TELEMUS MONTHLY COMMENTARY

March 2020

PERSPECTIVE

Markets experienced an unprecedented level of volatility during March as equities declined by over 20%. A relief rally late in the month provided some support and masked the severity of the month's drawdown. During March much of the world went from watching and gauging the spread of the COVID-19 virus to taking action and practicing social isolation. As the breadth and significance of these actions took hold, economic expectations were adjusted downward in a swift and severe fashion. Governments responded, and in the U.S., an unprecedented level of monetary and fiscal stimulus was provided. These initiatives helped to fuel the relief rally. Markets are likely to remain volatile as long as there continues to be uncertainty around the timeline of the COVID-19 pandemic. One can only have a speculative opinion on these variables and incremental data is likely to fuel changes in perception and ultimately drive stocks and bonds lower or higher as a result. During periods of greater uncertainty, it is important to maintain perspective and focus on your investment horizon. Volatility fuels dislocation. The long-term investment opportunity set is more attractive coming out of March than it was going in. These opportunities may not reward investors immediately, however, over the long-term they have the potential to.

SLEEVE COMMENTARY

GROWTH

Stocks corrected into bear market territory during the month, marking the fourth worst monthly return in the S&P 500 over the past 50 years. In total, the S&P 500 was down -12.4%.

U.S. stocks held up marginally better than their international counterparts did. Developed international stocks declined -13.4%, while emerging market equities fell further at -15.4%.

As markets fell, there was a preference for greater liquidity. This led to greater declines for smaller companies. The Russell 2000 Index declined -21.7%, while less liquid microcaps dropped -23.4%

Growth stocks continued to dominate value by a considerable margin. Above average declines with the value oriented energy and financial sectors fueled this differential. All told, the Russell 1000 Growth index declined -9.8%, while the Russell 1000 Value lost -17.1%.

INCOME

Bond markets followed a similar trend to equities, as there was a flight to higher quality and more liquid securities during the month. While the broad based Bloomberg Barclays US Aggregate index fell a modest -0.6%, it did provide diversification relative to much greater declines in equities.

Among taxable bonds, the flight to quality led to positive returns out of Treasuries and mortgage backed securities, while corporate bonds retreated. Lesser quality high yield bonds were most significantly impacted depreciating -11.5%. Shorter maturity Treasury bonds appreciated +1.3%, while longer-term (10-20 year) Treasuries gained +4.4%

Corporate bond results were the inverse of Treasuries, as 1-3 Year corporate bonds fell by -1.9%, while longer dated corporate bonds lost -10.2%. The interest rate differential between corporate bonds and Treasuries widened considerably, negatively impacted returns for corporates.

Municipal bonds declined as there was significant outflows from muni bond funds.

DIVERSIFIER

Alternative investments had wide ranging returns during the month, with results varying considerably by category.

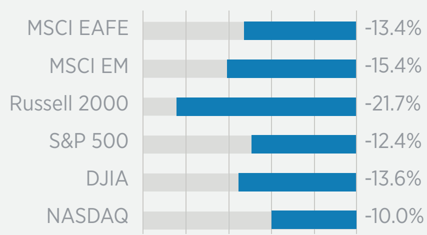
Oil prices plummeted after Saudi Arabia slashed its price on crude oil and ramped production. All told, the price of West Texas crude oil declined by -56.5%. Oil related investments followed suit, with MLPs falling considerably at -47.2%.

Precious metals experienced mixed returns. The Philadelphia Stock Exchange Gold/Silver index lost -16.1%, with Silver driving the negative return, as the price of gold held steady.

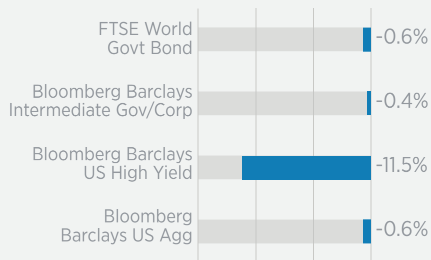
Public real estate securities fell in tandem with equity markets. The Dow Jones U.S. REIT index dropped -22.3%. Hedge funds added downside protection, but on average declined in value. The HFRX Equal Weighted Strategies index fell -6.2%, with most major hedge fund strategies seeing declines.

The dollar added diversification, appreciating by +0.9%.

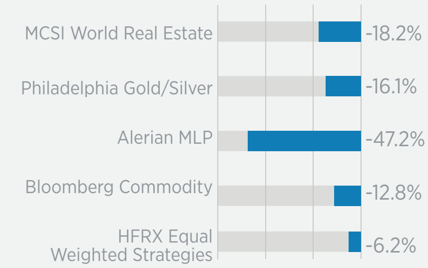
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Despite economic concerns, wage growth has held up better than expected, +3.1% year-over-year. • Consumer confidence readings have fallen, but far less than expected. • Housing starts and pending sales continue to trend ahead of expectations.	• Unemployment levels spiked going into month's end and are expected to trend higher in April. • Manufacturing activity declined and is contracting versus prior year levels. • The services sector has been hit much harder than manufacturing as a result of COVID-19 social isolation guidelines.
DEVELOPED INTERNATIONAL	• Japan is beginning to see a rebound in retail sales after consumers had slowed spending considerably following a tax hike last year. • Major developed economies announced sizable monetary and fiscal stimulus programs aimed at combatting the economic impact of COVID-19	• Germany's economy continues to contract. Manufacturing activity has fallen considerably. • Wage growth in the Eurozone has started to decelerate. • Business confidence continues to erode across the Eurozone.
EMERGING MARKETS	• After hitting a record low in February, China's manufacturing activity rebounded in March and is back to an expansionary phase. • Industrial activity in Brazil has turned positive as economic reforms are taking hold. • South Korean exports have continued to trend higher.	• Chile's GDP contracted -4.1%, a sharp contraction from positive readings in prior quarters. • Capital has flowed out of emerging markets are a rate greater than during past shocks. This trend has driven currencies lower as well. • South Korean's manufacturing activity has slowed considerably, and the value of the South Korean won is at the lowest level in over a decade.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		We are more optimistic around the long-term return potential for equities following the recent contraction in stock prices. Market conditions remain more speculative short-term as they are likely to be driven more around virus progression rates. 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 results 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. Market conditions have evolved quickly as new information around the rate of the virus' progression has been digested. We believe that asset prices are not currently reflecting an eventual rebound in economic conditions and corporate earnings back toward normalized levels. Therefore, we are more constructive on the long-term return opportunity for equities. 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.