TELEMUS MONTHLY COMMENTARY

May 2020

PERSPECTIVE

Markets experienced a sense of calm during May as investors cheered efforts to begin relaxing constraints around social distancing along with some jurisdictions beginning to allow additional segments of the economy to re-open. The expectations for incremental improvement in economic conditions, along with highly accommodative fiscal and monetary policies, have resulted in more optimistic investor sentiment. The focus is now on the direction of the economic recovery. Expectations among investors are mixed as some are positioned more conservatively, expecting a less than linear recovery, while others believe the combination of a recovery and accommodative policies should be positive for risk assets. In our view, there remains a high degree of uncertainty around the breadth and severity of the impact from the pandemic. Incremental economic data is likely to be positive in the near term, however, the sustainability of any rebound in activity remains uncertain. We expect an initial rebound to be followed by a slow and gradual recovery, as some segments of the economy are likely to experience greater challenges in sustaining fundamental improvement.

SLEEVE COMMENTARY

GROWTH

May saw a steady climb in equity prices as the S&P 500 gained +4.8%. Year-to-date, the index is down -5.0%, a far cry from its March lows.

Small Cap stocks, which have trailed their large cap brethren, showed episodes of strength and finished the month ahead with the Russell 2000 Index gaining +6.5%

Growth stocks led the way, as there remains a lack of enthusiasm for lower priced value stocks. Value indexes have a greater concentration in economically sensitive sectors such as energy, financials and industrials. The cyclical nature of these businesses has led to these stocks falling out of favor.

International stocks were positive although modestly trailing their U.S. peers. The MSCI EAFE Index, which tracks developed market international equities, gained +4.4%. Emerging market stocks were the laggard, finishing up a more muted +0.8%. Since the market bottom on March 23rd, international stocks have notably trailed the rebound in the U.S. market.

INCOME

The bond market remained range bound for most of the month, although the appetite for corporate bonds grew later in the month. The result was a +0.5% gain for the broad-based Bloomberg Barclays US Aggregate Index.

Treasury bonds experienced subdued results, with short-dated Treasuries gaining +0.1% while long-dated maturities suffered slight declines.

Corporate bonds fared well as their yields narrowed relative to Treasuries, prompting higher prices. As a result, the Bloomberg Barclays US Intermediate Corporate Index was up +1.8%. High yield instruments benefited even more than their investment grade counterparts and finished the month +4.4% higher.

Municipal bonds fared well in May as the Bloomberg Barclays US Municipal 1-5 Year Index was up +2.0%. Returns to longer-dated maturities were modestly greater than those of short-term municipals.

Emerging market bonds were the best performing sector of the bond market, gaining a robust +6.3%.

DIVERSIFIER

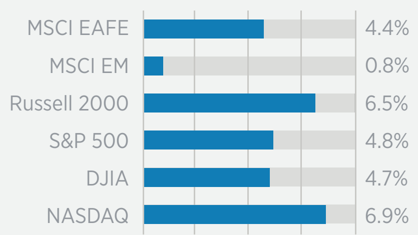
Alternative investments largely provided positive returns on the month. The standout performer was West Texas Intermediate crude oil. After experiencing a negative price during April as the commodity index transitioned between futures contracts, the price of oil appreciated from under $20/barrel to over $35 by month's end. This resulted in a gain of +88.4% for the month.

Hedge funds generated above-average results, continuing the positive trend from April. The HFRX Equity Hedge Index appreciated +1.2%. Market Neutral and Special Situation strategies were strongest, both categories gaining over 2%. Macro related strategies lagged, generating a more muted +0.3% return.

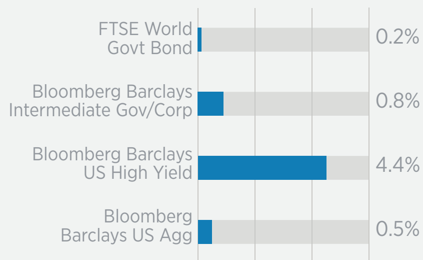
Precious metals provided solid gains, with the Philadelphia Stock Exchange Gold/Silver index rising +5.7%.

Returns to real estate were positive with the MSCI World Real Estate index lifting +1.1%. The dollar remained within its more recent trading range, although it depreciated -0.7% during the month.

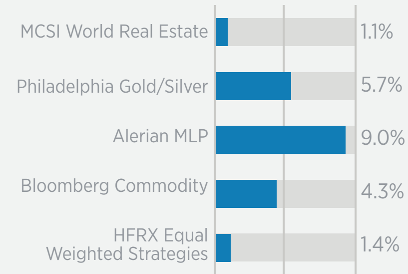
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• Throughout the month, a greater share of states began to loosen constraints around social distancing. • The Treasury sold nearly $2 Trillion of its expected $3 trillion of Q2 bond offerings, with little to no impact on yields. • While falling from March levels, core inflation (Core CPI) remained positive at +1.4%.	• Unemployment reached 14.7%, although continuing claims have been much lower than expected as workers have been rehired. • Manufacturing activity remains at depressed levels, but has not retreated to the lows experienced during the financial crisis. • Retail sales fell by -16.4% in April.
DEVELOPED INTERNATIONAL	• The Bank of Japan extended its bond-buying program to acquire unlimited government and corporate debt. • While rising to 6.6%, the Eurozone unemployment rate remains well below that of the United States.	• Worldwide trade volumes have plunged, down more than -4% from already depressed 2019 levels. • Japanese exports have fallen roughly 10% from year ago levels. • Inflation in the United Kingdom fell to 0.8%, with increased speculation that interest rates may go negative.
EMERGING MARKETS	• The IMF agreed to provide Nigeria $3.4 billion of funding to help the country cope with COVID-19. • India is allocating $266 billion, 10% of its GDP, toward fiscal stimulus measures to help stem the impact of COVID-19. • Mexico generated its strongest current account balance in 23 years.	• Emerging market currencies are down over 5% relative to the U.S. dollar since the pandemic began. • Retail sales in China have begun to recover but remain nearly 20% below levels from one year ago.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		Market conditions remain speculative in the short-term as the severity of the coronavirus impact on company fundamentals remains uncertain. As such, we have taken measures to add some downside protection to portfolios to help manage through any near-term uncertainty.
DOMESTIC			■	Given proactive fiscal and monetary stimulus measures within the United States, we remain overweight U.S. stocks over international.
INTERNATIONAL	■			Uncertainty around the timing of an economic rebound and divergent policies leave us underweight international stocks at this time.
INCOME		■		Interest rates have hit record lows. Accommodative central bank policies indicate that rates are likely to remain at low levels for some time. We believe opportunities exist in some sectors of the fixed income market, as well as through individual bond selection.
DIVERSIFIER		■		Given above average prices in both stock and bond markets, we are constructive on the role of diversifying alternative assets in client portfolios. We see a growing opportunity for niche strategies that look across markets for dislocations in asset prices.
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 longer-term.

PORTFOLIO REVIEW

Market conditions have evolved quickly from March lows as new information around the rate of the virus' progression has been digested. We see growing dispersion across asset prices, which leaves us more constructive on the long-term opportunity set. 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.