TELEMUS MONTHLY COMMENTARY
September 2021

PERSPECTIVE

Volatility returned to the markets in September as a combination of concerns around slowing economic data, the Fed indicating they would soon begin to taper asset purchases, the potential default of a large Chinese property firm, and congressional debate over the debt ceiling all created angst and worry amongst investors. Both stocks and bonds fell, with diversifying investments having a mixed result. Prior to September, 2021 has largely been a sanguine market, with only a few brief pullbacks where concerns were brushed off as temporary and investors elected to buy the dip. Given that stocks entered the month up nearly 16%, and hadn't experienced a down month since January, a modest pullback is not surprising and a sign of a healthy market.

SLEEVE COMMENTARY

GROWTH

The S&P 500 declined -4.7%, its worth month since March of 2020. The Federal Reserve's announcement that they will soon begin to reduce their pace of asset purchases and potentially begin raising rates in 2022 appeared to be a catalyst for some investors to shift positioning. Value stocks returned to favor as growth names sold off. The value style, which led the market early in the year, had meaningfully lagged growth over the past four months.

Markets followed key technical indicators throughout the month. The S&P 500 had been using its 50-day moving average as downside support, but ultimately fell through that level. It concluded the month lifting off its 100-day moving average, it's new technical floor.

Small caps, which have been range-bound since mid-March, managed to outpace their large cap peers. The Russell 2000 index fell -3.0%.

International stocks held up better than domestic. The developed market MSCI EAFE Index declined -2.9%, while the MSCI Emerging Market index dropped by -4.0%. Despite all of the negative news surrounding China, the MSCI China A share index ended up gaining +1.2% on the month.

INCOME

Interest rates, which had been range bound throughout the third quarter, reacted to the Federal Reserve's announcement late in the month. Yields on long-dated Treasuries finished nearly two-tenths of a percent higher. Given that bond prices move opposite of interest rates, this served as a headwind for bonds. All told, the Bloomberg Barclays U.S. Aggregate index ended -0.9% lower.

Declines were more acute among longer maturities. The Bloomberg U.S. Treasury 1-3 year index fell a mere -0.1%, whereas the Bloomberg U.S. Treasury 10-20 year index dropped by -2.6%.

Investment grade corporate bond spreads, or the difference in yield between corporate bonds and comparable Treasuries, fell slightly. This resulted in corporate bonds slightly outpacing Treasuries. High yield bonds finished the month flat, as higher yields on these instruments helped to offset the impact from rising rates.

Yields on municipal bonds increased, however the magnitude lagged that of what was experienced in the Treasury market. This helped the relative performance of municipal bonds as the Bloomberg Municipal Bond Index fell a more modest -0.7%.

DIVERSIFIER

Diversifying assets had mixed results in September. Commodities in general performed well, while precious metals and real estate lagged.

The Bloomberg Commodity index finished the month up a solid +5.0%. Returns across commodities, however, were highly diverse. The prices for natural gas and lumber were up 30% or more, while several agricultural commodities and iron ore all declined.

The dollar, which served as a safe haven asset, appreciated. Interest in the dollar increased in response to the prospective debt default by China Evergrande Group.

Real estate was a notable laggard as the Down jones U.S. Select REIT index fell -5.5%. REITs which had been among the best performing sectors of the equity market going into the month, experienced a greater selloff during September's downdraft.

Hedge fund returns were largely negative. Macro driven strategies fell the most, while lower volatility market neutral and merger arbitrage strategies produced modest gains.

