellow bars) in a Reuters poll of 41 forecast for the US and 29 for the euro area, published on 22 April 2020. The red financial crisis bars show the total shortfall accumulated between 2008Q3-2019Q4, expressed as a share of 2007 GDP. There is no guarantee that any forecasts made will come to pass. These hypothetical scenarios are subject to significant limitations given the uncertainties surrounding the virus outbreak.

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CONTINUATION: GAUGING THE VIRUS SHOCK TO ECONOMY

especially in key developed economies.

A key risk to our view is policy execution. A recent example shows the difficulty of delivering the aid to those in need: A $350 billion loan program for distressed small businesses in the US quickly reached its limit, with evidence that the smallest businesses had severe difficulty accessing the program. There is also the risk of permanent damage if the freezing of economic activity lasts for an extended period of time – especially if ongoing policy support loses momentum. An extended interruption could morph into a financial crisis if it were to lead to an unprecedented wave of corporate insolvencies, putting pressure on the banking system. Last week's oil price collapse – partly caused by the ongoing drop in demand caused by the economic contraction – illustrates the outsized near-term knock-on effects of halting economic activity.

Source: BlackRock 27.04.2020

KEY FIGURES 2020

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2019	29.04.2020	% Chg YTD
Dow Jones Ind.	28'538.44	24'633.86	-13.68%
S&P 500	3'230.78	2'959.51	-8.40%
RUSSELL 2000	1'668.47	1'360.76	-18.44%
NASDAQ COMP	8'972.60	8'914.70	-0.65%
CANADA - TSX	17'063.43	15'228.11	-10.76%
MEXICO - IPC	43'541.02	36'870.09	-15.32%
BRAZIL IBOVESPA	115'645.34	83'170.80	-28.08%
COLOMBIA COLCAP	1'662.42	1'145.89	-31.07%
ASIA	**31.12.2019**	**29.04.2020**	**% Chg YTD**
JAPAN- NIKKEI	23'656.62	19'771.19	-16.42%
H.K. HANG SENG	28'189.78	24'643.59	-12.58%
CHINA CSI 300	4'096.58	3'867.03	-5.60%
EUROPE	**31.12.2019**	**29.04.2020**	**% Chg YTD**
EURO STOXX 50	3'745.15	2'996.08	-20.00%
UK - FTSE 100	7'542.44	6'115.25	-18.92%
GERMANY - DAX	13'249.01	11'107.74	-16.16%
SWITZERLAND - SMI	10'616.94	9'889.46	-6.85%
SPAIN - IBEX 35	9'549.20	7'055.70	-26.11%
NETHERLANDS - AEX	604.85	526.96	-12.88%
RUSSIA - RTSI	155'360.00	113'560.00	-26.91%

VOLATILITY

	31.12.2018	29.04.2020	% Chg YTD
SPX (VIX)	13.78	31.22	126.56%

CURRENCIES

	31.12.2019	29.04.2020	% Chg YTD
EUR/USD	1.1220	1.0875	-3.07%
USD/JPY	108.6750	106.6500	-1.86%
USD/CHF	0.9674	0.9742	0.70%
GBP/USD	1.3262	1.2476	-5.93%
USD/CAD	1.3002	1.3879	6.75%
EUR/CHF	1.0855	1.0594	-2.40%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2019	29.04.2020	% Chg YTD
GOLD USD/OZ	1'517.48	1'712.27	12.84%
SILVER USD/OZ	17.86	15.29	-14.39%
PLATINUM USD/OZ	965.50	777.75	-19.45%
ENERGY	**31.12.2019**	**29.04.2020**	**% Chg YTD**
WTI Crude Oil	61.06	15.06	-75.34%
Brent Crude Oil	66.00	24.37	-63.08%
Natural Gas	2.19	1.86	-15.07%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	0.101	0.199	0.627
GERMANY	-0.569	-0.710	-0.484
SWITZERLAND	-0.450	-0.659	-0.469
UK	0.127	0.050	0.285
JAPAN	-0.150	-0.157	-0.060

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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