# TELEMUS MONTHLY COMMENTARY
January 2021

## PERSPECTIVE

Equity markets experienced a wild end to the month of January as retail investors bid up heavily shorted stocks such as GameStop, AMC Entertainment, Blackberry and others. This activity negatively affected hedge funds exposed to these stocks through short positions. Many that were impacted had to reduce leverage in order to manage risk, adding further volatility to the market. The storyline from this was fascinating, although its impact was brief and not widely felt. Ultimately the significant headlines around the capital riots, presidential inauguration and wild trading in stocks such as GameStop overshadowed strong corporate earnings results and signs of improving economic conditions.

## SLEEVE COMMENTARY

### GROWTH

A wild last week of January led to a decline in the market as broad market indices edged lower, with the S&P 500 down -1.0%.

What stood out in equity markets was the performance of smaller companies. The Russell 2000 Index ended the month up +5.0%. The theme for the month was the smaller the better, with the Russell Microcap index gaining +14.2%. By far the best performing segment of the market.

Energy was the best performing sector in the U.S. market, while consumer staples and industrials were the laggards. From a style standpoint, performance was comparable across growth and value stocks.

Developed international markets performed on par with the U.S., as the MSCI EAFE fell -1.1%. Emerging market equities bucked the trend, gaining +3.1%. Positive returns in Asian emerging market stocks drove this return, while Latin American equities retreated.

### INCOME

Rising long-term interest rates were the story of the bond market in January. Higher long-term bond yields led to a steeping of the yield curve, as the hallmark 10-year Treasury yield eclipsed 1% for the first time since the COVID pandemic began.

Since bond prices move inversely to interest rates, rising yields negatively impacted prices. As such, the Bloomberg Barclays U.S. Aggregate index finished down -0.7%.

Given the rise in long-term rates, longer dated bonds experienced greater declines than those with shorter maturities. For example, 1-3 year Treasuries were flat, while 10-20 year bonds fell -3.0%. Returns were comparable among corporate bonds, as credit spreads were unchanged.

The standout performer was municipal bonds, as the Bloomberg Barclays Municipal Bond index gained +0.6%. Interest rates on municipals finished the month near their starting point, which helped the returns of munisipals relative to taxable bonds.

International bonds also experienced declines with the FTSE World Government Bond index drifting lower by -1.3%.

### DIVERSIFIER

Diversifying investments had mixed results, with commodity and energy related assets showing gains, while real estate and precious metals lost ground.

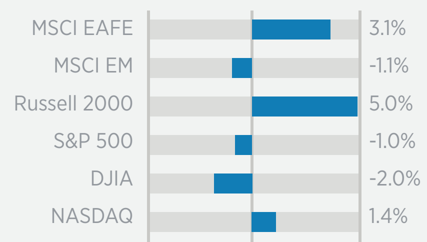
Commodities as measured by the Bloomberg Commodities index lifted +2.6%. West Texas crude was up +7.3%, aiding the returns to commodities. Agricultural commodities such as corn and soybeans also gained. This was offset by softening in metals, such as gold and copper.

Hedge funds had diverging returns, although in aggregate results were positive with the HFRX Equal Weight Strategies index lifting +0.4%. Merger arbitrage and convertible arbitrage strategies performed best, up +2.0% and +1.1% respectively. Fundamental value strategies were the laggard declining -1.8% on average.

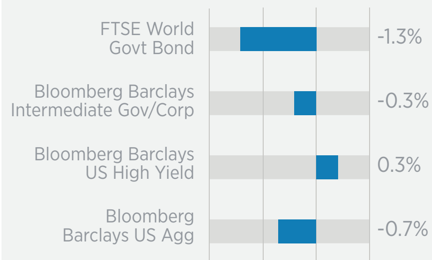
Real estate finished slightly lower as the MSCI World Real Estate index drifted down by -0.6%.

After lagging for much of the back half of 2020, the dollar stabilized, appreciating by a modest +0.7% in January.

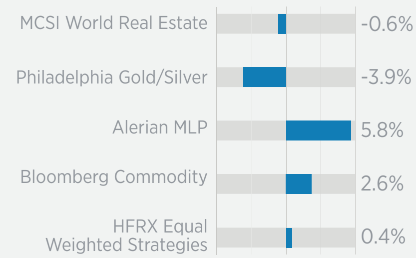
### EQUITY INDEX RETURNS




### BOND INDEX RETURNS




### ALTERNATIVE RETURNS




## ECONOMIC BACKDROP

| | POSITIVES | NEGATIVES |
|---|---|---|
| **UNITED STATES** | • Manufacturing activity remains strong, with low inventory levels and order backlogs indicative of further momentum.<br>• Consumer confidence edged higher after having fallen in recent months.<br>• The Case-Schiller home price index indicated home prices have appreciated +9.5% on an annualized basis.<br>• The amount of outstanding revolving credit to consumers (i.e. credit card debt) continues to decline. | • Unemployment increased as weekly jobless claims hit their highest level since March of 2020.<br>• Retail sales continued a three-month downtrend showing a modest decline on a year-over-year basis.<br>• Core inflation remains stuck at +1.6%, below the Fed's target of averaging at least 2%.<br>• The U.S. trade deficit is approaching record levels. |
| **DEVELOPED INTERNATIONAL** | • Europe is experiencing rising inflation readings, although they remain well below central bank targets.<br>• Australia's unemployment rate continues to decline, even as its labor force participation rate rises.<br>• The European Central Bank announced that it would continue its quantitative easing program until at least March of 2022. | • Japan is struggling with deflation and has begun to see industrial activity soften.<br>• UK retail sales fell to the slowest pace since May. Overall, the economic rebound in the UK continues to underperform other developed economies.<br>• Consumer confidence in several Eurozone countries has begun to deteriorate. |
| **EMERGING MARKETS** | • China's economy expanded over 2% in 2020 and is forecast to grow 8% in 2021.<br>• The IMF expects the global economy to grow +5.5% in 2021. Emerging economies are forecast to grow +6.3%, outpacing the rate of expansion in developed markets.<br>• Mexico's unemployment rate continues to trend down, having now fallen below 4%. | • After seeing improvement in recent months, industrial production in India has now turned negative.<br>• Hong Kong continues to wrestle with deflation.<br>• After improving in recent months, retail sales in South Africa have begun to deteriorate.<br>• Tighter lending policies in China have led to a softening in housing prices. |

## INVESTMENT COMMITTEE POSITIONING

| | UNDERWEIGHT | NEUTRAL | OVERWEIGHT | |
|---|---|---|---|---|
| **GROWTH** | | ■ | | Trading volumes in equities are at elevated levels, signifying continued interest in the asset class. Excess liquidity and a lack of attractive returns in other asset classes is likely to be supportive for equity prices. We see a growing dichotomy in valuations across different segments of the global equity market. In addition, we see greater opportunity to add value through security selection. |
| 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 rates are likely to remain at low levels for some time. We view some sectors of the fixed income market as offering more attractive returns. In addition, 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

Markets have calmed as uncertainty around the presidential transition is now in the past and fiscal policies remain highly stimulative. The sheer magnitude of vaccinating the globe against COVID is unlikely to be seamless. As such, we would expect periods of excitement as well as concern in the market along the way. There is, however, a general sense across the market that 2021 will see a gradual return toward normal lifestyle and economic conditions. While we take comfort in this increasingly likely scenario, the market has to a large extent priced this in. Therefore, we expect a moderation in returns in 2021, relative to 2020. However, as the recovery continues to play out, pockets of dislocation are likely to appear and create some attractive opportunities along the way.