NEWSLETTER NOVEMBER 2022

T&T International Group
Your 360° Wealth Partner

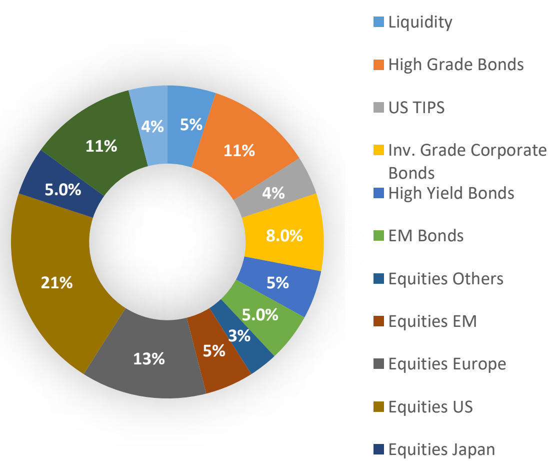
FINANCIAL MARKET OUTLOOK (SHORT TERM)

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 Excess IT Excess US stocks Excess cash
High grade bonds and resilient credit Select short-duration bonds Yield-generating structured investments Investment grade bonds	**Bonds**	Sell-expensive rated bones Excess senior loans Excess high yield Excess cash
CHF, USD, CAD	**Currencies**	EUR, GBP
Active commodity exposure Oil	**Precious Metals & Commodities**	

ASSET ALLOCATION

Persistent inflation, rising rates, falling growth estimates, and heightened financial stress make the short-term risk reward for markets unfavorable. Last week, we moved US equities and the global technology sector to least preferred from neutral. We keep a most preferred stance on energy and value stocks as well as defensives such as healthcare and consumer staples. In fixed income we now have investment grade as most preferred segment together with high grade and US high yield least preferred. Commodities are neutral. Within currencies we like the US dollar and Swiss franc, and we don't like the euro and British pound. A short-term bounce remains possible, we think a more constructive environment for risky assets will emerge through 2023, and we see the longer-term return outlook for diversified investors as relatively good. We therefore focus on mitigating near-term downside risks, while maintaining upside exposure for the medium- and long-term.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Uncertainty In an environment of high inflation and less-accommodative central banks, equity returns rely more on earnings, which we now expect to contract next year (CIO forecasts: 2023 EPS growth at -3%, vs consensus 5%). Last week US equities were moved to least preferred from neutral. While many global equity markets face similar challenges, those issues are reflected less in US equity market valuations, which are still close to long-term averages. Within equities, we like value and commodity-oriented markets such as the UK and Australia. In our global sector allocation, we also moved the technology sector to least preferred from neutral, given its heightened exposure to interest rate volatility, decelerating global growth, and the ongoing technological 'de-coupling' between the US and China. We like global energy, healthcare and consumer staples, and we are least preferred on industrials and consumer discretionary. Across styles, we prefer value and quality income to growth.

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BONDS

Current valuations on high grade bonds incorporate an aggressive front-loaded rate hiking cycle. Given the balance of risks between high inflation and slowing growth, we believe the asset class presents an attractive asymmetric return prospect and as such, we have a most preferred recommendation. Given the current deteriorating fundamental backdrop and intention from policymakers to continue tightening financial conditions, we have become more concerned on the lower quality credit segments. We recommend moving up in quality. Hence, we have a least preferred recommendation on high yield, and moved investment grade to most preferred. For investors with a medium- to longer-term investment horizon, the focus should remain on diversification and selectivity.

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. For this reason, we have the US dollar and Canadian dollar as most preferred currencies. The Swiss franc also 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 are also 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 November 2022

TOPIC OF THE MONTH

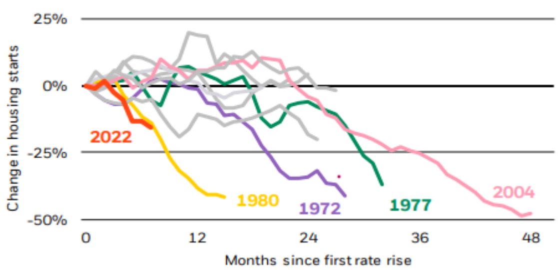
RECESSION ECLIPSES U.S. MIDTERM RESULT

Equities usually do well after U.S. midterms. Why? Gridlock is common and prevents policy change that could spook stocks. There might be a bigger problem for stocks than any potential positives from the midterm election outcome: a looming recession. Central banks rushing to hike policy rates to get inflation back to target would need to crush interest rate-sensitive parts of the economy first. That's because higher inflation is driven by production constraints. Recession will pressure other sectors in time, but there are already seeing damage in important rate-sensitive sectors like housing. As mortgage rates soar along with the Fed's aggressive rate hikes, the number of new housing starts is falling quickly. The slide in housing starts this year (see orange line in the chart below) is already steeper than past mega Fed rate-hike cycles such as in the 1970s and early 1980s – as well as the unwind of the mid2000s U.S. housing boom (other colored lines).

