TELEMUS MONTHLY COMMENTARY
August 2019

PORTFOLIO REVIEW

The current market environment may not accurately reflect the level of uncertainty around worldwide economic conditions, trade tensions and geopolitical risks across the globe. Given the wide range of potential outcomes, we have sought to position portfolios in line with their strategic asset allocation targets. However, within asset classes, we have become more defensively positioned. Should the trade war drag on, or economic conditions soften further, we would expect the defensive posture to be a benefit for clients.

SLEEVE COMMENTARY

GROWTH

August was a challenging month for equities as the trade dispute between the U.S. and China escalated. The S&P 500 declined -1.6% while the Dow Jones Industrial Average fell -1.3%. Small cap stocks experienced greater downside, as the Russell 2000 Index was down -4.9%.

Markets became more volatile as the S&P 500 experienced 11 trading days where it was either up or down by more than 1%. In fact, there were three trading days where the index experienced declines of roughly 3%. In light of increased volatility, U.S. equities remained fairly resilient, with only modest losses for the month.

Themes that have been common throughout the year persisted in August. Growth stocks continued to outperform value, large caps surpassed small, and U.S. equities outpaced international.

Low volatility stocks stood out in providing downside protection. The MSCI USA Minimum Volatility Index produced a positive result of +1.67%. Traditionally defensive sectors, Real Estate, Utilities and Consumer Staples, were the best performers within the S&P 500.

INCOME

Bonds produced robust returns as interest rates fell. Returns were fueled by falling rates as the yield on the 10-year Treasury declined 53 basis points during the month.

The broad-based Bloomberg Barclays U.S. Aggregate Index was up +2.6%. Treasuries were the best performing sector within fixed income. Longer maturities, which are more sensitive to changes in rates, performed best. This was evidenced by the Bloomberg Barclays US Treasury 10-20 year Index, which gained +6.6%.

Corporate bond returns slightly lagged that of comparable Treasuries as the spread, or difference in yield between corporate bonds and Treasuries, widened slightly among investment grade bonds.

Mortgage backed securities, were up a more muted +0.9%. The underperformance relative to the broader bond market was a result of lower rates fueling an uptick in mortgage refinancing.

Municipals lagged the rest of the bond market as lower yields contributed to a more modest return.

DIVERSIFIER

Alternative and real assets experienced mixed results in August. Precious metals stood out as the Philadelphia Stock Exchange Gold/Silver Index posted a +12.94% return.

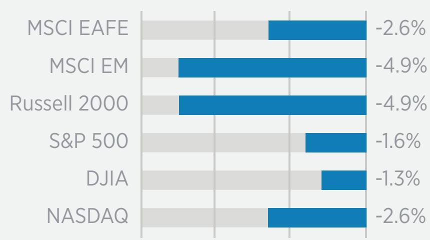
Hedge fund results were mixed as the HFRX Equal Weighted Strategies Index was up +0.11%. Macro driven strategies were among the best performing categories, returning +1.67%, while market neutral funds continue to lag, falling –1.12% in August.

Commodities, in aggregate, declined in August with the Bloomberg Commodity Index falling -2.3%. Crude oil retreated -6.3% on concerns of slowing global demand and excess supply. Among agricultural commodities, corn prices declined due to a combination of a stronger U.S. dollar and on indications that more acreage was planted than expected.

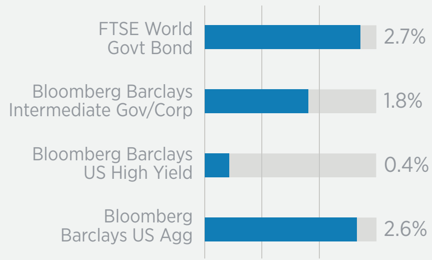
Real Estate continues to experience steady gains as the Dow Jones U.S. Select REIT rose +2.4% and the MSCI World Real Estate was up +2.6%.

The dollar appreciated +0.41% in August, furthering gains after a strong month of July.

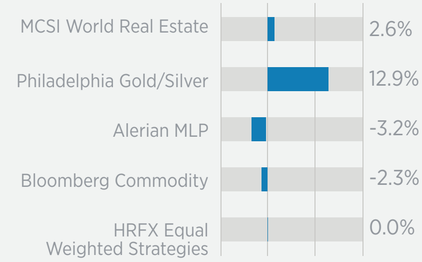
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Personal Consumption continues to increase, although the trade dispute has begun to impact consumer sentiment. • The Fed's dovish tone offers support to the economy should economic conditions soften.	• Manufacturing activity among higher priced capital goods has notably slowed throughout 2019. • Manufacturing activity continues to slow, with the most recent readings showing a slight contraction. • Trade negotiations with China remain at a standstill, hampering business investment and exports.
DEVELOPED INTERNATIONAL	• Major central banks, namely the Bank of Japan and the European Central Bank, have maintained interest rates, but indicated a willingness to stimulate economies if conditions don't improve. • The Japanese yen has become a safe haven as concerns around currency wars have deepened.	• Bond yields have fallen further into negative territory. Roughly 1/3 of government debt globally is pricing in a negative yield. Eurozone and Japanese government debt are pricing in negative yields across all maturities. • The UK economy shrank in the 2nd quarter; the first contraction since 2012.
EMERGING MARKETS	• Many emerging market currencies have weakened versus the dollar, a boon for exports. • Chinese exports showed an unexpected acceleration during the month.	• Chinese manufacturing activity contracted for the fourth month in a row. • The rate of GDP growth in India is slowing. Second quarter GDP increased 5%, down from a trend of high single digit growth.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		X		Valuations are reasonable and low interest rates should continue to support market multiples.
DOMESTIC			X	Stronger relative economic conditions leads to an overweight.
INTERNATIONAL	X			Below trend economic growth in many developed economies has resulted in an underweight.
INCOME		X		Unexpected declines in interest rates have resulted in bonds achieving better than expected returns. While we continue to expect interest rates to remain range bound, they are likely at the bottom end of their range. Bonds remain an important component to diversified portfolios.
DIVERSIFIER		X		Some alternative investment categories are beginning to exhibit less attractive return prospects. Portfolios are currently emphasizing investments where we perceive the risk and reward characteristics to be more attractive.
CASH		X		Global monetary policy remains accommodative and hence we are looking to keep cash levels near their targets.