TELEMUS MONTHLY COMMENTARY

March 2021

PERSPECTIVE

This month marked the one-year anniversary since the start of the COVID-19 pandemic in the U.S., along with the market bottom that was set on March 23, 2020. Today, we see a much brighter picture as the global vaccine rollout is well underway and economic conditions are on the mend. Investor mindsets are now shifting toward considering the magnitude of economic improvement in 2021 and how to be best positioned for the recovery. The cherry on top that came this month was the $1.9 Trillion stimulus package that was signed into law. This infusion will provide added ammunition for the economy. Within markets, much of what transpired this past month was a reversal of the trends that were in place for much of the past year. Interest rates continued their ascent, the dollar strengthened, while cyclical value stocks outperformed their growth-oriented peers. As we look ahead, the market is going to be digesting new information and risk factors. These are increasingly centering around inflation, the direction of long-term interest rates and, over time, the focus will be on the sustainability of the economic strength beyond 2021.

SLEEVE COMMENTARY

GROWTH

A strong start to the month led to broad gains for stocks. The S&P 500 finished up +4.4%.

The rotation toward lower priced value stocks continued in earnest and was more pronounced among smaller caps. Across capitalizations, value outperformed growth by over four percentage points.

Having been ignored for some time, defensive and dividend-oriented stocks returned to favor. Within the S&P 500, utilities were the best performing sector up +10.1%. Conversely technology shares succumbed to profit taking as returns were a more muted +1.6%.

Small cap stocks, which have had an impressive run outperforming large caps by nearly twenty percentage points since the November 3rd election, trailed as they gained a modest +1.0%.

Outside of the U.S., developed markets rallied +2.7%. Emerging markets, which began 2021 with strong results, continued to fizzle, falling -1.5%. Chinese equities were particularly hard hit during the month.

INCOME

Bond prices remain challenged as the yield curve steepened with long dated rates rising, while shorter term rates remained static. For the month, the 10-year Treasury yield rose +0.33% to 1.74%. This marks an 0.8% increase in 10-year yield since the start of the year. Given that bond prices move opposite their yield, fixed income results have been challenged. For March, the Bloomberg Barclays U.S. Aggregate index finished down -1.3%.

Long dated bonds were impacted the most, as 10-20 year Treasuries fell -4.3%, versus flat performance for short dated maturities.

Returns from investment grade corporate bond were in line with those of Treasuries. High yield remains in demand as investors are accepting greater risk in search of yield. The spread, or difference in rates between high yield bonds and comparable Treasuries, continued to narrow in March, benefiting prices. The Bloomberg Barclays High Yield index finished up +0.2% and is one of the few sectors of the bond market in the black year-to-date.

Municipal bonds bucked the trend of their taxable peers, positing a positive return of +0.6%.

DIVERSIFIER

Diversifying investments were generally positive on the month.

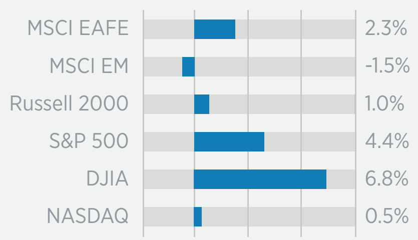
Commodities, which had a strong February, reversed as the Bloomberg Commodity index slipped -2.2%. A reversal in the price of oil, which fell -3.4%, along with softer prices for some industrial metals fueled the decline. The price of gold finished the month lower by -3.0%. Lumber prices remain strong, up another +19.0% in March, having risen +58.8% year-to-date.

Despite lower oil prices, pipelines exhibited strong returns, up +6.9%. A preference for yield was a positive for these shares.

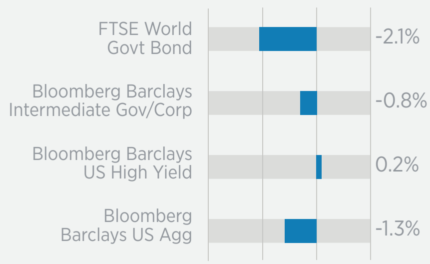
Publicly traded real estate finished higher with the MSCI World Real Estate index up +4.6%. Returns for domestic REITs were comparable as the Dow Jones Select REIT index also rallied +4.6%.

The U.S. dollar strengthened during the quarter, having depreciated versus other major currencies during the back half of 2020. For the month, the ICE U.S. Dollar Spot index lifted +2.6%.

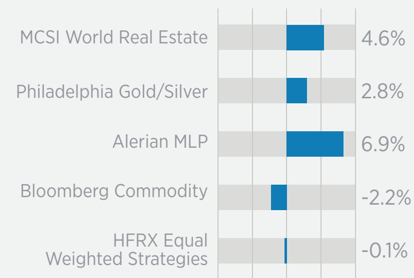
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Private sector job gains exceeded expectations by over 250,000 as the unemployment rate dropped to 6.2%. • Credit card balances are down over 10% from year ago levels, with deposit balances up over $3 trillion. • IHS Market's manufacturing gauge showed its second highest reading since 2007, a sign of strong industrial activity.	• The U.S. current account deficit hit a 12-year high. • Consumer spending fell -1.0% driven by challenging weather conditions throughout the country.
DEVELOPED INTERNATIONAL	• The European Central Bank committed to speeding up its pace of bond purchases over the next three months. • Australia's trade surplus hit a record high driven by commodity exports. • Producer prices are now rebounding globally. • Japanese consumer confidence is showing signs of recovery.	• Industrial production levels in Japan remain in decline, having not exhibited growth since 2019. • Retail sales within the Eurozone have been in decline, diverging from recent trends in the U.S. • Manufacturing activity in parts of the Eurozone has started to contract.
EMERGING MARKETS	• Exports from China far exceeded expectations. • Rising oil prices helped drive Saudi Arabian stocks to their highest level since 2015. • Leading economic indicators in Taiwan are at their highest level since coming out of the GFC.	• An accelerating death toll from COVID-19 in Brazil has led to a sizable reduction in consumer confidence. • A surprise firing of Turkey's Central Bank Governor led to spike in Turkish government bond yields. • Retail sales in Hong Kong remain soft, having retreated in the past month.

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 strong 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 are becoming more constructive on the long-term opportunity within emerging markets.
INCOME		■		Rising rates have been a near-term headwind to bonds. The prospect of central bank intervention in managing rates is likely to put a ceiling on how high long-term rates might go. As such we maintain a neutral stance on the asset class.
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 remain highly stimulative, which should be supportive to the economy and asset prices. While we take comfort in what is becoming a more optimistic economic scenario, markets have 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.