TELEMUS MONTHLY COMMENTARY
July 2020

PERSPECTIVE

July was a robust month across markets, with record price movements occurring in multiple assets. News headlines focused on the surge in the number of coronavirus cases, which markets looked past as they concentrated on positive economic datapoints, an accommodative Federal Reserve, and what have generally been better than expected corporate earnings results for the second quarter. There remains an exuberance toward riskier assets. We, however, remain constructively cautious. Market expectations are not unrealistic if indeed the worst is over. However, no one knows the ultimate path of the virus and the U.S. economy remains propped up by artificial demand driven by fiscal stimulus. The ultimate test will occur when stimulus eventually runs off and the economy is left to stand on its own. In the current climate we are placing a greater emphasis on managing risk and encourage investors to have a long-term focus, as the range of potential near-term outcomes remains abnormally wide.

SLEEVE COMMENTARY

GROWTH

Stocks continued to rebound, finishing the month of July with positive year-to-date returns. After rising +5.6% in July, the S&P 500 has now appreciated +2.4% on the year.

There has been considerable divergence in returns across popular U.S. stock indices. The technology heavy NASDAQ Composite lifted +6.9% in July, while the Dow Jones Industrial Average was up a more muted +2.5%. We have seen a reduction in market breadth during the recovery, as the five largest stocks (Apple, Microsoft, Amazon, Alphabet and Facebook) have appreciated considerably and now make up 22% of the S&P 500 Index.

Growth stocks stood out as they notably outperformed their value counterparts in July. The difference between the two styles was more pronounced among large caps. Year-to-date, growth stocks have outpaced value by over 30 percentage points.

Outside of the U.S., emerging market stocks had a sharp rally, returning +8.9%. This result was well in excess of developed markets, which gained +2.3%.

INCOME

Bonds had a good month as corporate yields fell (bond prices move opposite of yields). In general, riskier bonds performed better. In fact, a +4.7% return in high yield made July the best month for the sector since 2011.

Treasury bonds experienced modest gains as long-term rates fell slightly during the month. As a result, longer dated bonds performed better than those with shorter maturities.

Corporate bonds were the standout sector within fixed income as spreads, or the difference in yields between corporate bonds and Treasuries, compressed. Intermediate corporate bonds lifted +1.5%, while long-term corporate bonds gained +6.1%.

Mortgage backed securities had mild gains, up +0.2%, lagging much of the taxable bond market.

Municipal bond results were on trend with taxable bonds. Intermediate municipal bonds gained +1.2%, with longer maturities performing better than shorter.

DIVERSIFIER

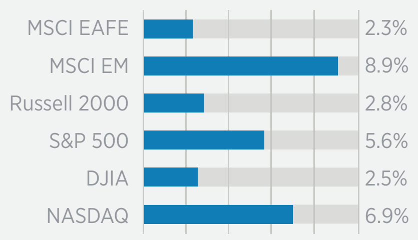
Alternative assets had a wider range of returns than in previous months. Hedge fund and real estate returns were moderate, gaining +1.1% and +2.9% respectively.

The value of the U.S. dollar depreciated by -4.2%. This marked the worst monthly performance in the dollar in over a decade. After serving as a safe haven currency in March, investors have begun to unwind exposure to the dollar.

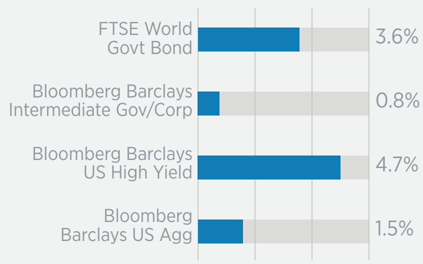
The standout performer was precious metals, as the Philadelphia Stock Exchange Gold/Silver Index was up +19.6%. It finished the month just below $2,000/oz, an all-time high. Investors have sought out the defensive aspects of gold given the low interest rate environment and a depreciating dollar.

Commodity prices were higher in general as the Bloomberg Commodity index lifted +5.7%. The price of oil had a more muted return, rising +2.6%.

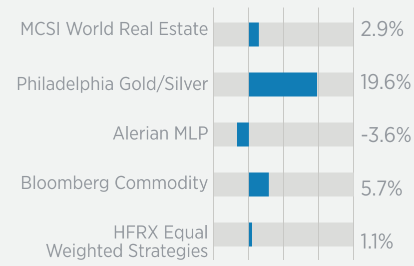
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Manufacturing activity has continued to recover, although there is divergence in the level of recovery across regions of the country. • Retail sales have continued to rebound and are approaching pre-COVID levels. • Consumer debt is down -5% on a y/y basis, as stimulus payments and managed spending have helped consumers pay down debt.	• The U.S. economy shrank at a -32.9% annualized rate in the second quarter. • Initial jobless claims stubbornly remain above 1 million on a weekly basis. • Capacity utilization remains at depressed levels, though it has improved from readings earlier this spring.
DEVELOPED INTERNATIONAL	• The European Union agreed upon a €750 million stimulus package. • Eurozone PMI readings rebounded above 50 in July, indicating a return to growth in industrial activity. • Canada's housing market is robust, with prices up +5.9% on a y/y basis.	• Germany's economy shrank at a -10% annualized rate in the second quarter. A devastating decline, but better than many other developed economies, including the U.S. • While unemployment levels in Australia have improved, job gains have been in part-time positions. Full time employment has been down in each of the last four months.
EMERGING MARKETS	• As many emerging market central banks have cut interest rates to low levels, some have started to employ quantitative easing by purchasing local currency government bonds. • Industrial activity in China is closing in on pre-COVID levels. In fact, China's July PMI reading was at a nine-year high.	• Russia and India have yet to see a rebound in economic conditions as coronavirus cases remain on the rise. • After recovering in June, South Korea's exports declined into July. • China's retail sales in June and July remain well behind last year's levels.

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.