TELEMUS MONTHLY COMMENTARY

November 2020

PERSPECTIVE

Equity markets had a record setting month as fears around a contested election eased and positive data on coronavirus vaccines ignited excitement that the pandemic would be put behind us in 2021. This led to an increased risk appetite across markets. Returns across most assets were positive, despite a surge in coronavirus cases. Corporate bond yields fell considerably. Smaller capitalization and economically cyclical stocks drove a surge in equity prices. Economic conditions remain favorable, although the rate of improvement in economic data has been slowing. The combination of fiscal and monetary supports, along with high personal savings rates, provides some comfort that the economy should remain on a positive trend in the near term.

SLEEVE COMMENTARY

GROWTH

Equity markets cheered greater clarity coming out of the U.S. election along with positive data on key coronavirus vaccine trials. This resulted in the best November for the S&P 500 since 1928. All told, the index gained +11.0% for the month. The MSCI World index hit a record high demonstrating that equity markets across the globe, not just the U.S., are hitting record levels.

The reversal trend in favor of value stocks continued for the third consecutive month. Energy stocks rebounded in tandem with the price of oil, gaining +28.0%. Conversely, lower volatility sectors, such as utilities, real estate and consumer staples were the laggards.

Small Cap stocks had a record month as the Russell 2000 index returned +18.4%, the highest monthly return since the inception of the index.

International markets faired better than the U.S. The MSCI EAFE index, which tracks developed international stocks, rose +15.5% driven by strong returns out of Europe. Emerging market stocks returned +9.3% as milder gains in China lead to slightly lower returns than those experienced in developed markets.

INCOME

An increased risk appetite following the U.S. election drove gains in the bond market, despite fairly stable interest rates. On the month, the Bloomberg Barclays US Aggregate index gained +1.0%.

Prices of Treasury bonds were largely steady, although a modest decline in long-term rates led to a +0.8% gain for longer maturity Treasuries.

Within the corporate bond market, the spread, or difference in yield between corporate bonds and Treasuries, narrowed in November. The resulting lower yields on corporate bonds lifted prices, driving a +1.2% gain among intermediate corporate bonds. Longer maturity corporate bonds fared better, up +5.1%.

Within high yield, spreads came in roughly a full percentage point and are now inline with pre-pandemic levels. Lower rates resulted in the Bloomberg Barclays High Yield Composite rising +4.0%. During the month, supply of new issue high yield bonds topped $400 billion for the year; an all-time record.

Municipal bonds also garnered positive returns. The Bloomberg Barclays US Municipal 1-5 Year Index rose +0.4%, slightly behind its taxable bond peers.

DIVERSIFIER

Alternative assets generally had a strong month of November, outside of softness in the price of gold and a weaker dollar.

Inflows into gold ETFs earlier this year started to unwind in November, which pressured the price of gold. As for the dollar, strength in other developed market currencies lead to the dollar hitting a 2-year low.

Hedge funds offered attractive returns as the HFRX Equal Weighted Strategies Index lifted +2.4%. Among hedge fund strategies fundamental growth and value strategies performed better on average, while the returns to macro and absolute returns strategies were not as robust.

Strong returns in the price of crude oil and industrial metals led to gains in commodities. The Bloomberg Commodity index rose +3.5%. Oil was a key contributor, up +25.2%.

Public real estate securities participated in the equity market rally. The MSCI World REIT Index appreciated +9.8% as a result.

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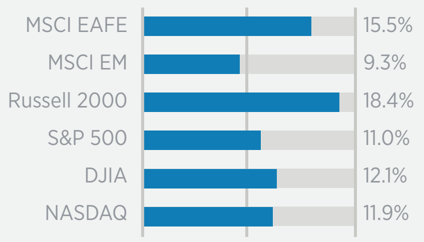
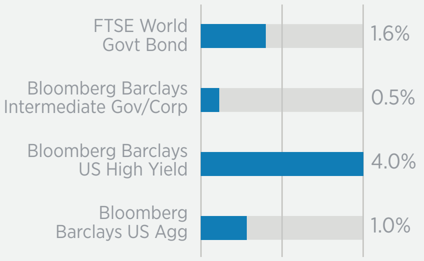
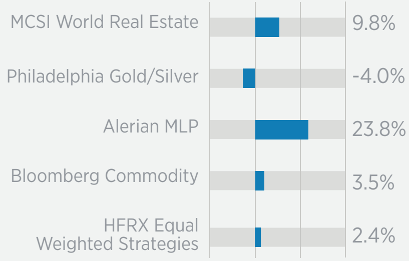
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Inventory of available homes for sale hit a record low along with mortgage rates. This should bode well for housing prices going forward. • Manufacturing activity remains robust. Five consecutive months of new orders is a positive indicator that momentum is likely to continue.	• Increases in consumer spending slowed to +0.3%, the smallest monthly increase since May. • The number of initial jobless claims has begun to rise again, after having fallen throughout much of the fall. • Consumer sentiment indicators are reversing and remain soft.
DEVELOPED INTERNATIONAL	• Exports out of Taiwan are up 9% compared to year ago levels. • Since hitting its low in April, the Euro has rebounded by 10% versus the dollar. • Japanese exports have recovered and are back to pre-pandemic levels.	• Declines in household spending in the UK has been more severe than other developed economies. • The UK's GDP contraction over the past three quarters has been nearly double that of most other developed economies.
EMERGING MARKETS	• The Chinese renminbi is the best performing currency on the year, up +7.5% YTD relative to the dollar. • The OECD is forecasting that China will account for 1/3 of global economic growth in 2021. • As some EM currencies have strengthened versus the dollar, it has allowed central banks to lower interest rates and support economic conditions	• India has now faced two consecutive quarters of negative GDP growth. • While economic indicators in China show improvement, business owners have been reporting pervasive delays in the collection of receivables. • While sentiment around Brazil's industrial activity is improving, consumer sentiment has started to decline.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Resolution around key geopolitical concerns removed some uncertainty for the equity market. We see a growing dichotomy in valuations across different segments of the global equity market. In addition, we see greater opportunity to add value through security selection.
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 view some sectors of the fixed income market as offering more attractive returns. In addition, we see opportunities to generate added returns from 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

Several elements of uncertainty that markets were looking for clarity on were resolved this past month. The presidential election is now behind us, an efficacious vaccine for COVID-19 seems likely to be on the horizon, and there appears to be a general consensus that additional fiscal stimulus will be passed in the coming months. The easing of these concerns seemed to generate a level of euphoria in the market, which has been further supported by strong economic data. Looking forward, the quandary that investors must recognize is that future market returns have been pulled forward into 2020 as stock prices now reflect a robust economic recovery. While volatility to the upside and downside could likely remain for a bit longer, our focus is on the long-term and the opportunities that are most attractive over next 3-5 years as we move past the pandemic.

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