Monthly Market Commentary

Perspective

December was an intriguing month where investors appeared mixed in their tolerance for risk. Within the stock market, larger companies and those with lower volatility were preferred. In the bond market more conservative Treasuries fell, while riskier high-yield and emerging market debt categories led the way. Diversifying real assets had more moderate returns with commodities recovering from substantial declines in the month prior. It was a news heavy month as plans for sizable infrastructure spending seemed to stall out, the Fed accelerated its plans around tighter monetary policy and the spread of the Omicron variant accelerated. While markets held up better than one might expect given these conditions, below the surface shifts in positioning were evident, indicating the trends that drove results throughout much of 2022 may be fading.

Sleeve Commentary

Growth
Despite a more hawkish Fed and an increasing influence from the Omicron strain, stocks posted a strong final month of the year. The S&P 500 gained +4.5%, as large cap stocks continued to lead the pack.
Among large caps, value stocks made a comeback with a return of +6.3%, outpacing growth which rose +2.1%. On the year, large growth stocks led the way as the best performing style, while small cap growth stocks were the worst performing style within the U.S.
Defensive sectors were preferred throughout December. Consumer staples, real estate and utilities sectors all produced returns north of +9%. Consumer Discretionary was the lone sector to decline, dipping -0.3%.
Returns to small caps were positive in December, up +2.2%.
Having lagged throughout 2021, international stocks received a bid, outpacing their domestic counterparts. The MSCI EAFE index rose +5.1%. Emerging market equities, however, were more restrained advancing +1.9%.
Income
Bonds had a negative month as a move higher in rates resulted in lower bond prices. The broad-based Bloomberg Barclay's U.S. Aggregate index lost -0.3%.
Treasury yields moved higher following the December Federal Reserve Open Market Committee meeting. The 2-year Treasury yield lifted 10 basis points, or 0.10%, in the last two weeks of the month. Rates on longer tenor bonds did not rise to the same magnitude, leading to a slight flattening in the yield curve. Higher yields resulted in Treasuries experiencing modest losses for the month.
Corporate bonds held up better than Treasuries. The Bloomberg Intermediate Corporate bond index was able to generate a small gain of +0.2%. High Yield bonds faired much better, adding +1.9%. Spreads, or the difference in yield between high yield bonds and comparable Treasuries, tightened considerably.
Strong flows into municipal bonds helped drive gains for the sector. The Bloomberg Municipal Bond index produced in a positive return of +0.2%.

Diversifier
Diversifying assets were largely positive during the month. Real estate stood out as one of the stronger performers. The Dow Jones U.S. Select REIT index lifted +9.0%, with the MSCI World Real Estate index gaining +7.8%
A late month surge in oil, iron ore and lumber sent commodities higher. The Bloomberg Commodity index rallied +3.5%.
Precious metals posted moderate gains. The Philadelphia Stock Exchange Gold/Silver index was up +1.7%.
The dollar concluded the month where it began. On the year, the dollar finished notably stronger, up +6.7%.
Hedge fund strategies generally produced positive returns, with event driven strategies standing out as the lone negative performer.

Equity Index returns

Item	December Total Return
NASDAQ	0.7%
DJIA	5.5%
S&P 500	4.5%
Russell 2000	2.2%
MSCI EM	1.9%
MSCI EAFE	5.1%

Bond Index Returns

Item	December Total Return
US Agg	-0.3%
US High Yield	1.9%
Gov/Corp	-0.1%
FTSE World Govt Bond	-0.6%

Alternative Returns

Item	December Total Return
HFRX Equal Weight	
Bloomberg Commodity	3.5%
MLP	3.6%
Gold/Silver	1.7%
World Real Estate	7.8%

Economic Backdrop

U.S.
Positives
Jobless claims averaged under 200,000 a week, the first time the four-week average has been at this level since 1969.
Consumer Confidence levels increased, despite rising inflation and the Omicron variant.
U.S. household net worth, as a share of GDP, hit a record high.
Negatives
The annual inflation rate rose to 6.8%.
The U.S. current account deficit hit a 15-year high as imports continue to surge.
Personal consumption continued to climb although spending was flat when adjusted for inflation.
Developed International
Positives
The Bank of England increased interest rates to a quarter of a percent, its first rate hike since the start of the pandemic.
Canada’s unemployment has returned to pre-pandemic levels.
The European Central Bank outlined a plan to conclude its asset purchase plan by March of 2022.
Negatives
Energy prices spiked amid supply challenges and colder temperatures.
Weak demand from China has helped to lower the eurozone trade surplus.
Inflation in the U.K. now exceeds 5% over the past year, the highest level in three decades.

