TELEMUS MONTHLY COMMENTARY
December 2020

PERSPECTIVE

Markets drifted higher with solid returns across most asset classes in December. Investors continued to favor higher risk profile assets with growth stocks, high yield bonds, and commodities trending higher. The combination of vaccine approvals, the passage of a $900 billion stimulus package and a last-minute Brexit deal all contributed to the continued rise in investor sentiment. The standout performer was Bitcoin, which gained 50% during the month.

SLEEVE COMMENTARY

GROWTH

Stocks continued to climb higher as the S&P 500 finished with a gain of +3.8%. This concluded a robust quarter where the index appreciated +12.2%.

Small cap stocks continued to meaningfully outpace large caps, as the benchmark Russell 2000 index advanced +8.7%. For the quarter, the small cap index had an impressive +31.4% increase.

Growth stocks returned to favor, after having been outpaced by value during the prior three months. The growth style was favored across market capitalizations. For the month, the Russell 1000 Growth gained +4.6% versus +3.8% for the Russell 1000 Value. On the year, the growth index advanced +38.5% versus just +2.8% for its value counterpart.

International markets fared better than the U.S. The MSCI EAFE index, which tracks developed international stocks, rose +4.7%. Emerging market stocks returned +7.4%, as strong results out of Latin America fueled this segment of the equity market.

INCOME

Bond returns were largely positive, aside from long dated Treasuries, which fell -1.1%. The combination of current income and continued compression in corporate bond yields led to positive returns.

For the month, the Bloomberg Barclays U.S. Aggregate index gained +0.1%. Treasury bonds, which make up over a third of the index, generated marginally positive returns, constraining the overall return of the index. Outside of Treasuries, mortgage-backed securities were up +0.2%, while intermediate corporate bonds returned +0.5%.

High yield bonds had a particularly strong month, up +1.9%. Yields on high yield bonds compressed nearly a half percentage point during the month, fueling returns. The spread, or difference in yield between high yield bonds and Treasuries, finished 2020 at a lower level than where it began; a surprising outcome given what transpired during the year.

Municipal bonds had a favorable month with the Bloomberg Barclays U.S. Municipal index advancing +0.6%. A typical fall off in supply around year end was met with strong demand, driving up bond prices and leaving yields lower.

DIVERSIFIER

Alternative assets were largely positive during December. The notable laggard was the U.S. dollar, which depreciated -2.1%.

The performance of Bitcoin stood out as it returned +49.6% for the month of December. Bitcoin has had a roller coast year, having been cut in half from February to mid-March and more than tripling between October and year end.

Commodities generally had a favorable December, as the Bloomberg Commodity index advanced +5.0%. Precious metals gained +7.0%, while crude oil was up +6.6%.

Hedge fund strategies had a strong month, as the HFRX Equal Weighted Strategies index rose +2.1%. Fundamental growth strategies stood out to the positive, averaging a +6.8% return. Managed futures strategies rebounded, up +3.0%. While average returns were positive across all categories, market neutral funds were the laggard, advancing a muted +0.3%.

Real estate advanced with the MSCI World Real Estate index up +2.2%. Demand remains high for industrial properties and data centers.

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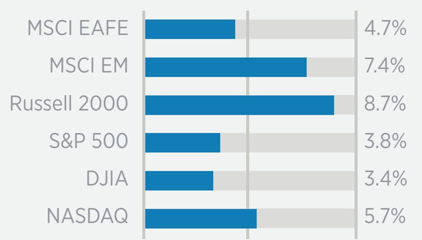
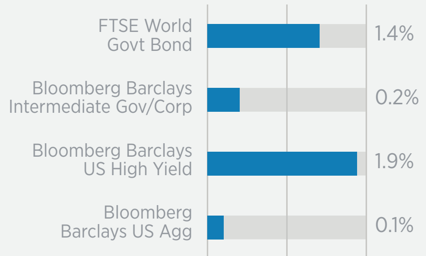
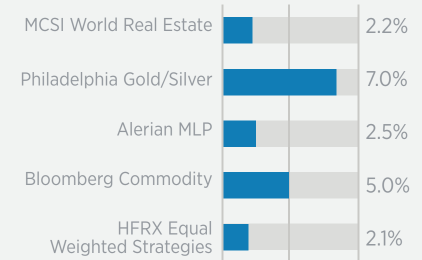
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• A $900 billion COVID-19 relief stimulus package was passed. • Single family housing starts are up nearly 25% from levels a year ago. • Manufacturing activity continues to expand. Strong order backlogs indicate the trend is likely to continue.	• Employment levels slowed considerably over the past month with labor force participation deteriorating as COVID-19 cases rose. • Retail sales unexpectedly contracted by -1.1% with declines in spending on clothing and appliances. • The U.S. trade deficit is near a record high.
DEVELOPED INTERNATIONAL	• Consumer spending in Canada remains strong, as retail sales were up +7.5% y/y. • Business and consumer confidence statistics improved in many developed countries. • New Zealand's economy has fully recovered from the pandemic with its GDP back to year-ago levels.	• The ECB now expects more of the economic recovery to be shifted into 2022. As a result, they added €500 billion to its QE program and extended it for another nine months. • After five months of gains, Japan's industrial production flatlined in November. • European inflation remains stubbornly low, with the latest reading at -0.3%.
EMERGING MARKETS	• Chinese exports were up 21% on a y/y basis this past month, surging to a 3-year high. • Brazilian retail sales were up a surprising +8.3%.	• Pemex's declining oil output, high tax obligations, and payroll burden are a risk to Mexico's fiscal budget given that the company is a large source of revenues. • The central bank of Turkey increased interest rates by two percentage points to 17% in a move to contain inflation risks.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Resolution around key geopolitical concerns removed some uncertainty for the equity market. We see a growing dichotomy in valuations across different segments of the global equity market. We would expect this to create greater opportunity to derive returns from stock selection decisions.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we remain overweight U.S. stocks versus international.
INTERNATIONAL	■			An acceleration of coronavirus cases globally and less flexibility in being able to deploy added stimulus measures leaves us more cautious on international investments in the near-term.
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 see opportunities to generate added returns from 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 strategies that look across markets or are able to opportunistically benefit from the mispricing of assets.
CASH		■		Given the low level of interest rates on cash-like instruments, we do not view cash as particularly attractive longer-term.

PORTFOLIO REVIEW

The approval of multiple coronavirus vaccines and passing of a $900 billion stimulus bill in December helped to usher in 2021 with less uncertainty. The economy is not yet fully healed and progress in the new year is unlikely to occur in a linear fashion. However, the significant stimulus provided by governments globally has left consumers and investors flush with cash. This should bode well for near-term economic conditions and help to fuel momentum in the economy. In aggregate, asset prices across markets appear to have priced in these positive expectations. We believe there are pockets of opportunity in the market and at the margin are looking to allocate to these. Given the disconnect that occurred between the economy and market in 2020, we believe it is important to have sound balance in portfolios. Returns in 2021 may not be as robust as 2020 while the economy catches up with the market.