NEWSLETTER OCTOBER 2022

T&T International Group
Your 360° Wealth Partner

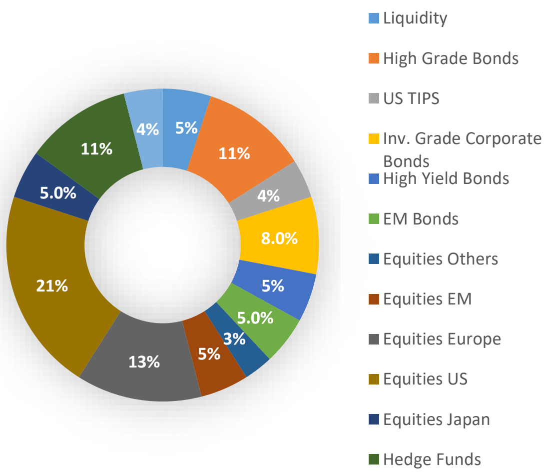
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Energy security (commodities, energy equities) Environmental security (clean air and carbon reduction, circular economy, energy efficiency, greentech, sustainable exposure) Food security (agricultural yield) Cybersecurity Sectors: energy, healthcare, consumer staples Global Value Quality income UK, Australia	**Equities**	Limited upside list CIO list preferred stocks Excess growth stocks Concentrated stocks Excess consumer discretionary stocks Cash
High grade bonds and resilient credit Select short-duration bonds Yield-generating structured investments	**Bonds**	Expensive rated bones Sell rated bones Senior loans Cash
CHF, USD	**Currencies**	EUR, GBP
Commodities Oil	**Precious Metals & Commodities**	

ASSET ALLOCATION

Overall, we expect equity markets to go higher in the next six to 12 months but volatility to remain high for the foreseeable future. We recommend staying invested but also being selective. Within equities, we keep a most preferred stance on energy, value stocks, as well as consumer staples and healthcare as a defensive position. We also prefer high grade bonds and commodities, especially oil. In currencies, we like the US dollar and the Swiss franc. We focus our preferences on the themes of defensives, income, value, diversification, and security.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Uncertainty around economic growth and inflation, coupled with rising interest rates, presents a challenging backdrop for equities over the remainder of the year. In an environment of high inflation and less accommodative central banks, equity returns rely more on earnings, which we still expect to grow by single-digit rates this year before slowing next year. Within equities, we prefer the UK and Australia to global stocks. Across sectors, we like global energy, healthcare, and consumer staples, and we are least preferred on industrials, consumer discretionary, and listed real estate. Across styles, we prefer value and quality income to growth.

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BONDS

Although bond market volatility is poised to remain high as central banks continue to raise policy rates and withdraw liquidity support, the risk-return on the higher-quality segments of fixed income has become appealing given the all-in yields on offer and as inflation risks turn to growth risks. In this light, we have a preference for high grade bonds. We keep our neutral stance on investment grade (IG), emerging market (EM), and high yield (HY) bonds. Tighter lending standards and slower growth suggest higher default risk, while liquidity risk premiums are likely to rise over time as central banks withdraw liquidity. That said, the decent starting fundamentals for HY bonds and the shorter cycle owing to the pandemic should limit the extent of defaults and potential spread-widening. EM credit continues to display a high degree of performance dispersion, not least given elevated commodity prices and idiosyncratic factors in various countries. Typically, commodity exporters are benefiting, while importers are suffering. Balance of payments and fiscal positions for commodity importers have come under stress, and the risks of default are high. We therefore maintain a neutral stance and continue to see select bottom-up opportunities in the front-end of the yield curve

CURRENCIES

The latest economic data and the FOMC's messaging in September signal that the Federal Reserve may continue with the same tightening path for months to come. We are upgrading the US dollar from neutral to most preferred. For the same reasons, we are also lifting the Canadian dollar to most preferred. The Swiss franc remains most preferred. The Swiss National Bank is still in the early stages of its rate hike cycle and is using the franc's appreciation to limit imported inflation. We also are keeping the euro and the British pound as least preferred. The European Central Bank's rate hike plan is not yet very convincing as market "defragmentation"—exemplified by a quick rise in Italian yields—is still a big threat to policy normalization. The Bank of England faces a similar dilemma as the ECB.

Source: UBS House View October 2022

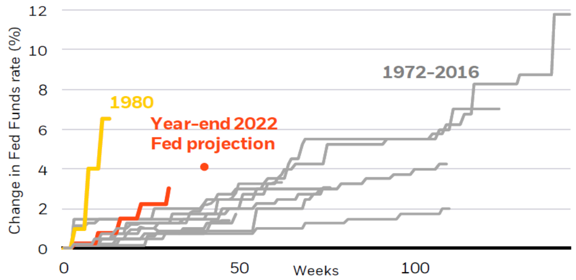
TOPIC OF THE MONTH

STOCKS DECLINE ON NO FED PIVOT

The Federal Reserve is on its fastest rate hiking cycle since the early 1980s (see orange and yellow lines in chart). It hiked another 0.75% last week and projected rates would go even higher. The Fed now sees the fed funds rate rising to 4.6% by the end of 2023, a significant bump from prior views. The problem? Updated economic forecasts might be too optimistic. The Fed still sees positive growth this year and sees it picking up next year. But it also wants to see evidence core inflation is on a decisive 2% trajectory beyond 2023 before it stops hiking. This soft landing doesn't add up so far. Quashing inflation that quickly amid constrained production capacity would take a recession – a roughly 2% hit to economic activity and 3 million

