TELEMUS MONTHLY COMMENTARY

October 2020

PERSPECTIVE

After a return to volatility during the month of September, October was fairly tranquil up until the final week when the S&P 500 fell -5.6%. The combination of an accelerating number of coronavirus cases, the inability to pass any additional fiscal stimulus, and portfolio repositioning ahead of the election all led to a hectic conclusion to the month. Much of what occurred during October was investors choosing to take gains on what had worked for much of 2020. There were pockets of higher risk assets, such as high yield bonds, small cap stocks and MLPs that posted gains during the month. More defensive assets such as REITs, large cap stocks and longer-term Treasury bonds fell.

SLEEVE COMMENTARY

GROWTH

Having appreciated more than 3% over the first three weeks of the month, a rout in stock prices in the final week of the month resulted in the S&P 500 falling -2.7%.

Small and mid-cap stocks stood out to the positive as the Russell 2000 Index, which tracks small caps, lifted +2.1%. Small caps did, however, fall more than large in the final week of the month. At one point, intra-month, the Russell 2000 was up +9.5%. Small caps have lagged their large cap peers by over 10 percentage points year-to-date.

The significant trend of growth stocks leading value came to a halt, as value stocks performed moderately better across capitalizations. On the year, growth stocks have outpaced value by 33 percentage points.

Developed market stocks fell similar to the U.S., as the MSCI EAFE index gave up -4.0%. Emerging market stocks stood out to the positive gaining +2.1%. Strong performance out of China, which was up +3.3%, helped fuel the outcome.

INCOME

The bond market weathered competing forces as higher long-term interest rates pulled bond returns lower, while tighter credit spreads helped to push corporate bond returns higher. The end result was a modest drop in returns as the Bloomberg Barclays U.S. Aggregate index dropped -0.5%.

Treasury bonds were negatively impacted by slightly higher interest rates. Yields on shorter maturities remain anchored as the 2-year Treasury yield rose a modest 3 basis points, or 0.03% in the month. Conversely, an uptick in long-term rates late in the month resulted in 10-year Treasuries rising 0.19% to close out October at a yield of 0.88%. Since bond prices move inversely to rates, this proved to be a headwind for longer maturity bonds.

Corporate bonds outpaced Treasuries as higher yields (relative to Treasuries) on these instruments helped to offset the impact of rising interest rates. Intermediate corporate bonds were essentially flat. High yield debentures fared better, lifting +0.5%.

Rising yields led to marginal declines among municipal bonds. The combination of strong demand and ample supply of newly issued bonds has been a positive force in the municipal market this year.

DIVERSIFIER

Alternative investment returns were generally lower during October. The unexpected standout was pipelines (MLPs), which rose +4.4%, despite the significant selloff in oil prices.

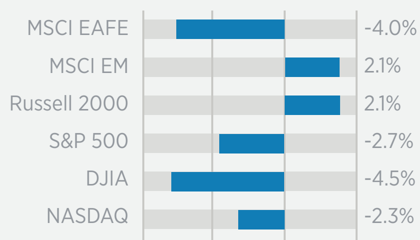
West Texas Crude oil was challenged and fell -12.2%. The rising number of coronavirus cases raised fears around future demand. In addition, crude production from Libya came back into the market, creating an unexpected jolt of added supply.

Having appreciated significantly year-to-date, precious metals softened in October. The Philadelphia Stock Exchange Gold/Silver index retraced -1.9%. Outside of oil and precious metals, commodities generally performed well. The Bloomberg Commodity index finished +1.4% higher. Strong returns out of agricultural commodities helped as corn and wheat gained +5.2% and +3.6% respectively.

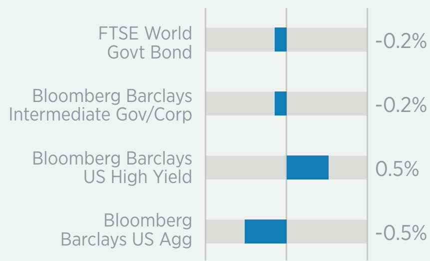
Prices of real estate stocks retreated. The MSCI World Real Estate index declined -3.2%.

The dollar appreciated +0.2%. Of late it has served as a flight to safety asset with investors owning more dollars in periods of greater volatility.

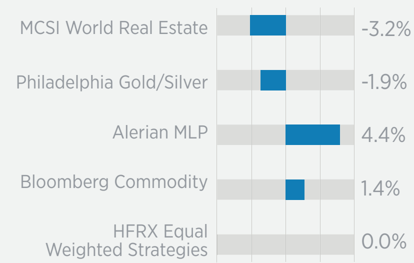
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• 3rd quarter GDP rebounded, up a record +31.4% on an annualized basis. • Personal income rebounded in October, up +0.9% despite a lack of added stimulus spending. • Consumer sentiment experienced a positive inflection after declining in recent months.	• Weekly unemployment claims remain high at nearly 800,000 per week. Roughly 4x pre-COVID levels. • The number of permanently laid off workers is climbing. • he U.S. trade deficit has hit a new record high.
DEVELOPED INTERNATIONAL	• Eurozone GDP increased +9.6% versus Q2 levels. • The European Central Bank's balance sheet is approaching 7 trillion, up from under 5 trillion early in the year. • Asian manufacturing activity continues to expand.	• Inflation remains weak across the Eurozone. • Japanese retail sales remain negative, down -8.7% from a year ago. • While Japanese manufacturing activity has rebounded from levels in April, it remains in contraction on a y/y basis.
EMERGING MARKETS	• China's share of global exports, which now sits at 18%, continues to expand. • Mexico's trade surplus continues to surprise to the upside. • Personal loan delinquencies in Brazil have hit a multi-year low. • China's 3Q GDP expanded +4.9% from the prior year.	• After rebounding from March lows, China's retails sales appear to have peaked and have started to moderate. • Weak oil prices have led to a notable depreciation in the Russian ruble. • Economic indicators in Latin America indicated conditions stalling in October.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Market conditions remain speculative in the near-term due to a combination of uncertainty around the election, fiscal stimulus and the acceleration of coronavirus cases. We expect near-term clarity on some of these concerns, which leaves us more constructive around opportunities in the intermediate term. We believe significant stimulus measures also offer downside support to the market. We remain conservative in our positioning as a result of near-term uncertainty but expect to become more constructive as geopolitical concerns near a resolution.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we remain overweight U.S. stocks over international.
INTERNATIONAL	■			An acceleration of coronavirus cases globally and less flexibility in being able to deploy 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 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 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

As the year has played out it has become clear that there is willingness by policymakers to offer sufficient support from fiscal and monetary stimulus to sustain global economies as the world grapples with the coronavirus pandemic. This has fueled a strong rally across risk assets. The rally has been fairly narrow and we see a growing dispersion across asset prices. This leaves us more constructive on the long-term opportunity to generate returns from individual security selection. Near-term there remains some level of political and economic uncertainty, which has led us to a more conservative stance when positioning portfolios. 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.