TELEMUS MONTHLY COMMENTARY
February 2020

PERSPECTIVE

February started out calm with markets gradually lifting. Volatility rushed into the market later in the month, as the number of coronavirus cases outside of China began to spike. Concerns around contagion and the corresponding economic impact sent markets down, with the S&P 500 falling each of the last seven days of the month. The market had become complacent in pricing risk and the spread of the coronavirus put some market participants' animal spirits in check. Prior to concerns around the coronavirus spreading, economic readings were notably positive. In fact, 60% of global economies experienced improvements in PMI readings (a measure of industrial activity). Hence the market tried to look past the virus and was pricing in improving economic conditions. As we look ahead, our base case assumption is that the coronavirus will have a transitory impact on the market and economy, although the impact is now likely to extend beyond the first quarter. Volatility is likely to remain elevated over the intermediate period until the infections have peaked.

SLEEVE COMMENTARY

GROWTH

Equity returns were steady for most of February, but experienced a particularly volatile weeklong correction to finish the month. In the end, the S&P 500 finished down -8.2% on the month.

Despite the coronavirus outbreak in China, Emerging Markets held up better than other regions, declining -5.3%. Developed international markets, on the other hand, lagged their U.S. peers, surrendering -9.0%.

Growth stocks remain a preference of investors as the Russell 1000 Growth index declined -6.8%, versus a -9.7% retrenchment in the Russell 1000 Value. Year-to-date, growth stocks have outpaced value by 6.9 percentage points. The preference for growth has been persistent across regions globally.

There was little discrimination in returns across market capitalizations. Large, mid and small caps all fell similar amounts. Across market capitalizations, growth was favored over value.

INCOME

Bond markets generated solid returns in February with the Bloomberg Barclays U.S. Aggregate index appreciating +1.8%. Declines in yields, particularly among long dated bonds, were the primary driver of returns.

Bond markets favored risk up until the last week of the month. Credit spreads, or the difference in yield between corporate bonds and comparable Treasuries, widened at the end of the month. High yield bonds, in particular, were impacted by this resulting in higher relative yields and lower prices. The Bloomberg Barclays High Yield index fell -0.79%. Investment grade bonds experienced modest widening of spreads, but held up better than high yield bonds. Positive inflows into investment grade funds during the last week of the month resulted in strong demand for these bonds.

Strong flows into municipal bonds funds sustained the strong performance for the sector. The Bloomberg Barclays US Municipal 1-5 Year index gained +0.35, which compares to a +0.59% return for the Bloomberg Barclays 1-5 Year Government/Credit index.

DIVERSIFIER

Many alternative investment categories suffered declines during the month.

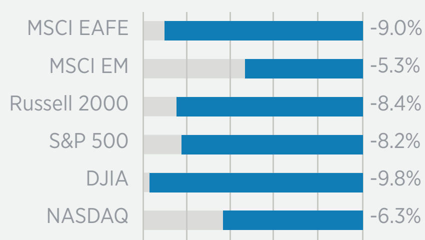
Commodities were particularly hard hit, as the Bloomberg Commodity index declined -5.0% on the back of a -13.2% decline in the price of WTI Crude oil. Precious metals also experienced negative returns, falling -8.9%.

Real estate, which has been a steady performer of late, faltered during the month. The Dow Jones U.S. Select REIT index fell -8.4% on the back of market declines. The MSCI World Real Estate also declined -7.1%

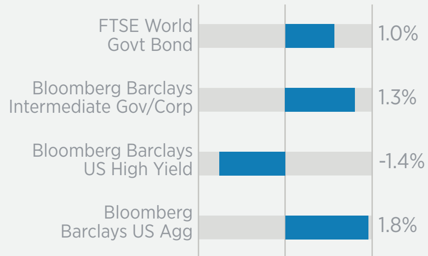
Hedge fund returns were negative but held up better than the broader equity market. The HFRX Equal Weighted Strategies index declined -1.1%. Fundamentally driven hedge funds fell the most, while arbitrage and absolute return oriented strategies faired better.

The dollar strengthened during the month, finishing up +0.8%.

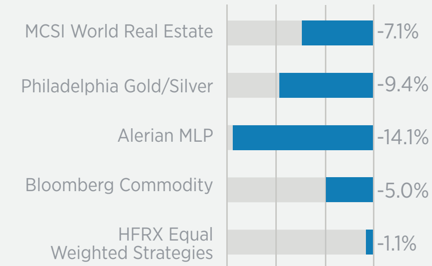
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Manufacturing activity remains strong as several indexes showed a strong rebound to start 2020. • Many economic indicators for the U.S. have surprised to the positive over the past month.	• The rate of wage growth has started to level off around +3%, after having steadily increased over the past decade. • Purchases of capital equipment remain depressed even after USMCA and the initial Phase I trade deal with China.
DEVELOPED INTERNATIONAL	• Britain's inflation rate increased to +1.8%, up from +1.3% in December. • Manufacturing activity is rebounding across the Eurozone.	• Japan's economy shrank by -6.3% in the 4th quarter of 2019 due to a rise in its consumption tax. • Germany's factory orders have fallen considerably in the past month, an ominous indicator of future manufacturing activity.
EMERGING MARKETS	• After falling for parts of 2019, South Korea's exports have started to rebound. • Mexico's retail sales have been surprisingly upbeat as the economy fights off a recession. • After economic challenges in 2019, Chile is showing signs of improvement, with strong exports each of the last two months.	• China's economy remains hampered by the coronavirus with travel statistics down and many factories yet to resume full production levels following the Chinese New Year. • Turkey's core inflation rate is stabilizing around 10%, after peaking near 25% at one-point last year. • South Africa's economy has declined two quarters in a row, placing it back into a recession. • Roughly 3/4 of South Korean companies missed 4th quarter earnings expectations.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		After a strong 2019, valuation multiples remain slightly higher than long-term averages. Lower interest rates support current multiples.
DOMESTIC			■	Stronger relative economic conditions leads to an overweight.
INTERNATIONAL	■			Below trend economic growth in many developed economies has resulted in an underweight.
INCOME		■		Interest rates have now hit record lows. Accommodative central banks indicate that rates are likely to remain at low levels over the near-term. Bonds remain an important component to diversified portfolios. However, going forward, we expect returns to come from current income with limited benefit from any price appreciation.
DIVERSIFIER		■		The moderate expected returns from alternative investments, along with their diversification benefits, are attractive at this point in the market cycle. Portfolios are currently emphasizing investments where we see attractive risk and reward characteristics.
CASH		■		Global monetary policy remains accommodative and hence we are looking to keep cash levels near their targets.

PORTFOLIO REVIEW

Global economic conditions have been healthy. However, the outbreak of the coronavirus has produced uncertainty around the potential range of outcomes for the first half of 2020. Given that the market has been more tranquil in its pricing of risk, we view many assets as having an asymmetry in return outcomes, as the downside risks are greater than upside potential. This asymmetry, however, has lessened over the past month. Based on this backdrop, we believe it's appropriate to maintain allocations in line with strategic targets, but with a bias toward a defensive posture.