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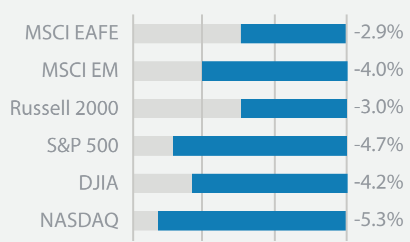
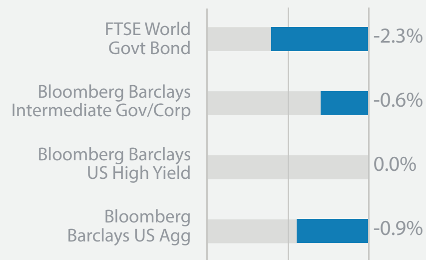
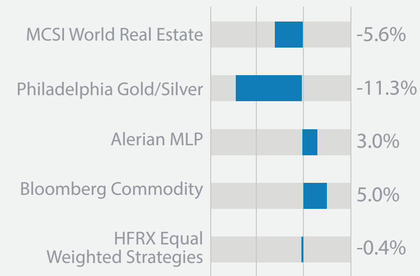
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Monthly price inflation slowed to 0.3%, a welcome sign as some transitory items have begun to moderate. • Retail sales surprised to the positive, with sales (excluding autos) being the strongest in five months. • Homes prices are up 20% year-over-year.	• Consumer confidence readings fell as concerns around the delta variant weighed on sentiment. • Improvements in payrolls lagged expectations as concerns around the delta variant and the inability to hire qualified workers slowed the pace of hiring. The unemployment rate remained flat at 5.2%.
DEVELOPED INTERNATIONAL	• Japan's Nikkei 250 index hit its highest level in 31 years. • Factory orders in Europe continue to surge, although a slowdown in auto manufacturing is holding back the rate of growth. • European consumer confidence remains at high levels, holding up much better than U.S. readings.	• The UK inflation rate of 3.2% surged to its highest level in nine years. • Manufacturing and services sector activity in New Zealand have both contracted sharply due to a new national lockdown. • Australian manufacturing activity has shown signs of improvement, but services activity remains in decline.
EMERGING MARKETS	• Israel's GDP has now returned to its pre-COVID trend. • South Korea's unemployment rate hit a record low. • Taiwanese exports have hit record highs. • South Korean exports have surged to multi-year highs.	• Retail sales in South Africa have tumbled amid unrest and COVID restrictions. • Manufacturing activity across emerging markets is in decline. This is fueled by slower activity among Asian economies.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Valuations remain elevated relative to historic levels. Current valuations, however, are supported by stronger than expected earnings results, robust economic conditions, and low interest rates. Given the wider range of valuations across stocks, we see an increased opportunity to add value through stock selection.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we expect stronger 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 have become more constructive on the long-term opportunity within emerging markets.
INCOME		■		Central banks appear to be nearing a point where they may begin reducing the level of accommodation put in place during the pandemic. This shift has a greater likelihood of leading to modest increases in interest rates. Underlying credit conditions remain strong providing support to returns of portfolios with less interest rate risk.
DIVERSIFIER	■			Higher correlations across asset classes and a lack of attractive broad-based return opportunities leaves us less constructive on diversifying investments at this time.
CASH		■		While short-term yields are limited in the current environment, we are comfortable holding modestly higher cash in the event asset price dislocations arise as economic growth moderates and monetary policy evolves.

PORTFOLIO REVIEW

We have begun to see greater press around the slowdown in economic conditions, an outcome we view as inevitable. The extreme pace of economic activity following initial vaccinations was unsustainable. As we look ahead indicators such as record low inventory levels, order backlogs, the number of job openings and increasing wage growth all indicate the economy is likely to continue its growth trajectory, albeit at a more moderate and sustainable pace.

With the prospect that the Federal Reserve may consider raising interest rates as early as next year, we have biased the construction of bond portfolios to have a more defensive posture that is better able to weather a rising rate environment. Within equities, there is growing dispersion across the market as valuation multiples of large cap growth stocks are materially greater than most other segments of the market. Long-term, we see attractive opportunities within value, small cap, infrastructure, and emerging markets. These opportunities are balanced, in the short-term, by considerations around the uncertainty around variants of COVID-19, the ramifications of additional fiscal policy, and the pace of monetary policy actions going forward. We believe its best to keep a balanced allocation given these uncertainties, but maintain exposure toward assets that offer attractive long-term opportunities.

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The Bloomberg Municipal Bond Index Is a market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990 and must be at least one year from their maturity date. The Bloomberg High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated or rated below B by Moody's Investors Service with a remaining maturity of at least one year. The S&P U.S. Government & Corporate Bond Index seeks to track the performance of U.S. dollar-denominated debt publicly issued in the U.S. domestic market, including U.S. Treasury, U.S. agency, and investment-grade corporate securities.

The Philadelphia Stock Exchange Gold/Silver Index (XAU) is a capitalization-weighted index composed of companies involved in the gold or silver mining industry. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Alerian MLP Index is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, floatadjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX). The HFRX Equal Weighted Strategies Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The HFRX Equal Weighted Strategies Index applies an equal weight to all constituent strategy indices. Any reference to an index is included for illustrative purposes only, as an index is not a security in which an investment can be made. Indices are unmanaged vehicles that serve as market indicators and do not account for the deduction of management fees and/or transaction costs generally associated with investable products. The holdings and performance of Telemus client accounts may vary widely from those of the presented indices. Advisory services are only offered to clients or prospective clients where Telemus and its representatives are properly licensed or exempt from licensure. No advice may be rendered by Telemus unless a client service agreement is in place. All composite data and corresponding calculations are available upon request.