TELEMUS MONTHLY COMMENTARY
February 2021

PERSPECTIVE

The month of February had two distinct halves. The first half experienced strong gains as markets digested solid economic data along with reasons to be optimistic of further improvement. In particular, rising vaccination rates, lower COVID-19 infections/hospitalizations and positive progress on an additional stimulus package were all viewed positively. Markets pivoted mid-month as concerns around the prospect of increasing rates of inflation resulted in rising long-term bond yields. This not only led to declines in bond prices, but stocks as well, which benefited in 2020 from being an alternative to bonds in an ultra-low rate environment. Despite a negative back half of the month, equity returns finished February with respectable gains. Overall, it was the higher risk assets, such as small caps, emerging market equities, high yield bonds and commodities, that stood out as the best performers.

SLEEVE COMMENTARY

GROWTH

Stocks were broadly positive, with the lone exception being large cap growth stocks, which finished flat on the month. The S&P 500 advanced +2.8% in February.

The standout segments of the market were small caps and value stocks. The Russell 2000 Index, which serves as a barometer for small caps, lifted +6.2%. Value stocks outpaced growth by over six percentage points on the month. A key influence on value's outcome was the performance of the Energy and Financial sectors, which were up +22.7% and +11.5% respectively. Both sectors have greater concentrations in the value indices.

Defensive sectors continued to lag, with utilities, health care and staples all enduring negative returns. Improving economic expectations have been a benefit for economically cyclical stocks, with defensive stocks being left behind.

Returns outside of the U.S. were comparable, as the developed market MSCI EAFE index rallied +2.2%. Emerging Market stocks, which had been favored for much for the first six weeks of 2021, sold off late in February. They finished the month with a gain of +0.8%.

INCOME

The yield curve steepened in February as intermediate and long-term rates were all up over 30 basis points (or 0.30%). The impact of rising rates led to a decline in the broader bond market, as the Bloomberg Barclays U.S. Aggregate index fell -1.4%.

Given their greater sensitivity to changes in interest rates, prices of longer dated bonds fell more than short. For example, the Bloomberg Barclays 1-3 Year Treasury index dipped -0.1% lower, while its 10-20 year counterpart declined -5.0%.

The spread, or interest rate differential between investment grade corporate bonds and Treasuries, was generally stable during the month. High yield spreads continued to tighten (decline). This led to the Bloomberg Barclays Intermediate Corporate Index dropping -0.8%, while the US High Yield Composite gained +0.4%.

Changes in municipal bonds yields lagged the pace of Treasuries, but finished the month with comparable increases. As a result the Bloomberg Barclays Municipal Bond index depreciated -1.6%.

Interest rates internationally followed a similar pattern as the U.S., leading to a -2.4% decline in the FTSE Government Bond index.

DIVERSIFIER

Diversifying investments generally performed well in February. Commodities in particular stood out as the Bloomberg Commodity index appreciated by +6.5%. Oil and industrial metals both experienced strong gains. West Texas Crude oil appreciated +17.0%. Industrial metals such as iron ore and copper lifted +15.9% and +14.9% respectively.

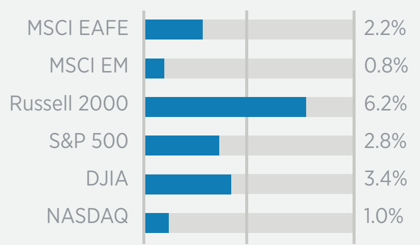
A rise in interest rates proved to be a negative for precious metals such as gold. The Philadelphia Gold/Silver index declined -5.6%.

Of growing interest was the performance of Bitcoin, which rallied +139%. The stellar performance for the volatile digital currency had been up further before falling -21% from its intra-month high.

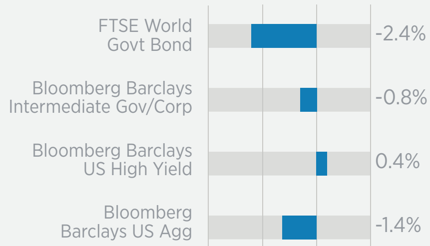
Publicly traded real estate finished higher with the MSCI World Real Estate index up +2.0%. Domestic REITs fared better, as the Down Jones Select REIT index rallied +5.3%.

The U.S. dollar remained stable, appreciating by a modest +0.3%. After a steady depreciation in the back half of 2020, the dollar has found a base versus other major currencies.

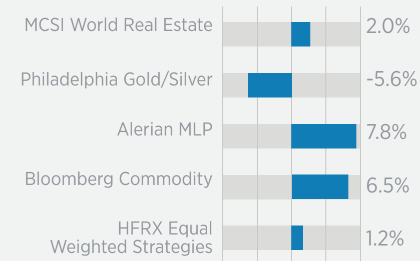
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Retail sales grew +5.3% over the past month. • Manufacturing prices have begun to accelerate, with the Producer Price Index up +1.3% month-over-month in February. • Personal income rose +10% with gains coming from government payments associated with the $900 stimulus packaged passed in December. The personal savings rate jumped to 20.5%.	• Unemployment claims remained at elevated levels before declining late in the month. • The rate of improvement in manufacturing activity and new orders started to level off. • Small business sentiment deteriorated to levels not seen since early in the pandemic.
DEVELOPED INTERNATIONAL	• Strengthening manufacturing activity and strong exports led to an improvement in the Eurozone's positive trade balance. • European Inflation rates have begun to trend higher.	• U.K. sales plunged -3.8% in response to additional lockdowns. • Canadian retail sales fell -3.4% on a month-over-month basis. • German's retail sales fell nearly 10% versus the prior month. • Canada's unemployment rate rose to 9.4%, up from 8.9% a month ago.
EMERGING MARKETS	• Manufacturing activity in Taiwan is booming on the back of a semi-conductor shortage. • India is looking to stimulate its economy with infrastructure investments, targeting a sizable 10% budget deficit. • Indonesia's central bank cut interest rates by 0.25%, after having taken a two month pause.	• China began to see a slowing in its industrial activity. • India's economy contracted by -0.4% after having grown +5% in the 3rd quarter of 2020. • China's consumer price index fell -0.3%, a sign of deflation. • South Korea's unemployment rate of 5.4% hit a 21-year high.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Improving economic conditions, excess liquidity and lower expected returns in other asset classes is likely to be supportive for equity prices.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we remain overweight U.S. stocks.
INTERNATIONAL	■			We see a growing dispersion in how countries are able to respond to the pandemic and expect greater dispersion in global returns looking forward.
INCOME		■		Interest rates remain near record lows. Accommodative central bank policies indicate that short-term rates are likely to remain near zero for some time. Given the low level of absolute yields in the bond market, we have more muted returns expectations.
DIVERSIFIER		■		Higher correlations across markets over the past year, including diversifying assets, along with modest return expectations leave us neutral on the asset class.
CASH		■		The limited return expectation for cash is balanced by its low risk profile.

PORTFOLIO REVIEW

There is a general sense across markets that in 2021 there will be a gradual return toward normal lifestyle and economic conditions. Fiscal and monetary policies are likely to remain highly stimulative, which should be highly supportive to the economy and asset prices. While we take comfort in this increasingly likely scenario, the market has to a large extent priced in these improving conditions. Therefore, we expect a moderation in returns relative to 2020. As the recovery continues to play out, pockets of dislocation are likely to appear with some variability in returns along the way.