TELEMUS MONTHLY COMMENTARY
August 2021

PERSPECTIVE

Equity market momentum continued into August. Year-to-date, the index has set 53 separate record highs. Strong corporate earnings, excess liquidity and improving sentiment have all helped to fuel a strong market thus far in 2021. More recently, we have seen a narrowing in the market as capital continues to flow into those assets that have more recently performed well. This has helped to fuel the S&P 500 to what is now its highest valuation (as measured by its price/earnings ratio) since the late 1990's. Averages can be deceiving and the aggregate valuation for the market masks a range of valuations across stocks and sectors. While the economy remains quite strong, we have seen signs that the rate of improvement is moderating. In addition, Federal Reserve Chair Jerome Powell indicated the Fed will begin to taper, or reduce its monthly bond purchases, later this year. Collectively these factors could lead to a moderation in investor appetite for riskier assets. We continue to take comfort in the strength of economic conditions, ample market liquidity and strong consumer balance sheets.

SLEEVE COMMENTARY

GROWTH

Stocks climbed higher for the seventh consecutive month. Market gains were fueled by a combination of strong corporate earnings results and a moderation in monetary policy expectations. The S&P 500 gained +3.0% leaving the index up +21.6% year-to-date.

Large caps stocks outpaced other major indices. Small cap stocks continued to lag on a relative basis, as the Russell 2000 Index rose a more modest +2.2%.

Returns outside of the U.S. were positive, but lagged the S&P 500. The MSCI EAFE index, which measures developed international markets, lifted +1.8%.

Emerging market equities experienced outsized volatility, falling as much as 4% intra-month before finishing August with a gain of +2.6%. A retracement in Chinese equities was a key driven of the softness in emerging markets during much of the month.

INCOME

A slight rise in rates and a steeper yield curve led to a drop in bond prices. The Bloomberg Barclays U.S. Aggregate index concluded the month -0.2% lower.

Returns were comparable across sectors. Intermediate term Treasuries, as measured by the Bloomberg US Treasury 3-5 year index were-0.2% lower. The Bloomberg Intermediate Government/Corporate index was also down -0.2%

Municipal bonds retraced as well with the Bloomberg Municipal Bond Index falling -0.4%. Yields on longer dated municipals were impacted more than shorter dated instruments.

The standout performers were the riskier parts of the market. The Bloomberg U.S. High Yield index appreciated by +0.5%, while emerging market bonds were up a healthy +1.4%.

DIVERSIFIER

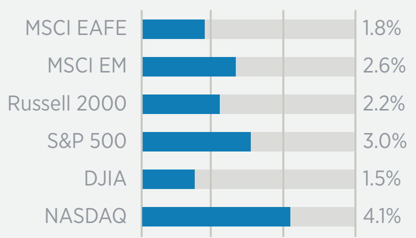
Diversifying assets generally fell during August.

The prices of many key commodities were challenged during the month. The Bloomberg Commodity Index fell -0.3%. Construction related commodities, such as lumber and iron ore, were down double digits. The price of crude oil was also negative, dropping -7.4%. Among precious metals, the price of silver declined alongside other industrial metals. This drove a -6.8% decline in the Philadelphia Stock Exchange Gold/Silver index.

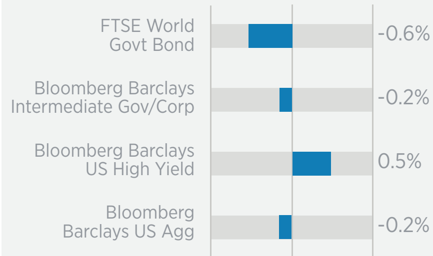
On a positive note, real estate continued its uptrend. The Dow Jones U.S. Select REIT index gained +1.8% with global real estate prices up +2.3%.

Hedge fund strategies were largely positive with the HFRX Equal Weighted Strategies index up +0.5%. Among hedge fund categories, fundamental growth and merger arbitrage were among the top performers. The notable laggard was the market neutral category, which experienced modest declines on average.

