TELEMUS MONTHLY COMMENTARY
April 2020

PERSPECTIVE

After a violent month of March, a growing sense of calm returned to the market as investors become optimistic around the prospect that economies may be nearing a point of gradually reopening. Equity market volatility declined, although it remains at levels that are above average. Outside of equities, bond prices stabilized as the Federal Reserve's actions to stabilize fixed income markets proved fruitful. Oil was the story of the month, as the price of West Texas Intermediate (WTI) Crude ranged between $28.34 and an unheard of -$37.63. A glut of supply and the nuanced nature of how the price of WTI is tied to the active futures contract led to a short moment where investors were paid to take delivery of the commodity. While general market sentiment lifted and is now willing to look beyond the current economic malaise, there remains a high degree of uncertainty around the breadth and severity of the impact from the pandemic. We expect volatility to remain elevated and would not be surprised to see additional episodes of market declines as asset prices adjust to evolving economic expectations.

SLEEVE COMMENTARY

GROWTH

After a challenging month of March, stock markets experienced a robust rebound. The S&P 500 gained +12.8% in April, reducing its year-to-date decline to -9.3%.

Progress toward flattening the COVID-19 curve and optimism around re-opening the economy was a key driver in improving market sentiment. Energy stocks, which fell -34.8% in March, finished April as the best performing sector, lifting +29.8%. More consistent earners, such as Utilities and Consumer Staples, were the laggards on the month.

With the rebound in equities, trends favored by the market in recent years remained in favor. U.S. stocks faired better than international stocks, while growth stocks continued to outpace value. For the year, growth stocks have performed nearly twenty percentage points better than their value counterparts.

Small cap stocks have started to buck the trend of lagging large caps. The Russell 2000 Index gained +13.7%, modestly outpacing the S&P 500.

INCOME

Bond markets stabilized in April as efforts by the Federal Reserve to stabilize fixed income markets took hold. All told, the benchmark Bloomberg Barclays U.S. Aggregate Index appreciated +1.8%.

Among taxable bonds, corporate bonds performed best as their yield differential relative to Treasuries declined, resulting in higher prices. Intermediate Corporate bonds rose +4.0%, versus intermediate Treasuries, which returned a modest +0.2%. High Yield bonds fared well, lifting +4.5%.

With the yield curve stabilizing, there was less differentiation across maturities. Longer maturity bonds continued to outpace shorter, although at a much smaller magnitude than what occurred during the first quarter.

Municipal bonds experienced mixed results. Shorter maturities garnered small gains while longer dated maturities had modest declines.

After sizable swings in the bond market during the first quarter, April was a respite of calm as returns normalized.

DIVERSIFIER

Alternative investments generally delivered strong positive returns in the month. Results varied markedly by asset, with some having notable intra-month volatility.

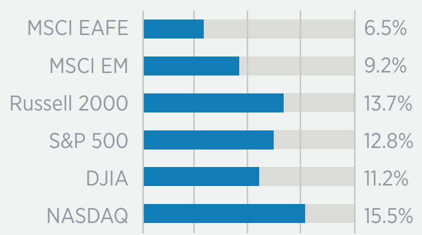
Oil experienced unprecedented movements in price, including falling to $-37/barrel at one point. Oil finished the month down -8.0%. However, the month to date return masks the significant intra-month volatility that transpired.

Hedge funds generated above-average results in April as the HFRX Equity Hedge Index appreciated +4.5%. Fundamental Growth and Merger Arbitrage strategies stood out as strong performers.

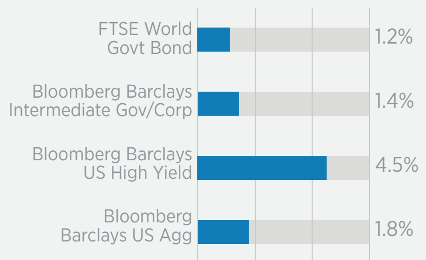
A sizable rebound in silver prices drove a stellar +44% return in the Philadelphia Stock Exchange Gold/Silver Index.

Returns to real estate were positive with the MSCI World Real Estate index lifting +8.6%. The dollar remained rangebound and concluded the month where it began.

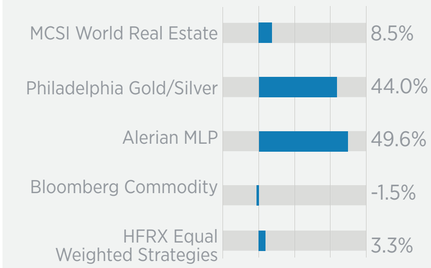
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• The U.S. personal savings rate spiked to 13%, the highest percentage in 39 years. • Home price appreciation has continued to accelerate.	• 1st quarter GDP declined -4.8% on an annualized basis. • Manufacturing activity decelerated at a significant rate. The ISM manufacturing index fell to 41.5, down from a reading of 49.1 in March. • Continuing jobless claims jumped from roughly 2 million to nearly 18 million. • According to a LendingTree survey, 58% of businesses said they laid off workers.
DEVELOPED INTERNATIONAL	• Unemployment levels in Europe have been more stable than expected. • As it looks closer to reopening, Australian economic activity is improving, with the Aussie dollar stabilizing.	• Eurozone GDP contracted -3.8% during the 1st quarter, the biggest decline since the introduction of the Euro. • Japan is close to entering a state of deflation, with lower oil prices likely to push price changes negative.
EMERGING MARKETS	• Mexico's trade surplus is at record levels. • China steel demand is recovering, with current demand above prior year levels.	• China's 1st quarter GDP declined -6.8%, its first ever recorded negative reading. • South Korea's exports are down -24% y/y. • Emerging markets experienced nearly $100 billion of capital outflows during the first quarter.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		We are more optimistic around the long-term return potential for equities given wide dispersion in returns. Market conditions remain more speculative short-term as the impact of the coronavirus on company fundamentals is not yet known. As such, we have added some downside protection measures to portfolios to help manage through any near-term uncertainty.
DOMESTIC			■	Valuations have fallen across the globe. We continue to view U.S. Equities as attractively valued relative to international markets.
INTERNATIONAL	■			Below trend economic growth heading into the recent downturn, and uncertainty around the timing of an economic rebound, leave us underweight international stocks at this time.
INCOME		■		Interest rates have now hit record lows. Accommodative central bank policies indicate that rates are likely to remain at low levels for some time. We believe there may be some long-term opportunities to add value from bond selection within specific sectors of the fixed income market. We would expect returns to come from coupon income and changes in yield spreads going forward.
DIVERSIFIER		■		This component of client portfolios has indeed served to diversify during the recent market drawdown. We see increased value from diversifying assets as the absolute level of bond yields is likely to result in less diversification coming from this asset class in the future.
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 asset longer-term.

PORTFOLIO REVIEW

Global equity markets experienced a significant drawdown as a result of the growing COVID-19 pandemic, although April provided a calming relief rally. Market conditions have evolved quickly as new information around the rate of the virus' progression has been digested. We see growing dispersion across asset prices, which leaves us more constructive on the long-term opportunity set. However, in the short-term, it is purely speculative to forecast the severity of the downturn and pace of the economic rebound as the progression of the virus is the ultimate influencer in this equation. 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.