Emerging Markets
Positives
China lowered its reserve requirements, enabling looser credit conditions for banks.
Relative to the rest of the world, China's inflation rate remains in check at 2.3%.
South Korean employment remains at low levels while exports are surging.
Negatives
Industrial production in Brazil continues to deteriorate amid supply chain issues.
The Turkish Lira plummeted as the central bank continued to cut interest rates despite high inflation. The Lira rebounded late in the month when the government committed to backstopping the value of lira based deposits.

Investment Committee Positioning

Growth	**Neutral**
Valuation multiples remain elevated relative to historic averages. 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.	
Income	**Neutral**
Central banks are at a point where many are beginning to tighten policy as economic conditions improve and inflation accelerates. We see the probability for a rising rate cycle to be greater, which could serve as a modest headwind. Underlying credit conditions are strong providing a means to generate positive returns outside of Treasury bonds, particularly in portfolios that have less exposure to interest rate risk.	
Diversifier	**Neutral**
Lower expected returns in stocks and bonds leaves us more constructive on diversifying assets.	
Cash	**Neutral**
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.	
U.S.	**Overweight**
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	**Underweight**

We see a growing disparity in the pace and magnitude of economic recoveries as countries emerge from the pandemic. 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.

Portfolio Review

Markets have continued to climb higher as volatility has moderated. More recently, markets have experienced episodes of higher volatility, which we would expect to continue as economic conditions normalize and fiscal and monetary policies evolve.

We have taken action throughout the past year to add exposure to assets where we see attractive long-term return opportunities. We expect volatility along the way and believe it's important to remain conscious of not extending oneself into taking on more risk than you are able to tolerate. While equity market multiples are, on average, toward the higher end of their historic range, we do see pockets of opportunity within the market that we believe provide attractive return opportunities over the long-term. During market environments such as the present where there is greater uncertainty and a wider range of outcomes, we believe greater focus should be placed on long-term outcomes with less attention to the inevitable noise that can creep in over the short-term.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

This market commentary is a matter of opinion and is for informational purposes only. It is not intended as investment advice and does not address or account for individual investor circumstances. Investment decisions should always be made based on the client's specific financial needs, goals and objectives, time horizon and risk tolerance. The statements contained herein are based solely upon the opinions of Telemus Capital, LLC. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Information was obtained from third party sources, which we believe to be reliable, but not guaranteed. The S&P 500 index includes 500 leading companies in the US and is widely regarded as the best single gauge of large-cap US equities. The Dow Jones Industrial Average (DJIA) is a widely-watched benchmark index in the U.S. for blue-chip stocks; it is a price-weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ. The Nasdaq Composite Index is a large market-cap-weighted index of more than 2,500 stocks, American depositary receipts (ADRs), and real estate investment trusts (REITs), among others. The Russell 2000 index measures the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index. . The Russell 1000 Growth Index is a composite that includes large and mid-cap companies located in the United States that exhibit a growth probability. The Russell 1000 Value Index measures the performance of the large cap value segment of the US equity universe. The Russell 1000 Growth & Value Indices are subsets of the Russell 1000 Index. The Russell Small Cap Completeness® Growth Index measures the performance of the Russell 3000® Index companies excluding S&P 500 constituents. It includes those Russell Small Cap Completeness Index companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). Similarly, the Russell Small Cap Completeness Value Index measures the performance of the Russell 3000® Index companies excluding S&P 500 constituents but focuses on stocks exhibiting value characteristics.

The MSCI EAFE Index is an equity index which captures large- and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 876 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country. The MSCI Emerging Markets Index captures over 1,300 large- and mid-cap securities across 27 Emerging Markets (EM) countries and five world regions. The MSCI World Real Estate Index is a free float-adjusted market capitalization index that consists of large and midcap equity across 23 Developed Markets (DM) countries. All securities in the index are classified in the Real Estate Sector according to the Global Industry Classification Standard (GICS®). The FTSE World Government Bond Index (WGBI) is a broad index providing exposure to the global sovereign fixed income market, it measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently includes sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available. The Bloomberg Barclays US Aggregate Bond is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.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 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 Bloomberg Intermediate US Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the US Aggregate Index with less than 10 years to maturity. The index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities. The Bloomberg Barclays US Intermediate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity. The Bloomberg US Corporate High Yield Bond

Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

The Dow Jones U.S. Select REIT Index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. The Philadelphia Stock Exchange Gold/Silver Index (XAU) is a capitalization-weighted index composed of companies involved in the gold or silver mining industry. 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. The European Consumer Price Index, abbreviated as CPI, measures the change over time in the prices of consumer goods and services acquired, used or paid for by households. It is an important measure of inflation in the European Union.

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.