Why would a recession be needed to reduce core inflation? Unusually low supply can't meet demand. That's driving inflation. There are two reasons why. First, a labor shortage – people who left the workforce during the pandemic haven't returned yet. Second, the economy wasn't set up to match consumer spending's massive shift from services to goods that hasn't fully reversed even as the world moves on from the pandemic. Central banks can't fix these constraints, in our view, hence a brutal trade-off: trigger a deep recession by hiking rates or live with more persistent inflation. The Fed's forecasts don't acknowledge this trade-off. It reconciles this by assuming production constraints will rapidly dissolve, causing inflation to fall quickly. But if that's the outcome, what's the point of the fastest hiking cycle since former Fed Chair Paul Volcker's era?

Rapid rate rises
U.S. interest rate tightening cycles, 1972-2022



Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, September 2022. Notes: The chart shows the speed of Federal Reserve hiking cycles since 1972. The yellow line shows the fastest cycle. The orange line shows the current cycle. The orange dot is the projected change in the fed funds by year-end 2022 since the start of the cycle.

The Bank of England (BoE) has been transparent that quickly pushing inflation down will require a recession. The UK government revealed splurge on Friday that effectively throws money at an inflation problem. After last week's hike, this means the BoE will have to hike more and leave rates elevated for longer than it planned to, we think. But more importantly, the fiscal splurge puts the UK's fiscal credibility into question. The plans follow measures to subsidize energy bills and amount overall to 10% of GDP over the next five years, we estimate. The pound cratered to a 37-year low against the dollar and gilt yields surged after the news. All of this will help motivate the BoE's hawkishness.

The implications of all of this: Central banks probably will keep raising rates until it's clear that core inflation is coming down. That means economic activity is set to fall across devlopped markets. The Fed's current policy may drag down U.S. growth far more than it realizes. In Europe, the European Central Bank's resolve to push inflation down fraying as it wakes up to the bleak outlook. But that reaction will come too late to prevent the central bank from amplifying the energy shock's recessionary forces, in our view. The continent might see a deeper recession than in the U.S.

Source: Blackrock Sep 2022

KEY FIGURES 2022

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2021	29.09.2022	% Chg YTD
Dow Jones Ind.	36'338.30	29'225.61	-19.57%
S&P 500	4'766.18	3'640.47	-23.62%
RUSSELL 2000	2'245.31	1'674.93	-25.40%
NASDAQ COMP	15'644.97	10'737.50	-31.37%
CANADA - TSX	21'294.64	18'441.84	-13.40%
MEXICO - IPC	53'272.44	45'102.55	-15.34%
BRAZIL IBOVESPA	104'822.44	107'664.35	2.71%
COLOMBIA COLCAP	1'415.79	1'135.78	-19.78%
ASIA	**31.12.2021**	**29.09.2022**	**% Chg YTD**
JAPAN- NIKKEI	28'791.71	26'422.05	-8.23%
H.K. HANG SENG	27'231.13	17'165.87	-36.96%
CHINA CSI 300	5'211.29	3'827.14	-26.56%
EUROPE	**31.12.2021**	**29.09.2022**	**% Chg YTD**
EURO STOXX 50	4'298.41	3'279.04	-23.72%
UK - FTSE 100	7'384.54	6'881.59	-6.81%
GERMANY - DAX	15'884.86	12'531.63	-21.11%
SWITZERLAND - SMI	12'875.66	11'975.55	-6.99%
SPAIN - IBEX 35	8'713.80	7'774.70	-10.78%
NETHERLANDS - AEX	797.93	641.09	-19.66%
RUSSIA - RTSI	159'390.00	98'640.00	-38.11%

VOLATILITY

	31.12.2021	29.09.2022	% Chg YTD
SPX (VIX)	22.75	31.06	36.53%

CURRENCIES

	31.12.2021	29.09.2022	% Chg YTD
EUR/USD	1.1374	0.9819	-13.67%
USD/JPY	115.15	144.48	25.47%
USD/CHF	0.911	0.9757	7.10%
GBP/USD	1.3543	1.1123	-17.87%
USD/CAD	1.2633	1.3489	6.78%
EUR/CHF	1.0361	0.958	-7.54%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2021	29.09.2022	% Chg YTD
GOLD USD/OZ	1'821.50	1'660.80	-8.82%
SILVER USD/OZ	23.18	18.84	-18.72%
PLATINUM USD/OZ	960.5	868	-9.63%
ENERGY	**31.12.2021**	**29.09.2022**	**% Chg YTD**
WTI Crude Oil	75.21	81.23	8.00%
Brent Crude Oil	79.32	88.49	11.56%
Natural Gas	3.73	6.87	84.18%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	3.314	4.17	3.747
GERMANY	0.849	1.828	2.1260
SWITZERLAND	0.400	0.806	1.3000
UK	3.139	4.351	4.138
JAPAN	-0.245	-0.048	0.245

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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