TELEMUS MONTHLY COMMENTARY
January 2020

PERSPECTIVE

Markets began 2020 with a constructive tone coming off late 2019 resolutions around trade and Brexit. Many of the trends from 2019 persisted during the first half of the month. Following the outbreak of the Coronavirus in Wuhan China, volatility reemerged, and investors looked to de-risk portfolios. This resulted in the month of January finishing with fairly flat returns across most markets. We remain constructive on the economy and the economic indicators released during the month helped to validate this perspective. After strong returns in 2019, we believe current conditions are largely reflected in prices and expect more modest returns during the remainder of the year.

SLEEVE COMMENTARY

GROWTH

There was a bit of Jekyll and Hyde in stock returns during January. The first half of the month experienced a strong and steady uptrend. As the Coronavirus outbreak spread, concerns around its impact to the global economy led to a reversal in gains. The broad-based S&P 500 ended up finishing the month essentially flat with a return of -0.04%.

While large cap returns were flat, small caps, as measured by the Russell 2000 Index, fell -3.2%. International stocks trailed U.S. equities with the developed market MSCI EAFE index dipping lower by -2.1%. Emerging market equities declined -4.7%.

Growth stocks continued their trend of outpacing value. Among large caps, the Russell 1000 Growth index produced a positive return of +2.2%, while the Russell 1000 Value index fell -2.2%.

Lower volatility stocks provided defense generating a +2.33% return.

INCOME

A decline in interest rates was an overarching driver for bond returns in January. Lower rates led to higher prices, with the Bloomberg Barclays US Aggregate index finishing up +1.9%.

The decline in interest rates benefited longer maturities. As such, the Bloomberg Barclays 10-20 year Treasury index gained +5.3%, while the Bloomberg Barclays 1-3 year Treasury index was up a more modest +0.6%.

Credit spreads were nearly flat among investment grade bonds. Spreads, however, widened among high yield debentures leading the Bloomberg Barclays US High Yield index to a flat return of +0.03%.

Municipal bonds posted comparable results to taxable bonds. Similarly, longer maturity municipal bonds also fared better than shorter maturities.

Outside of the U.S., emerging market bonds posted solid gains of +2.2%.

DIVERSIFIER

Returns were mixed among alternative investments. Commodities oriented assets were most challenged during the month.

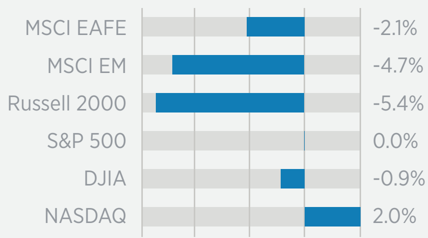
The Bloomberg Commodity index retreated -7.4% as the price of WTI crude oil fell by -15.6%. Concerns over the potential for slower economic growth following the Coronavirus outbreak drove the price decline. MLPs also suffered on the back of lower oil prices, with the Alerian MLP index declining -5.6%.

Precious metals, which experienced strong gains in 2019, reversed course and fell -2.8%.

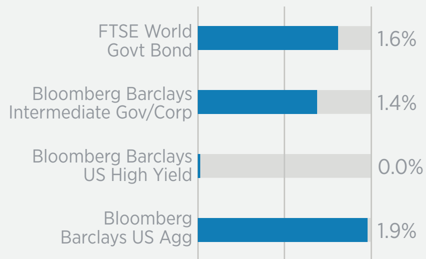
Real Estate returns were modestly positive. The MSCI World Real Estate index gained +1.0%, while the Dow Jones US Select REIT index was up +0.4%.

Hedge fund results were mixed with the HFRX Equal Weighted Strategies index rising +0.1%. Managed futures and event driven strategies, on average, produced positive returns. Conversely market neutral strategies generally experienced declines.

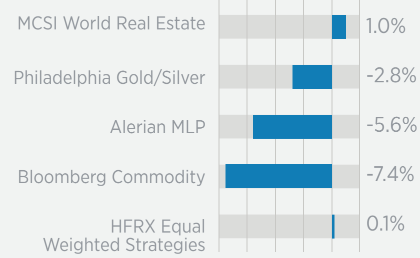
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• 4th quarter GDP grew 2.1%, slightly stronger than many expected as net exports were stronger than anticipated. • Housing affordability remains at low levels. The lack of supply of homes for sale is becoming a challenge. • Small business confidence has started to rebound in 2020.	• Banks have slowed business lending activities, with corporate loan growth roughly flat heading into January. • Consumer spending, which had been particularly strong earlier in 2019, slowed in the 4th quarter.
DEVELOPED INTERNATIONAL	• Strong exports of metals led to the first current account surplus for Australia since the 1970's. • Declines in industrial production appear to have bottomed out for many developed economies. Improving orders also serve as positive indicators for future trends. • The effects of Japan's new value added tax appears to have run its course as retail sales have stabilized.	• German industrial output continues to decline and is now down -5.3% on a year-over-year basis; the biggest drop in a decade. • Japan's GDP growth slowed to -0.2%. Industrial production was down the most since 2013. • There is growing concern around a slowdown in economic growth in Canada as expectations for rate cuts have risen.
EMERGING MARKETS	• Saudi Arabia took an initial step in diversifying its economy, with an initial public offering of a 1.5% stake in Saudi Aramco. • After declining for much of 2019, Asian economies of Taiwan and South Korea have seen manufacturing activity begin to expand.	• The Coronavirus outbreak is raising questions around the impact to China's economic growth. • After rebounding in December, the Chilean Peso weakened again in January. • Mexico's economy remained in contraction in the 4th quarter with GDP falling -0.3%.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		After a strong 2019, valuation multiples are slightly higher than long-term averages. Lower interest rates support current multiples, although we do not anticipate any further multiple expansion.
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 are trending near the low end of their range. Bonds remain an important component to diversified portfolios. 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

The significant progress made in late 2019 toward resolving key geopolitical risks, such as trade and Brexit, along with recent stabilization in economic conditions, are reasons for optimism in 2020. After a strong 2019, asset prices already reflect expectations for improving economic conditions. This ultimately leaves investors with the choice of trying to squeeze more returns out of a later stage economy, or reduce risk by becoming more defensive and chance not fully participating in any further upside. We view these possibilities as having an asymmetry in return outcomes, as the downside risks are greater than upside potential. Given this environment, we believe it's appropriate to maintain allocations in line with long-term strategic targets, but with a bias toward a defensive posture.