TELEMUS MONTHLY COMMENTARY
July 2021

PERSPECTIVE

Markets continued their steady climb higher in July, but the path was anything but uniform. There seemed to be a trend of migration toward reducing risk as purchases of long-dated bonds drove yields lower and stock investors seemed to migrate toward more established large cap names. Riskier segments of the market such as small cap and emerging markets sold off. The tone of the market shifted as some started to question whether we are hitting peak growth rates for both the economy and corporate earnings. Conviction in the continued expansion of the economy remains, although there may be signs that the rate of growth may begin to decelerate. This added to volatility during the month, however, support was present as a mid-month selloff led to the S&P 500 bounding off its 50-day moving average, a key technical level. Looking to August, the market is likely to continue to reset expectations to this evolving dynamic. In what is traditionally a low volume summer month, it would not be surprising to see an uptick in overall volatility.

SLEEVE COMMENTARY

GROWTH

Equities experienced greater diversity of returns this month. Investors flocked toward higher quality growth stocks, while small caps and emerging market equities sold off.

The S&P 500 gained +2.4%, its sixth straight month of positive results. The more recent reversal back toward growth stocks continued, as the Russell 1000 Growth index returned +3.3% versus +0.8% for the Russell 1000 Value.

While larger companies continued to push higher, small cap stocks sold off with the Russell 2000 index dropping -3.6%. Small caps had started the year much stronger than large cap. They now lag their large cap peers by over four percentage points year-to-date.

Returns were not as strong outside of the United States. Developed market international stocks saw more modest gains, as the MSCI EAFE index was up +0.8%. Emerging market stocks were hardest hit as tighter regulations in China led to a selloff in the companies' equity market late in the quarter. All told, the MSCI Emerging Market index fell -6.7%.

INCOME

A continued drop in interest rates was the dominant influence on bond returns this past month. Rates on the 10-year Treasury were down a quarter of a percentage point on the month. This led to higher bond prices with the broader bond market, as Bloomberg Barclays U.S. Aggregate index, up +1.1%.

Daily movements in interest rates picked up in July due to technical factors that influenced supply/demand dynamics. The MOVE index, which measures volatility in interest rates, returned to levels not experienced since March of last year.

There was little difference in returns across sectors. In particular, returns were comparable between corporate bonds and Treasuries.

A continued drop in real yields was favorable for Treasury Inflation Protected Securities, or TIPS. The Bloomberg Barclays U.S. TIPS market returned +2.7% in July.

Municipal bonds also traded higher, but lagged the return of their taxable counterparts.

DIVERSIFIER

Diversifying assets had mixed results in July.

Commodities had a strong month gaining +1.8%. Energy and industrial metals drove the index higher, while prices of agricultural commodities fell. Of note, the price of lumber, which has increased nearly 3x earlier in the year, plummeted nearly -40%, finishing at late 2020 levels.

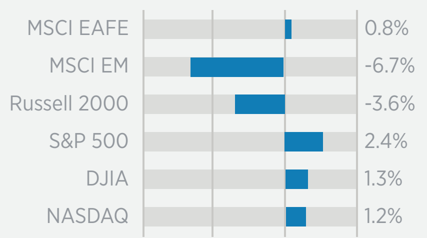
Real estate results were also positive with the Dow Jones U.S. Select REIT index lifting +5.3%.

Gold prices appreciated as falling real interest rates made the asset more attractive. The Philadelphia Stock Exchange Gold/Silver index finished +1.8% higher.

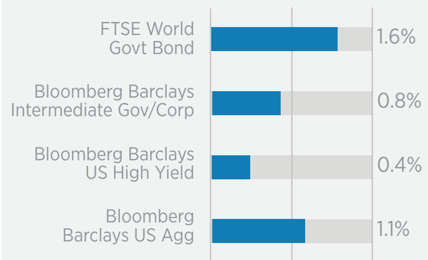
Pipelines, which have been particularly strong performers year-to-date, retreated as the Alerian Energy MLP index lost -6.3%.

