TELEMUS MONTHLY COMMENTARY
April 2021

PERSPECTIVE

April was a reversal from many of the trends that transpired during the first quarter. The rapid rise in long-term rates stalled out, while the rotation into economically cyclical stocks took the backburner to a renewed focus on growth. The prospect around higher inflation has taken center stage as select parts of the economy are witnessing rampant price increases. The Federal Reserve is viewing the uptick in prices as transitory and thus they are not yet convinced that inflation is sustainable beyond 2021. Market volatility has declined, and conditions have generally become more sanguine. As the economy continues to shift into a reopening phase, we would expect to see greater scrutiny and debate around economic data as the market looks to speculate on how recent stimulative policies will impact the magnitude and sustainability of the economic recovery in the years ahead.

SLEEVE COMMENTARY

GROWTH

Stocks had solid gains as the S&P 500 delivered a +5.3% return. Results were positive across all sectors. Defensive oriented real estate and communication services were the top performers. Energy, which has been the best performing sector year-to-date, took a breather generating the lowest return.

Markets showed some reversal away from first quarter trends. More economically sensitive value stocks did not participate as much as traditional growth stocks. The differential between growth and value was more pronounced among larger capitalization stocks. In addition, small cap stocks, which had robust gains to start the year, trailed as the Russell 2000 Index lifted only +2.1%.

Returns to international stocks lagged that of their domestic counterparts. Developed international stocks, as measured by the MSCI EAFE, returned +3.0%. Emerging markets trailed further, gaining +2.5%.

INCOME

After rising throughout the first quarter, interest rates took a pause, leading to positive returns in the bond market. The broad-based Bloomberg Barclays U.S. Aggregate index returned +0.8%.

Given that yields on long dated bonds backed up during the quarter, longer maturities performed better than shorter.

Returns from investment grade corporate bonds outpaced Treasury and mortgage-backed securities. What stood out to the positive was the performance of high yield bonds, which gained +1.09%. Demand for high yield bonds remains elevated as investors are seeking out yield in the low-rate environment. In fact, April marked the fifth highest month ever for high yield issuance, with $47 billion of new bonds hitting the market.

Emerging market debt was also a strong performer, as the category gained +1.9%. Spreads compressed, resulting in a positive price impact.

Municipal bond returns were comparable to Treasuries. Muni yields are presently at the low end of their historic range, relative to Treasuries.

DIVERSIFIER

Diversifying real assets had a robust month of April. Returns out of commodities in particularly were notably strong.

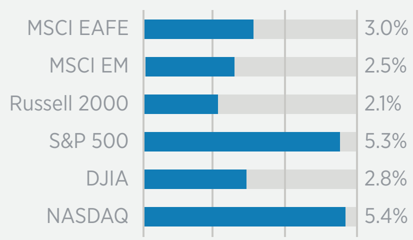
The Bloomberg Commodities index gained +8.3%, registering its strongest month since 2016. Strength was broad based. Gains in the commodity index were led by agricultural commodities, which appreciated in response to concerns around a delay in planting.

Precious metals rebounded, with gold +3% higher. The metal had undergone a strong pullback in March.

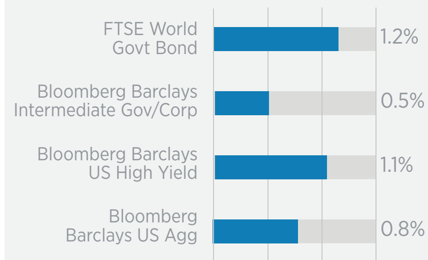
As the best performing sector in the equity market, returns to dedicated real estate strategies experienced above average gains. The Dow Jones US Select REIT index finished +8.3% higher. Real estate returns outside of the U.S. were also above average, but not as strong as returns within the U.S.

The lone laggard among broad based alternative markets was the dollar, which depreciated -2.1%. The dollar still remains +1.5% higher on the year.

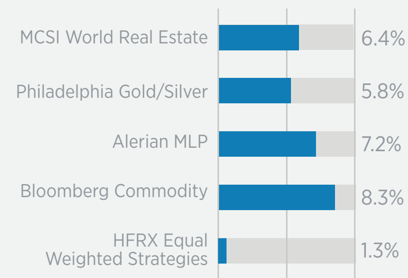
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• The economy grew +6.4% in the first quarter, led by 21% growth in income. • Retail sales surprised to the upside, growing +9.8% over March levels. • Private payrolls showed strong improvement, outpacing the rate of new initial jobless claims.	• Signs of inflation have begun to appear. Producer prices rose +4.2%, with consumer prices up 2.6% as manufacturers have yet to fully pass on higher input costs.
DEVELOPED INTERNATIONAL	• UK retail sales rebounded, up +5.4%, well ahead of forecasts. • Household spending rates in Japan have started to turn positive. • The labor participation rate in Canada is beginning to improve, with unemployment on the decline.	• Industrial production active across many Eurozone nations (ex-Germany) stalled out. • Deflation remains a challenge in Japan, although prices have shown signs of stabilizing.
EMERGING MARKETS	• China recorded record growth in its economy, with GDP rising +18.3% on a year-over-year basis in Q1. Sequential growth over Q4 was a more modest 0.6% • Brazilian exports have surged on the back of strong commodity demand. • Manufacturing activity in South Korea remains robust, at the highest levels in a decade.	• Economic activity began to slow in India given a rapid acceleration in COVID cases. • Retail sales in Brazil remain in decline from year ago levels. • Unemployment in Turkey continues to rise, now at 13.4%.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Improving economic conditions, excess liquidity and lower expected returns in other asset classes are likely to be supportive for equity prices.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we expect strong economic conditions in the U.S. versus the rest of the world. This leaves us overweight U.S. stocks.
INTERNATIONAL	■			We see a growing disparity in how countries are responding to the pandemic and corresponding economic recovery. On balance we remain more cautious of international markets in general, although we are becoming more constructive on the long-term opportunity within emerging markets.
INCOME		■		Rising rates have been a near-term headwind to bonds. The prospect of central bank intervention in managing rates is likely to put a ceiling on how high long-term rates might go. As such we maintain a neutral stance on the asset class.
DIVERSIFIER		■		Higher correlations across markets over the past year, including diversifying assets, along with modest return expectations leave us neutral on the asset class.
CASH		■		The limited return expectation for cash is balanced by its low risk profile.

PORTFOLIO REVIEW

There is a general sense across markets that in 2021 there will be a gradual return toward normal lifestyle and economic conditions. Fiscal and monetary policies remain highly stimulative, which should be supportive to the economy and asset prices. While we take comfort in what is becoming a more optimistic economic scenario, markets have to a large extent priced in these improving conditions. Therefore, we expect a moderation in returns relative to 2020. As the recovery continues to play out, pockets of dislocation are likely to appear with an opportunity for security selection to benefit from the variability in returns along the way.