TELEMUS MONTHLY COMMENTARY
June 2020

PERSPECTIVE

Markets continued to rally with the S&P 500 registering a positive return for the third consecutive month, finishing 39% off its low. Across the S&P 500, only 41% of the index experienced a return equal to or better than the index average, a sign of poor market breadth. In fact, the returns of the FAAMG (Facebook, Amazon, Apple, Microsoft and Google) stocks, which constitute 21% of the S&P 500, contributed an amount equal to the entire return of the index for the month. While the market rebound has continued through June, the lack of breadth depicts the fact that the recovery has not been as broad based as index averages might imply. There remain stocks that exhibit attractive long-term upside potential, however, in our view the leaders of the recovery have begun trading at prices that appear stretched. As June ended, the number of coronavirus cases was on the rebound. In our assessment, markets are pricing in a V-shaped recovery in economic activity. Any stall in this trajectory is a risk across asset classes, which seem to have uniformly priced in optimistic expectations.

SLEEVE COMMENTARY

GROWTH

Equity markets continued their recovery in June, with the S&P 500 gaining +2.0%. There was a considerable divergence in returns with the tech heavy NASDAQ Composite leading the way up +6.0%. The index has now gained +12.1% on the year, while the broad-based S&P 500 has declined -3.1%

Growth stocks remain in favor, with a sizable five percentage point differential between the Russell 1000 Growth (+4.35%) and Russell 1000 Value (-0.67%) indexes. The preference for growth stocks over value was consistent across all market capitalizations.

Small cap stocks rebounded at a slightly greater rate than large caps, up 3.5%. Small cap stocks have been particularly volatile of late, trading up on days when sentiment around an economic recovery is positive.

International markets showed gains, led by the MSCI Emerging Markets index, which climbed +7.4%. Emerging market results were strongest in China, where Chinese A shares lifted +10.4%. Developed international markets rose +3.4%, slightly ahead of U.S. stocks.

INCOME

Interest rates remained range bound during June, while a greater appetite for corporate bonds drove modest gains for fixed income assets. The broad-based Bloomberg Barclays Aggregate index finished the month +0.6% higher.

Returns to Treasury bonds were modest. Corporate bond results were notably higher as their yield differential relative to Treasury bonds compressed, leading to higher prices. Intermediate term corporate bonds gained +1.6%, versus a modest +0.1% for comparable Treasuries. The Federal Reserve also began purchasing individual corporate bonds during the month, an unprecedented policy that likely influenced greater risk taking. High yield bonds also benefited, gaining +1.0% in June.

Similar to corporate bonds, municipal bonds experienced lower rates and more attractive returns. Intermediate term municipal bonds rose +0.5%.

Returns to international and emerging market bonds were also positive, with returns of +0.6% and +1.7% respectively.

DIVERSIFIER

Returns to diversifying alternative investments were generally positive. Constructive sentiment toward risk has been a boon to these assets as well.

After going negative in April, oil prices continued their ascent higher, lifting +9.6% in June. MLP pipelines did not track the price of crude, falling -7.9%.

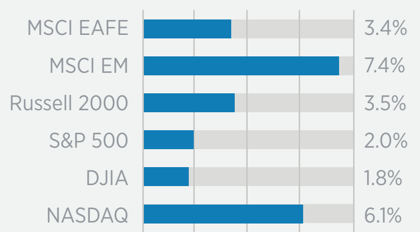
Precious metals gained +7.5%, fueled by higher silver prices, as a rebound in economic activity was viewed as a positive for the industrial metal.

Hedge funds continued to generate attractive absolute returns, after having fallen during the market downturn. For June, the HFRX Equal Weighted Strategies index was +1.6% higher. Fundamental growth and event driven strategies stood out to the positive, while systematic macro driven strategies were slightly negative.

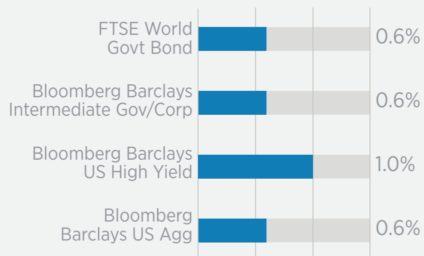
The dollar began to soften, depreciating -1.0% in June.

Returns to real estate were positive, with U.S. Real Estate securities trading up +1.8%.

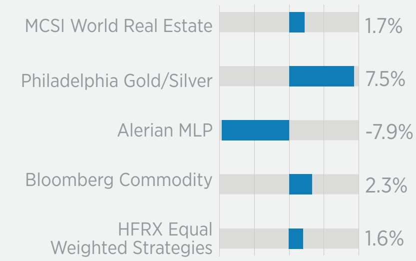
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Retail sales grew by a record 17.7% during the month of May. Given the steep declines in March and April, sales are still down 6% from year ago levels. • The unemployment rate fell to 13.3% in May, down from 14.7%. The Bureau of Labor statics had noted some challenges in accurately classifying employment data. • Home sales and pending home sales have seen steady improvement over the course of the spring.	• By month's end, 40% of the U.S. population saw reopening measures reversed, potentially stalling the rate of economic improvement. • U.S. crude oil production has fallen from 13 million barrels/day to 10.5 million thus far this year.
DEVELOPED INTERNATIONAL	• Manufacturing activity in Europe has rebounded sharply, although it remains down on year-over-year basis. • The European Central Bank expanded its bond buying program by €600 billion, taking its target to €1.35 trillion for 2020.	• Japanese manufacturing activity has not rebounded with the rest of the world and remains at levels not seen since the financial crisis. • Inflations rates sunk across developed markets during June. • In the UK, consumer borrowing shrunk to the lowest level in 26 years.
EMERGING MARKETS	• Having fallen below 40 early in the year, China's Manufacturing PMI indicated activity is now expanding, with the most recent reading over 50. • Several EM central banks have begun to deploy Quantitative Easing measures, albeit in modest amounts	• A resurgence of coronavirus cases in China, and a swift spreading of the virus in Latin America, is hampering many emerging economies. • The International Monetary Fund revised down economic growth expectations for EM countries, now forecasting a -3% decline in 2020.

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 down-side 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 severity of the downturn and pace of the economic rebound as the progression of the virus is the ultimate influencer. 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.