TELEMUS MONTHLY COMMENTARY
August 2020

PERSPECTIVE

There was a feeling of euphoria in equity markets during August. The last time the S&P 500 had that strong of an August was 1984, when Carl Lewis was in the process of winning four Olympic gold medals. What stood out was that market breadth continued to narrow as the big five FAAMG stocks (Facebook, Apple, Amazon, Microsoft and Google) served as the dominant force in driving the market higher. Economic conditions continue to improve, although the rate of improvement has begun to moderate. In fixed income markets, short-term rates remain steady while long-term rates drifted slightly higher. Overall, the market had a more subdued, calm summer vibe to it. Speculation around the path of COVID-19 going forward, increased tensions between the U.S. and China and the biggest elephant in the room, the upcoming election, hang over the market as we move into fall.

SLEEVE COMMENTARY

GROWTH

A robust move in the equity market led to a +7.2% gain for the S&P 500. What stood out was the performance of large cap growth stocks. The Russell 1000 Growth index, which tracks large cap growth companies, was up +10.3%. Conversely, the Russell 1000 Value Index only gained +4.1%, nearly a six-percentage point differential. The divergence is fairly unique for a brief one-month period.

Among the growth cohort, technology stocks led the way. Within the S&P 500, returns for the sector were +11.8%. The value and income-oriented sectors of utilities, energy and real estate all declined during August.

Outside of large cap U.S. stocks, there was little differentiation between growth and value stocks. In fact, among mid cap companies, value stocks edged out growth.

Outside of the U.S., developed market equities were up +5.1%, lagging the U.S. market. Emerging market stocks, which had a robust July, experienced more muted gains lifting +2.2%.

INCOME

Bonds lost ground in August as prices of long dated maturities were pressured by a steeper yield curve. Overall, the broad-based Bloomberg Barclays US Aggregate index lost -0.8%.

Shorter maturity Treasury bonds were flat, while long dated Treasuries fell -3.1%. Corporate bond spreads performed slightly better as shorter maturity corporate bonds rose +0.2%, while long dated maturities fell similar to Treasuries. High yield bonds were additive to returns, up +1.0%.

Treasury Inflation Protected Securities, or TIPS, stood out as inflation adjusted yields (real yields) fell to -1.0%; a record low. This led to a +1.1% return for the sector.

Municipal bonds performed similarly to taxable bonds. Short-term maturities were flat on the month, while longer dated maturities declined.

DIVERSIFIER

Returns to alternative assets were generally positive on the month.

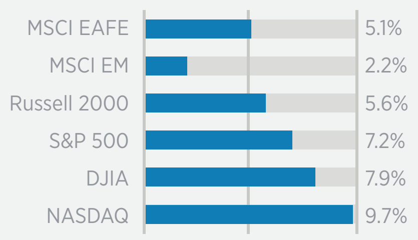
Hedge funds delivered solid results as the HFRX Equal Weighted Strategies Index rose +1.3%. As growth stocks lifted, fundamental growth strategies were the standout performer, up +5.1%. Merger arbitrage and macro strategies were the sole categories that lost ground.

The dollar continued to depreciate, losing -1.3% on the month. The euro and British pound experienced strong appreciation versus the dollar. Exchange rates between the dollar and emerging currencies have remained stable.

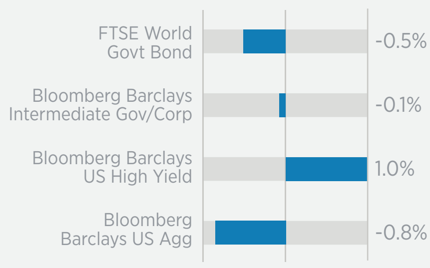
After experiencing standpoint performance in July, precious metals moderated. The Philadelphia Stock Exchange Gold/Silver index retreated -0.2%.

Real estate continues to trend higher. The MSCI World Real Estate index rose +2.2% while U.S. real estate was up +0.7%.

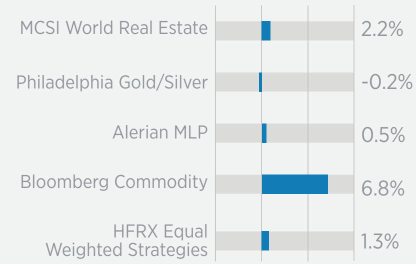
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Retail sales rose +1.2% with consumer spending now back to pre-COVID levels. The rate of growth in consumer spending is beginning to moderate. • Existing home sales rose +24.7% (annualized) for the month of July, while new home sales were up 40%. • Manufacturing activity is exhibiting a steady climb, with strong new order growth providing a positive indicator for future activity.	• Consumer confidence slid in August, marking the worst reading since 2014. • Construction activity has turned negative, with residential construction being a bright spot.
DEVELOPED INTERNATIONAL	• Manufacturing activity in the U.K. has risen considerably, as August activity readings marked the highest level of industrial activity since 2013. • Germany has experienced a rebound in its trade balance as exports have begun to increase. Strong growth in new orders is a positive indicator that this trend could continue. • Contrary to the U.S., consumer confidence in Canada is surging.	• Canada's economy suffered a record decline, as its Q2 GDP fell -38.7% on an annualized basis. • Broader European manufacturing activity has started to stall, recent readings have remained static. • After rebounding in recent months, retail sales in the UK have turned negative.
EMERGING MARKETS	• China's economy rebounded strongly in Q2, growing at an 11.5% annualized rate. This comes after a -10.0% decline in Q1 GDP. China remains on track for positive economic growth in 2020. • Brazil's economy has started to strengthen with retail sales and industrial production rebounding.	• South Korea's central bank revised its 2020 outlook lower, expecting its economy to contract -13% on the year. • The Turkish lira hit a record low, stock prices have been falling, while home sales have soared.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Market conditions remain speculative in the short-term as the impact from the coronavirus on corporate fundamentals remains uncertain. As such, we have taken measures to add some downside protection to portfolios in order to help manage through any near-term uncertainty.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we remain overweight U.S. stocks over international.
INTERNATIONAL	■			Uncertainty around the timing of an economic rebound and divergent policies leave us underweight international stocks at this time.
INCOME		■		Interest rates have hit record lows. Accommodative central bank policies indicate that rates are likely to remain at low levels for some time. We believe opportunities exist in some sectors of the fixed income market, as well as through individual bond selection.
DIVERSIFIER		■		Given above average prices in both stock and bond markets, we are constructive on the role of diversifying alternative assets in client portfolios. We see a growing opportunity for niche strategies that look across markets for dislocations in asset prices.
CASH		■		We are comfortable with cash levels drifting higher in the near-term. Given the low level of interest rates on cash-like instruments, we do not view cash as particularly attractive longer-term.

PORTFOLIO REVIEW

Market conditions have evolved quickly from March lows as new information around the rate of the virus' progression has been digested. We see growing dispersion across asset prices, as the market recovery has been unusually narrow. This leaves us more constructive on the long-term opportunity to generate returns from security selection. However, in the short-term, it is purely speculative to forecast the pace of the economic rebound as the progression of the virus is the ultimate influence. As such, we believe it is important to remain conservative in positioning. Over time, we would expect to gradually reduce this conservative bias and increase exposure to those assets that we believe offer more compelling long-term return potential.