NEWSLETTER DECEMBER 2022

T&T International Group
Your 360° Wealth Partner

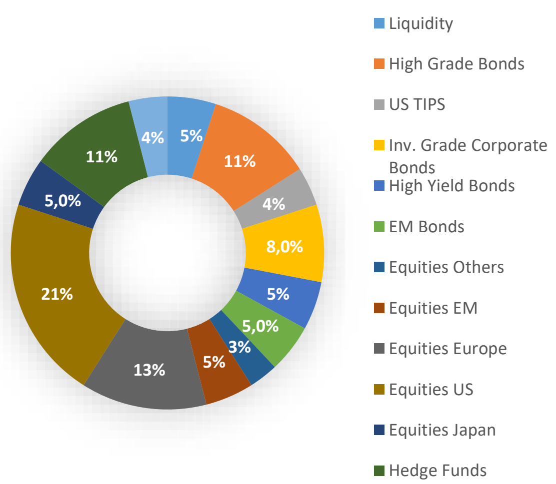
FINANCIAL MARKET OUTLOOK (SHORT TERM)

APPEALING		LESS FAVOURED
Energy security (active commodities, exposure, clean air and carbon reduction, energy efficiency, greentech) ESG equity strategies incl. Engagement and improvers 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 e-commerce Excess cash
Investment grade bonds Select short-duration bonds, resilient credit, sustainable bonds High quality bonds Yield-generating structured investments	**Bonds**	Sell-expensive rated bonds Excess senior loans Excess high yield Excess cash
CHF, USD, CAD	**Currencies**	EUR, GBP
Active commodity exposure Oil	**Precious Metals & Commodities**	

ASSET ALLOCATION

As we approach the end of the year, inflation is high, interest rates are still rising, and growth expectations are falling, with geopolitical tensions, financial stresses, and the legacy of COVID-19 adding to uncertainty. Against this backdrop, we favor defensive sectors, income opportunities, “safe havens”, and alternatives.

BALANCED USD MODEL PORTFOLIO



EQUITIES

Slowing economic growth and high inflation, coupled with rising interest rates, and falling excess liquidity, present a challenging backdrop for equities. 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% versus consensus +3%). In our global tactical asset allocation, we keep US equities as least preferred and UK and Australia as most preferred. Across sectors, we like global energy, healthcare, and consumer staples, and are least preferred on information technology, 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 a most preferred on investment grade. For investors with a medium- to longer-term investment horizon, the focus should remain on diversification and selectivity.

CURRENCIES

The US dollar has reached its strongest level in decades, rallying significantly in response to large rate hikes by the Federal Reserve and rising global geopolitical concerns. US October CPI data came in slightly weaker than expected, boosting investor optimism about a potential moderation of the Federal Reserve's tightening path. We still rate the USD as most preferred, as both the timing and level at which rates will top out remain uncertain. We also keep the Canadian dollar at most preferred, with the currency supported by the same dynamics boosting the USD. The Swiss franc also remains most preferred, as the rate hike cycle is still in its early stages in Switzerland. We don't like the euro, however. The European Central Bank (ECB) has been slower to raise rates than the Fed, while Eurozone inflation remains far too high for comfort. Meanwhile, defragmentation risk in European bond markets could lead to a quick rise in Italian yields if the ECB tightens monetary policy too fast. The euro is furthermore weighed down by Europe's high exposure to risks from the war in Ukraine, concerns about energy supply shortages, and an increasingly grim economic outlook. The Bank of England faces a similar dilemma; we also keep the British pound as a least preferred currency.

Source: UBS House View Diciembre 2022

TOPIC OF THE MONTH

STOCK SURGE TO MEET RECESSION REALITY

One economic release overshadowed the U.S. midterms for markets. Stocks surged after the October core CPI rose less than expected, stoking market hopes a Federal Reserve pause on rate hikes is nearer. That's optimistic, we think. Goods inflation is easing as it needed to, but the labor constraints driving wage growth and core inflation persist. So the Fed is still on a path to create a recession via policy overtightening.

The slower rise in core CPI inflation, which excludes volatile food and energy prices, due to falling core goods inflation is good news. This has been expected to happen at some point as spending patterns normalize after the pandemic, when a sharp shift in consumer spending toward goods and away from services drove the initial spurt of goods inflation. Spending is starting to return to services, easing supply constraints on goods. We expect declining goods inflation to continue. But high core inflation also reflects constraints on labor supply that are driving up wages, seen in services inflation. We don't expect this to improve much because many workers retired during the pandemic. We also see the U.S. labor pool shrinking as people over 65 account for a larger share of the population in coming decades.