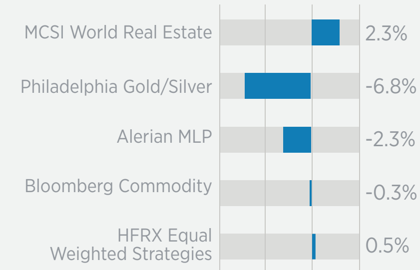
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Inflationary pressures moderated as transitory elements such as auto prices stabilized. The annualized inflation rate remains at 5.4%. • Growth in manufacturing activity showed signs of leveling off, while growth in services was robust. • Personal income grew more than expected on the back of higher wages.	• Consumer Confidence measures saw a sizable decline due to a combination of the delta variant and concerns around auto and home affordability. • The personal savings rate continues to trend back toward pre-COVID levels. The most recent reading of 9.6% compares to roughly 8% prior to the pandemic.
DEVELOPED INTERNATIONAL	• Canada's current account has now swung to a surplus, having been at a deficit for over a decade. • Japanese export levels are holding near decade highs. • Japan's economy grew +0.3% in the second quarter, stronger than expected.	• The number of UK worker furloughs have been declining at a slower pace than expected. • Existing home sales in Canada have declined for four straight months. • Supply chain bottlenecks contributed to a decline in business confidence within Germany.
EMERGING MARKETS	• Manufacturing activity in China experienced a sharp uptick. • South Korean industrial production remains in an upward trajectory. • Exports out of India have hit record high levels.	• Chinese technology stocks had fallen nearly 50% from February levels. Share prices seemed to bottom out late in the month. • South Africa's unemployment rate hit 34.4%, its highest level of record. • Columbia's GDP declined more than expected.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Improving economic conditions, excess liquidity, strong corporate earnings, 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 stronger 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 have become more constructive on the long-term opportunity within emerging markets.
INCOME		■		The prospect of rising rates is likely to keep bond returns in check. Central bank intervention in managing rates is likely to put a ceiling on how high long-term rates might go. As such we remain neutral on the asset class.
DIVERSIFIER	■			Higher correlations across asset classes and a lack of attractive broad-based return opportunities leaves us less constructive on diversifying investments at this time.
CASH		■		While short-term yields are limited in the current environment, we are comfortable holding modestly higher cash in the event asset price dislocations arise as economic growth moderates and monetary policy evolves.

PORTFOLIO REVIEW

We are encouraged by overall economic fundamentals and what has been exceptionally strong corporate earnings results year-to-date. We are beginning to hit an inflection point where the rate of improvement in both economic growth and corporate earnings may be peaking. Given the sheer magnitude of the global economy recovery it is unrealistic to expect that the rate of improvement could be sustained. As we move forward, we expect economic growth to continue, although it will likely be at a more moderate pace. This will likely lead to less broad-based market gains, with greater impact coming from stock and bond selection.

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The S&P 500 index includes 500 leading companies in the US and is widely regarded as the best single gauge of large-cap US equities. The Dow Jones Industrial Average (DJIA) is a widely-watched benchmark index in the U.S. for blue-chip stocks; it is a price-weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Nasdaq Composite Index is a large market-cap-weighted index of more than 2,500 stocks, American depositary receipts (ADRs), and real estate investment trusts (REITs), among others. The Russell 2000 index measures the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index. The MSCI Emerging Markets Index captures over 1,300 large- and mid-cap securities across 27 Emerging Markets (EM) countries and five world regions. The MSCI EAFE Index is an equity index which captures large- and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 876 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. The Dow Jones U.S. Select REIT Index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The FTSE World Government Bond Index (WGBI) is a broad index providing exposure to the global sovereign fixed income market, it measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently includes sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available. The Bloomberg Barclays US Aggregate Bond is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The Bloomberg Municipal Intermediate (5-10 Year) Bond Index: Is an unmanaged index of long-term, fixed-rate, investment-grade, tax-exempt bonds representative of the municipal bond market. The Bloomberg 5-Year Municipal Bond Index is the 5-year (4-6) component of the Bloomberg Municipal Bond Index. Bloomberg 7-Year Municipal Bond Index is an unmanaged index of municipal bonds issued after January 1, 1991 with a minimum credit rating of at least Baa, been issued as part of a deal of at least $50 million, have a maturity value of at least $5 million and a maturity range of 4-6 years. As of January 1996, the index also includes zero coupon bonds and bonds subject to the Alternative Minimum Tax with maturities between nine and twelve years. The Bloomberg 10-Year Municipal Bond Index is the 10-Year total return subset of the Bloomberg Municipal Bond Index. The Bloomberg Municipal Bond Index Is a market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990 and must be at least one year from their maturity date. The Bloomberg High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated or rated below B by Moody's Investors Service with a remaining maturity of at least one year. The Bloomberg US Treasury 3-5 Year Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 3-4.9999 years to maturity. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The Philadelphia Stock Exchange Gold/Silver Index (XAU) is a capitalization-weighted index composed of companies involved in the gold or silver mining industry. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Alerian MLP Index is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX). The HFRX Equal Weighted Strategies Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The HFRX Equal Weighted Strategies Index applies an equal weight to all constituent strategy indices.

Any reference to an index is included for illustrative purposes only, as an index is not a security in which an investment can be made. Indices are unmanaged vehicles that serve as market indicators and do not account for the deduction of management fees and/or transaction costs generally associated with investable products. The holdings and performance of Telemus client accounts may vary widely from those of the presented indices. Advisory services are only offered to clients or prospective clients where Telemus and its representatives are properly licensed or exempt from licensure. No advice may be rendered by Telemus unless a client service agreement is in place. All composite data and corresponding calculations are available upon request.