TELEMUS MONTHLY COMMENTARY
September 2020

PERSPECTIVE

Following a tranquil uptrend during August, markets saw a return of volatility during the month of September as concerns around valuations and repositioning of portfolios ahead of the upcoming election led to declines across asset classes. The rate of improvement in economic conditions has started to slow and the lack of progress around additional fiscal stimulus has led to increased concerns that there may be fewer near-term catalysts to drive the market higher. There will clearly be drivers of volatility throughout the fourth quarter with the combination of decelerating economic conditions, the election, and the threat of an uptick in coronavirus cases all likely to cause volatility; both to the upside and downside.

SLEEVE COMMENTARY

GROWTH

Following an unusually strong month of August, stocks retreated in September. All told, the S&P 500 declined -3.8% having been down over -7% intra-month.

Within the S&P 500, only two sectors, materials and utilities, etched out gains. The notable laggard was energy stocks, which fell nearly -15% on the back of lower and more volatile oil prices.

The larger capitalization FAAMG (Facebook, Apple, Amazon, Microsoft and Google) stocks all fell more than the market, with declines of -7% or greater.

A key shift in market sentiment was the performance of large cap value stocks, as the Russell 1000 Value index fell -2.5% versus -4.7% for the Russell 1000 Growth. Among small and mid-cap stocks, growth companies remained in favor.

Returns were better outside of the U.S. The developed market MSCI EAFE index was down -2.6%. Emerging Market stocks held up better, decreasing only -1.6%.

INCOME

The bond market was fairly subdued, not succumbing to the volatility that occurred in the equity market. The Bloomberg Barclays U.S. Aggregate index was down a marginal -0.1%.

Interest rates remain in a tight trading range. As a result, returns were largely consistent across maturities.

The most notable movement was a slight increase in yields of corporate bonds, resulting in a minor decline in prices. The Bloomberg Barclays Intermediate Corporate Bond index dropped -0.2%. High yield bond experienced a greater impact, declining -1.0%.

Municipal bonds continue to benefit from strong demand for tax free income. As such, returns were slightly positive across maturities.

Non-U.S. bonds fell in tandem with the U.S. market. The FTSE World Government Bond index retreated -0.2%, while the JP Morgan Emerging Market Bond Index lost -2.0%.

DIVERSIFIER

Returns to alternative assets were generally negative for the month.

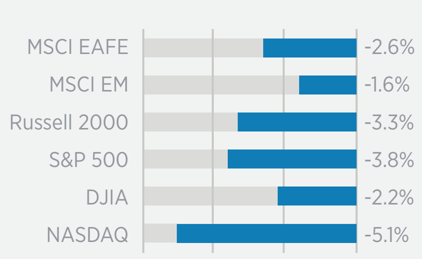
Hedge fund results were generally muted, as the HFRX Equal Weighted Strategies index lost -0.1%. Among hedge fund strategies, merger arbitrage and market neutral strategies were up +0.9% and +0.8% respectively. Macro driven managed futures were the notable laggard, -2.1%.

Commodity prices largely fell on the month. Precious metal indices were down over -7%. The price of West Texas Crude oil dropped -10% in September.

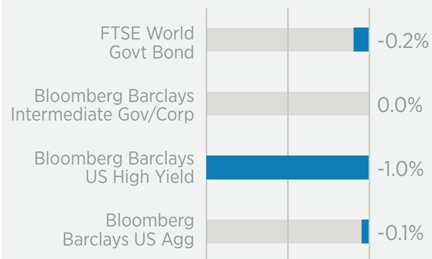
After depreciating for much of the quarter, the dollar found a base and gained +1.9% over the course of September.

Public real estate stocks fell in tandem with the broader equity market. The Dow Jones US Select REIT index was down -3.1%.

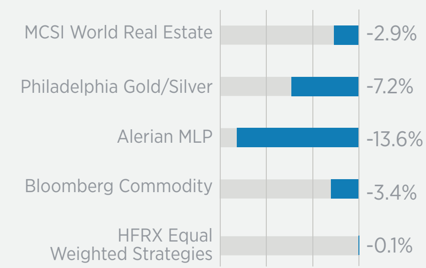
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• The unemployment rate fell to 8.4%. The rate of improvement in hiring, however, is beginning to slow. • U.S. Home prices appreciated by +8% on a year/year basis. • Consumer confidence rose in September, after having fallen the prior two months.	• Retail sales growth slowed to +0.6% on a month-over-month basis. This is a slowing rate of growth. • While manufacturing activity continues to grow, the rate of improvement is stabilizing.
DEVELOPED INTERNATIONAL	• European factory output accelerated to the fastest pace in two years. • The UK's 'Eat Out to Help Out' program has facilitated stronger restaurant sales, which are now down only -20% from pre-COVID levels.	• Headline inflation for the Eurozone has turned negative. This was the first negative reading for inflation in four years. • The annual rate of inflation in the U.K. fell to +0.2%, causing worries about the prospect of deflation. • Australia is now officially in a recession, the first time in two decades.
EMERGING MARKETS	• China's industrial production is back to 2019 levels. Retail sales are now flat versus year ago levels. • Mexico's industrial production continues to recover, down only 11% on a y/y basis, having been down by over 30% earlier in the year. • Mexico is the rare economy that has been able to generate inflation, as prices are up +4.2% y/y.	• Following an uptick in COVID-19, consumer confidence in South Korea has fallen sharply.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Market conditions remain speculative in the short-term as the impact from the coronavirus on corporate fundamentals remains uncertain. As such, we have taken measures to add some downside protection to portfolios in order to help manage through any near-term uncertainty.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we remain overweight U.S. stocks over international.
INTERNATIONAL	■			Uncertainty around the timing of an economic rebound and divergent policies leave us underweight international stocks at this time.
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 benefit from the mispricing of assets.
CASH		■		We are comfortable with cash levels drifting higher in the near-term. Given the low level of interest rates on cash-like instruments, we do not view cash as particularly attractive longer-term.

PORTFOLIO REVIEW

Market conditions have evolved quickly from March lows as new information around the rate of the virus' progression has been digested. We see growing dispersion across asset prices, as the market recovery has been unusually narrow. This leaves us more constructive on the long-term opportunity to generate returns from security selection. However, in the short-term, it is purely speculative to forecast the pace of the economic rebound as the progression of the virus is the ultimate influence. In addition, we expect the uncertainty surrounding the election to add to market volatility. As such, we believe it is important to remain conservative in positioning. 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.