Sources: BlackRock Investment Institute, with data from Refinitiv Datastream as of Nov. 10, 2022. Notes: The chart shows the S&P 500 price index (yellow line) versus analysts' earnings growth estimates for 2023 (orange line) since the start of 2022.

The Fed can only try to push wage and overall core inflation quickly down to its 2% target by crushing demand with a deep recession. It is expected the Fed to pause its sharp hikes only after having caused a recession and when confronted with the economic pain. We don't think a soft landing is in the cards. Yet it took just one downside surprise in CPI – one data release, not a trend – to revive hopes that the Fed would stop hiking soon and a soft landing could still be achieved. That helped to quickly wipe the U.S. midterm election – the original subject of this week's commentary – from the market's mind. This is a good reminder that in this new regime of higher macro and market volatility, we should not be surprised by surprising data. We think the Fed's "whatever it takes" approach to bringing down inflation means that no single data release or catalyst is about to change the Fed's path to overtighten policy.

Source: Blackrock 15.11.2022

KEY FIGURES 2022

EQUITY INDICES (LOCAL CURRENCIES)

AMERICA	31/12/2021	18/11/2022	% Chg YTD
Dow Jones Ind.	36.338,30	33.745,69	-7,13%
S&P 500	4.766,18	3.965,34	-16,80%
RUSSELL 2000	2.245,31	1.849,73	-17,62%
NASDAQ COMP	15.644,97	11.146,06	-28,76%
CANADA - TSX	21.294,64	19.884,58	-6,62%
MEXICO - IPC	53.272,44	51.569,72	-3,20%
BRAZIL IBOVESPA	104.822,44	108.870,17	3,86%
COLOMBIA COLCAP	1.415,79	1.295,81	-8,47%
ASIA	**31/12/2021**	**18/11/2022**	**% Chg YTD**
JAPAN- NIKKEI	28.791,71	27.899,77	-3,10%
H.K. HANG SENG	27.231,13	17.992,54	-33,93%
CHINA CSI 300	5.211,29	3.801,56	-27,05%
EUROPE	**31/12/2021**	**18/11/2022**	**% Chg YTD**
EURO STOXX 50	4.298,41	3.924,84	-8,69%
UK - FTSE 100	7.384,54	7.385,52	0,01%
GERMANY - DAX	15.884,86	14.431,86	-9,15%
SWITZERLAND - SMI	12.875,66	11.045,49	-14,21%
SPAIN - IBEX 35	8.713,80	8.127,80	-6,72%
NETHERLANDS - AEX	797,93	712,55	-10,70%
RUSSIA - RTSI	159.390,00	113.410,00	-28,85%

VOLATILITY

	31/12/2021	18/11/2022	% Chg YTD
SPX (VIX)	22,75	23,12	1,63%

CURRENCIES

	31/12/2021	18/11/2022	% Chg YTD
EUR/USD	1,1374	1,0326	-9,21%
USD/JPY	115,15	140,39	21,92%
USD/CHF	0,911	0,9549	4,82%
GBP/USD	1,3543	1,1888	-12,22%
USD/CAD	1,2633	1,3383	5,94%
EUR/CHF	1,0361	0,986	-4,84%

COMMODITIES (USD)

PRECIOUS METALS	31/12/2021	18/11/2022	% Chg YTD
GOLD USD/OZ	1.821,50	1.749,97	-3,93%
SILVER USD/OZ	23,18	20,92	-9,75%
PLATINUM USD/OZ	960,5	981,5	2,19%
ENERGY	**31/12/2021**	**18/11/2022**	**% Chg YTD**
WTI Crude Oil	75,21	80,08	6,48%
Brent Crude Oil	79,32	87,62	10,46%
Natural Gas	3,73	6,30	68,90%

INTEREST RATES GOVERNMENT BONDS

	3 Months	2 Years	10 Years
USA	4,2529	4,51	3,829
GERMANY	1,449	2,097	2,0180
SWITZERLAND	0,390	0,781	1,0470
UK	2,723	3,181	3,267
JAPAN	-0,105	-0,025	0,243

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.

Independence, commitment and trust constitute the fundamental values of T&T International. We cultivate personal relationships with each Client and offer them availability, flexibility and efficiency. We take on an approach that is instigated by dialogue, and executed with uncompromising commitment and responsibility.

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