# TELEMUS MONTHLY COMMENTARY
June 2019

## PORTFOLIO REVIEW

Markets, whether its equities or bonds, seem to be pricing in stable economic conditions and to an extent some resolution to trade tensions with China. Since no one can predict exactly how these trade policies will be resolved, we have focused on the upside and downside potential of various scenarios. We have accounted for the range of potential outcomes by seeking to position portfolios in line with their strategic asset allocation targets. However, within asset classes we have become more defensively positioned. Our objective is to enable clients to participate in a scenario where there is a favorable resolution to trade policies and the economy recovers. However, should the trade war drag on, or result in economic conditions continuing to soften, we would expect the defensive posture to be a benefit for clients.

## SLEEVE COMMENTARY

### EQUITIES

After a tepid April and rough month of May, equity markets surged marking the best month of June since 1955. The S&P 500 finished up 7.1% for the month, with most other major U.S. indices appreciating by a similar amount. International stocks, while positive, lagged their domestic counterparts as the MSCI All Country World Index (ex-US) was up 5.9%. Across styles, performance was similar as value stocks did slightly better than growth among large caps, but moderately lagged amongst small caps.

A key driver of the June surge was posturing by the Federal Reserve that they would consider cutting interest rates this summer. Low funding costs drove the market toward riskier assets. Disputes around trade remain an overhang, and the unpredictability around outcomes has created a wait and see attitude among equity investors. This has curtailed volatility despite an ample amount of change in economic conditions and expectations this year.

### FIXED INCOME

Bonds continued to rally as the Bloomberg Barclays Aggregate rose 1.26%. Returns benefited from interest rates continuing their descent as the 10-year Treasury fell 14 basis points on the month, and was down 40 basis points during the quarter. Expectations of a July interest rate cut, and generally softer economic conditions, drove this outcome. Lower rates have been particularly beneficial to longer dated bonds, which are more sensitive to changes in interest rates.

Credit spreads continued to tighten throughout the month and remain at levels well below average. Narrowing spreads have been a boon to high yield bonds, which were up 2.3% on the month.

Municipal bonds were positive with the Bloomberg Barclays US Municipal 1-5 Year rising 0.46%. Municipal bonds remain highly popular among investors as muni mutual funds have received significant inflows this year.

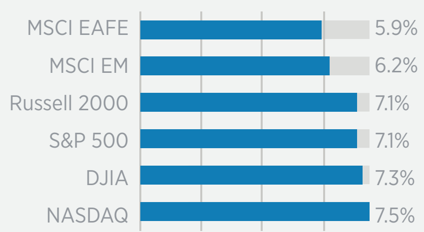
### ALTERNATIVES

Hedge Funds results were generally positive as the HFRX Equal Weighted Strategies Index was up +1.22%. Macro driven strategies were among the best performing strategies, returning +2.58%.

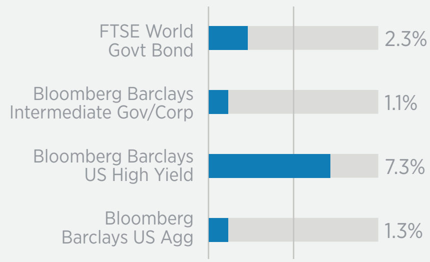
Commodities were particularly strong as oil and precious metals swung higher. After holding steady during the first half of the month, crude oil rallied late in June and finished up 8.81%. Geopolitical conflicts in the Straits of Hormuz and renewed tensions between the U.S. and Iran led to oil prices reverting higher. Precious Metals soared following the June Federal Reserve meeting, with the Philadelphia Stock Exchange Gold/Silver index rising 20.15%.

Real Estate experienced moderate gains on the month as the MSCI World Real Estate was up 1.9%.

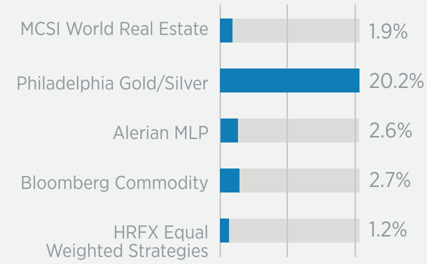
### EQUITY INDEX RETURNS




### BOND INDEX RETURNS




### ALTERNATIVE RETURNS




## ECONOMIC BACKDROP

| | POSITIVES | NEGATIVES |
|---|---|---|
| **UNITED STATES** | • The Fed's dovish tone offers support to the economy should economic conditions soften<br>• Unemployment and inflation remain at low levels | • A number of economic indicators came in below expectations in June<br>• Consumer confidence fell to a 21-month low<br>• Manufacturing activity and orders declined in June |
| **DEVELOPED INTERNATIONAL** | • Major central banks kept interest rate policies in place<br>• The ECB hinted at a willingness to offer additional accommodation if conditions do not improve | • Industrial production remains soft across Europe, with France being the notable exception<br>• In the UK, retail sales were down in June, the fastest pace since 2009<br>• Bond yields continue to fall deeper into negative territory, with the German Bund hitting a low of -0.75% in June |
| **EMERGING MARKETS** | • Brazil's structural changes are leading to improving economic conditions<br>• Economic slowdown in China and ramifications from the U.S. trade dispute have slowed economic conditions, although forecasts continue to expect 2019 GDP in excess of 6% | • South Korea experienced a -1.5% decline in GDP during the first quarter. Recent manufacturing (PMI) indicators show continued deceleration in activity<br>• Turkey is experiencing negative GDP, high inflation, high unemployment and a falling currency |

## INVESTMENT COMMITTEE POSITIONING

| | UNDERWEIGHT | NEUTRAL | OVERWEIGHT | |
|---|---|---|---|---|
| **EQUITIES** | | ■ | | Valuations are reasonable and low interest rates should continue to support market multiples. |
| DOMESTIC | | | ■ | Stronger relative economic conditions leads to an overweight. |
| INTERNATIONAL | ■ | | | Below trend economic growth in many developed economies has resulted in an underweight. |
| **FIXED INCOME** | | ■ | | Unexpected declines in interest rates have resulted in bonds achieving better than expected returns. We continue to expect interest rates to remain range bound and believe bonds remain an important component to diversified portfolios. |
| **ALTERNATIVES** | | ■ | | 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** | | ■ | | Global monetary policy remains accommodative and hence we are looking to keep cash levels near their targets. |