We've said the playbook from the Great Moderation, a four-decade period of steady growth and inflation, won't work in this new regime of heightened macro volatility. Recession outweighs factors in previous U.S. midterm elections that were seen as positive for stocks, such as resulting policy gridlock. Gridlock typically meant lower odds of change that could affect stocks.

Recession matters more and any resulting fiscal stimulus can only work at cross purposes when inflation and debt levels are high, and rates are rising. We've seen how it can threaten a fragile equilibrium and revive bond vigilantes. Case in point: the UK. The episode of historic long-term gilt volatility shows what can happen when governments try to respond to high inflation with unfunded fiscal spending.

Housing stops
U.S. housing starts during policy rate tightening cycles, 1972-2022



Sources: BlackRock Investment Institute and U.S. Census Bureau, with data from Refinitiv Datastream, October 2022. Notes: The chart shows how quickly in months housing starts changed during policy rate tightening cycles between 1972-2022. The colored, labeled lines highlight 2022 and the years when housing starts fell most quickly.

Still, political turmoil and the resignation of Prime Minister Liz Truss, warrant caution. Fiscal policy can't save the day, we think – it's a recession foretold. Production constraints mean the only way to get inflation down to target would be to curb the level of activity to what the economy can comfortably produce now. We don't think fiscal stimulus would result in stronger growth but just higher interest rates and debt servicing costs. Powell also noted the importance of inflation expectations. Just as he started his speech, the University of Michigan's Survey of Consumers showed five to 10-year inflation expectations holding steady at 2.9%, a reading compatible with the Fed's target for PCE.

Political focus is increasingly shifting to the economy. Inflation might come down, but probabely stay above target – and recession will still hit. The politics of inflation could switch to the politics of higher interest rates. We see the politics of rates creeping into the politicization of everything with more voices beginning to decry the aggressive rise in interest rates that is causing recession. We see the Fed stopping its hikes amid the economic damage and pressure to ease up on tightening, but price pressures will persist. That's why we will eventually have to live with some inflation.

Source: Blackrock 24.10.2022

KEY FIGURES 2022

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31.12.2021	25.10.2022	% Chg YTD
Dow Jones Ind.	36’338.30	31’836.71	-12.39%
S&P 500	4’766.18	3’859.11	-19.03%
RUSSELL 2000	2’245.31	1’796.16	-20.00%
NASDAQ COMP	15’644.97	11’199.12	-28.42%
CANADA - TSX	21’294.64	19’097.01	-10.32%
MEXICO - IPC	53’272.44	48’641.27	-8.69%
BRAZIL IBOVESPA	104’822.44	114’625.59	9.35%
COLOMBIA COLCAP	1’415.79	1’213.84	-14.26%
ASIA	**31.12.2021**	**25.10.2022**	**% Chg YTD**
JAPAN- NIKKEI	28’791.71	27’250.28	-5.35%
H.K. HANG SENG	27’231.13	15’165.59	-44.31%
CHINA CSI 300	5’211.29	3’627.45	-30.39%
EUROPE	**31.12.2021**	**25.10.2022**	**% Chg YTD**
EURO STOXX 50	4’298.41	3’585.58	-16.58%
UK - FTSE 100	7’384.54	7’013.48	-5.02%
GERMANY - DAX	15’884.86	13’052.96	-17.83%
SWITZERLAND - SMI	12’875.66	10’773.34	-16.33%
SPAIN - IBEX 35	8’713.80	7’774.70	-10.78%
NETHERLANDS - AEX	797.93	666.21	-16.51%
RUSSIA - RTSI	159’390.00	107’830.00	-32.35%

VOLATILITY

	31.12.2021	25.10.2022	% Chg YTD
SPX (VIX)	22.75	28.46	25.10%

CURRENCIES

	31.12.2021	25.10.2022	% Chg YTD
EUR/USD	1.1374	0.997	-12.34%
USD/JPY	115.15	147.57	28.15%
USD/CHF	0.911	0.992	8.89%
GBP/USD	1.3543	1.1471	-15.30%
USD/CAD	1.2633	1.3612	7.75%
EUR/CHF	1.0361	0.992	-4.26%

COMMODITIES (USD)

PRECIOUS METALS	31.12.2021	25.10.2022	% Chg YTD
GOLD USD/OZ	1’821.50	1’653.22	-9.24%
SILVER USD/OZ	23.18	19.37	-16.44%
PLATINUM USD/OZ	960.5	919.5	-4.27%
ENERGY	**31.12.2021**	**25.10.2022**	**% Chg YTD**
WTI Crude Oil	75.21	85.32	13.44%
Brent Crude Oil	79.32	93.52	17.90%
Natural Gas	3.73	5.61	50.40%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	4.066	4.467	4.11
GERMANY	0.868	1.946	2.1670
SWITZERLAND	0.400	0.522	1.2170
UK	2.888	3.322	3.631
JAPAN	-0.125	-0.025	0.25

T&T INTERNATIONAL GROUP

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