NEWSLETTER OCTOBER 2020

T&T International Group
Your 360° Wealth Partner

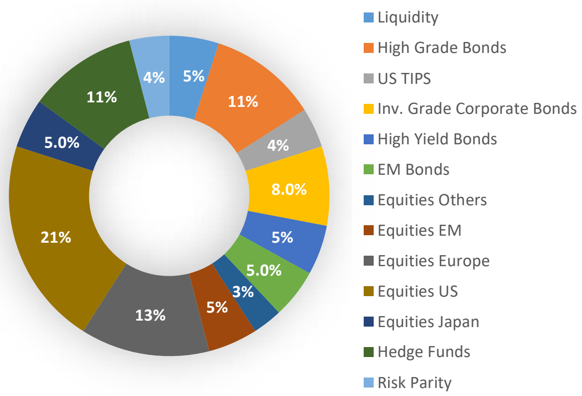
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Global equities United Kingdom Global consumer brands Global sustainable equities Digital transformation Find value in emerging markets (↗) Future of humans (↗)	**Equities**	Listed real estate sector
Investment grade Global green bonds Emerging market dovereign bonds Asia high yield bonds	**Bonds**	Developed market high grade bonds
Asian currency basket (IDR, INR, SGD) (↗)	**Currencies**	USD vs Rest of G10 (↘)
Commodities Gold: A hedge with benefits Crude Oil	**Precious Metals & Commodities**	

ASSET ALLOCATION

Economic data has generally continued to beat expectations globally as the recovery continues. While fiscal policy uncertainty has recently increased in the US, our base case remains that Congress will eventually pass another large fiscal package, but this may have to wait until after the elections in November. In the meantime, monetary policy is set to remain highly accommodative for the foreseeable future. The Fed has introduced a new policy framework that suggests rates will remain near zero for a long time. Progress is continuing on vaccine development, and better testing and treatment capacities mean full lockdowns are unlikely to be reinstated. Given unprecedented monetary stimulus and our outlook for COVID-19 and vaccine availability, we maintain an overall risk-on asset allocation expressed through a preference for global equities, various credit segments and commodity positions.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Since their March lows global equities have had a strong run. US elections, a pandemic resurgence or a breakdown in Brexit negotiations are potential risks, but we stick to our view that equities will continue to grind higher over the coming few months. The economy is still running below potential, but the data is improving. Given continuing uncertainty, central banks and governments have no other option than to stay in full stimulus mode. Earnings estimates have been cut dramatically and now net earnings revisions have turned positive for global equities.

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BONDS

While longer-term rates could move gently higher given ongoing recovery from the pandemic slowdown, we believe any spikes would be short-lived due to the Fed's active management of interest rates and its balance sheet. This, along with low inflation, should prevent longer term rates from rising quickly as the year progresses. We remain constructive on US investment grade and emerging market hard currency sovereign bonds. We think the yields in these credit segments remain attractive and that valuations in EM sovereign bonds offer particular catch-up potential relative to US credit.

CURRENCIES

Within G10 currencies, we remain mildly bearish on the US dollar (USD). US interest rates have collapsed and the Fed has supplied markets with an unprecedented supply of USD cash to alleviate funding issues, easing its policy stance more proactively than other central banks globally. From here, we think USD shorts should be implemented with a broadly diversified set of G10 currencies. We see medium- to long-term upside potential in the EUR, GBP, CHF, the Scandinavian and antipodean currencies and the Canadian dollar.

Source: UBS House View October 2020

TOPIC OF THE MONTH

WE GOT " NEW NORMAL". WHAT ABOUT "MORE NORMAL?

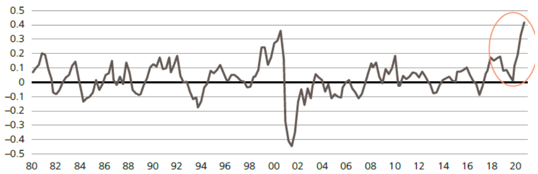
Since the peak of the pandemic, the market narrative has been dominated by the transition to a "new normal," driven by the forces of technological disruption, deficit spending, and further central bank action.

Yet, with recent gains in broad equity indexes concentrated in relatively few stocks, styles, and sectors, all linked to the new normal, we think that for markets to move materially higher in the near term we will need to see less "new normal" and more "more normal." In particular, we think investors want to see a path toward sustainable mobility gains (enabled by vaccine developments) and a reduction in US political uncertainty. We think both factors will happen, but the timing is uncertain.