The dollar depreciated by -0.3% during the month. In recent months the dollar had rebounded after having experienced weakness early in the year.

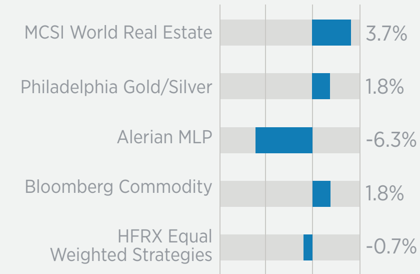
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Manufacturing and services backlogs remain elevated, providing support for continued momentum for industrial activity. • Housing prices have risen 15% over the past year driven by a surge in demand and tight supply. • Trucking activity is now at the highest level since the late 1990's. • While initial jobless claims have leveled off in recent months, the number of continuing claims continues to trend down.	• The economy continues to add jobs, although the unemployment rate ticked higher to 5.9% as labor force participation rate is expanding. • The services sector continued to expand but at a slower pace than in prior months. Supply chain disruptions and issues finding workers being noted as headwinds. • Price levels continue to rise with the consumer price index now up 5.4% over the last twelve months.
DEVELOPED INTERNATIONAL	• Manufacturing activity is accelerating across most of Europe. • Retail sales in Germany and the UK are back to pre-COVID trends. • Payroll levels in the U.K. have nearly returned to pre-pandemic levels. • Exports out of New Zealand hit an all time high.	• The pace of manufacturing activity in Japan has continued to slow. Services sector is in contraction. • Manufacturing activity and construction output temporarily slowed within the U.K.
EMERGING MARKETS	• Brazil's Service sector PMI is at its highest level in nearly a decade. The country's exports are at a record high. • South Africa achieved a record trade surplus.	• China's economy expanded 1.3%. • Inflation in Turkey remains high at 17%. • Manufacturing activity in Russia remains in contractionary territory.

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 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		■		The limited return expectation for cash is balanced by its low risk profile.

PORTFOLIO REVIEW

We believe we are nearing a point where the rising tide of the stimulus-fueled economic recovery has lifted all boats. As we progress forward there will likely be greater dispersion in asset returns and fewer categorical moves across asset classes. In this environment, we believe a more active approach to portfolio management can generate returns for investors, even though we would expect more muted outcomes for broader market indices. In addition, we think it's reasonable to expect more episodes of volatility as the broad-based recovery becomes more diverse and investors begin to reset their expectations.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. This market commentary is a matter of opinion and is for informational purposes only. It is not intended as investment advice and does not address or account for individual investor circumstances. Investment decisions should always be made based on the client's specific financial needs, goals and objectives, time horizon and risk tolerance. The statements contained herein are based solely upon the opinions of Telemus Capital, LLC. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Information was obtained from third party sources, which we believe to be reliable, but not guaranteed.

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 Russell 1000 Growth Index is a composite that includes large and mid-cap companies located in the United States that exhibit a growth probability. The Russell 1000 Value Index measures the performance of the large cap value segment of the US equity universe. The Russell 1000 Growth & Value Indices are subsets of the Russell 1000 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 Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index. The US TIPS Index is a subset and the largest component of the Global Inflation-Linked Bond Index (Series-L). 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 S&P U.S. High Yield Corporate Bond Index is designed to track the performance of U.S. dollar-denominated, high-yield corporate bonds issued by companies whose country of risk use official G-10 currencies, excluding those countries that are members of the United Nations Eastern European Group (EEG). The Merrill Lynch Option Volatility Estimate (MOVE) Index is a well-recognized measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. 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. The Consumer Price Index (CPI) measures the performance of US inflation (not seasonally adjusted) which is the rate of change of consumer goods prices. The data is from Bureau of Labor Statistics. The value of the current month CPI is estimated by the average value of the previous two months CPI.

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.