Figure 1

Record outperformance for growth over value

12-month Russell 1000 Growth vs. 12-month Russell 1000 Value performance



Source: Bloomberg, UBS, as of 16 September 2020

The rise in broad equity market indexes in recent months has been driven in large part by investors' embrace of a new normal. Supported by lower discount rates and exposure to a less mobile but more connected world, the FAAMNG mega-cap tech stocks—Facebook, Apple, Amazon, Microsoft, Netflix, and Alphabet, Google's parent company—have rallied by an average of 40% this year, and the tech-heavy Nasdaq index is up 24%, outperforming the broader S&P 500 (+6%). For the most part, we see the strong performance from the technology sector as justified, and do not think the sector's price-to-earnings ratio of 25x, with 17% forecast earnings growth, is a bubble.

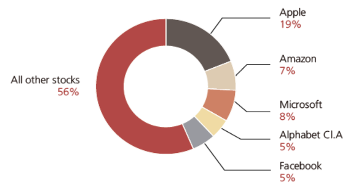
However, this embrace of the "new normal" has contributed to a relatively narrow advance. In August, just five stocks were responsible for almost half the gains in the S&P 500 (Fig. 2). Over the last year, only 32% of S&P 500 stocks are beating the benchmark. Growth's valuation relative to value is at its highest level since 2000, and 34% above the long-term average excluding the tech bubble. For equity indexes to move meaningfully higher over the medium term, the rally will need to broaden to also include value and cyclical stocks.

With China's recovery currently on track, global investors are focused on the pace of growth in Europe and the United States. Over the medium term, we are confident that we will see economic conditions get more normal and the equity market rally broaden out into cyclical and value stocks. By the middle of 2021, we expect a vaccine to be in the process of being rolled out, new US fiscal stimulus to have passed, and monetary policy to remain very accommodative. With the US election in the past, policy uncertainty will likely also be lower than today. The timing of this return to "more normal" could be accelerated if, for example, we see encouraging news on a vaccine or the passage of US fiscal stimulus sooner than expected. However, while investors shouldn't exclude the possibility of positive surprises, the near-term constellation of event risks suggests we could face a period of higher volatility.

Figure 2

The August rally was driven by relatively few stocks

% contribution to S&P 500 performance, August 2020



Source: Bloomberg, UBS, as of 16 September 2020

Source: UBS House View Monthly Letter 17.09.2020

KEY FIGURES 2020

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2019	24.09.2020	% Chg YTD
Dow Jones Ind.	28'538.44	26'815.44	-6.04%
S&P 500	3'230.78	3'246.49	0.49%
RUSSELL 2000	1'668.47	1'451.82	-12.98%
NASDAQ COMP	8'972.60	10'672.26	18.94%
CANADA - TSX	17'063.43	15'912.26	-6.75%
MEXICO - IPC	43'541.02	36'217.49	-16.82%
BRAZIL IBOVESPA	115'645.34	97'012.07	-16.11%
COLOMBIA COLCAP	1'662.42	1'179.38	-29.06%
ASIA	**31.12.2019**	**24.09.2020**	**% Chg YTD**
JAPAN- NIKKEI	23'656.62	23'087.82	-2.40%
H.K. HANG SENG	28'189.78	23'311.07	-17.31%
CHINA CSI 300	4'096.58	4'563.07	11.39%
EUROPE	**31.12.2019**	**16.12.1908**	**% Chg YTD**
EURO STOXX 50	3'745.15	3'159.46	-15.64%
UK - FTSE 100	7'542.44	5'822.78	-22.80%
GERMANY - DAX	13'249.01	12'606.57	-4.85%
SWITZERLAND - SMI	10'616.94	10'211.53	-3.82%
SPAIN - IBEX 35	9'549.20	6'643.40	-30.43%
NETHERLANDS - AEX	604.85	541.11	-10.54%
RUSSIA - RTSI	155'360.00	116'600.00	-24.95%

VOLATILITY

	31.12.2018	24.09.2020	% Chg YTD
SPX (VIX)	13.78	28.51	106.89%

CURRENCIES

	31.12.2019	24.09.2020	% Chg YTD
EUR/USD	1.1220	1.1674	4.05%
USD/JPY	108.6750	105.4100	-3.00%
USD/CHF	0.9674	0.9267	-4.21%
GBP/USD	1.3262	1.2755	-3.82%
USD/CAD	1.3002	1.3357	2.73%
EUR/CHF	1.0855	1.0818	-0.34%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2019	24.09.2020	% Chg YTD
GOLD USD/OZ	1'517.48	1'868.69	23.14%
SILVER USD/OZ	17.86	23.18	29.79%
PLATINUM USD/OZ	965.50	853.00	-11.65%
ENERGY	**31.12.2019**	**24.09.2020**	**% Chg YTD**
WTI Crude Oil	61.06	40.31	-33.98%
Brent Crude Oil	66.00	41.94	-36.45%
Natural Gas	2.19	2.24	2.28%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	-0.099	0.135	0.664
GERMANY	-0.552	-0.695	-0.507
SWITZERLAND	-0.750	-0.78	-0.499
UK	0.004	-0.420	0.221
JAPAN	-0.115	-0.148	0.011

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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