TELEMUS MONTHLY COMMENTARY
October 2019

PERSPECTIVE

The economic and geopolitical events of October served as positive progress in helping to resolve some key anxieties in the market. Even though progress to Brexit is being stalled by recently called elections in the U.K., there appears to be a workable resolution on the table for Parliament to debate when it returns. In the U.S., the Federal Reserve cut rates but emphasized this is likely their last action until there is a notable change in conditions. On the trade front, it become generally accepted that a complete agreement is unlikely to occur, although progress has been made on an initial phase of an accord. These events, in concert with stable economic readings, helped to bring a level of calm to the market. The near-term downside risks appear less than they were a few months back, however, there remains a reliance on policy makers to bring these geopolitical resolutions to a complete conclusion. In periods of calm, as we are currently experiencing, we do not want to become complacent and are actively examining opportunities and threats that could transpire if and when conditions change.

SLEEVE COMMENTARY

GROWTH

Equity markets were subdued in October as volatility remained low. The S&P 500 gained a respectable +2.17% for the month.

Defensive oriented stocks, such as Utilities, Real Estate and Consumer Staples, led the market higher. More cyclically oriented sectors such as Energy and Materials were the laggards.

From a style standpoint, growth was back in vogue after pausing in September. Among large caps, the Russell 1000 Growth was up +2.82%, while the Russell 1000 Value lifted +1.40%. Small Caps, as measured by the Russell 2000 Index, were up +2.63%, modestly outpacing the S&P 500. What stood out was the performance of mid caps, which gained +1.05%, trailing their large and small cap brethren by over a full percentage point.

There was a resurgence in performance of international stocks in October. Developed markets appreciated +3.59%, while emerging markets gained +4.22%. A weaker U.S. dollar helped to benefit the returns of foreign investments.

INCOME

After falling considerably in recent months, interest rates held constant in October. This, in concert with stable credit spreads, resulted in interest income being be the primary contributor to returns. For the month, the broad based Bloomberg Barclays U.S. Aggregate Index edged higher by +0.30%.

Fixed Income results had little differentiation across sectors and maturities. Returns across sectors were generally in line with the broader bond market. The notable exception being long dated maturities. For example, the Bloomberg Barclay's U.S. Treasury 10-20 Year Index declined -0.43% as interest rates on the long end of the yield curve edged slightly higher. Across sectors Intermediate maturities faired moderately better as the combination of static yields and comparatively higher interest payments over shorter maturities aided results.

International bonds outpaced their domestic counterparts. The FTSE World Government Bond Index was up 0.54%, as a weaker U.S. Dollar aided returns.

DIVERSIFIER

Results for alternative investment strategies were mixed during the month.

Hedge fund results were moderately positive as the HFRX Global Hedge Fund Index gained +0.31%. Event driven strategies stood out to the positive, up +1.25%, while Global Macro strategies fell -1.40%.

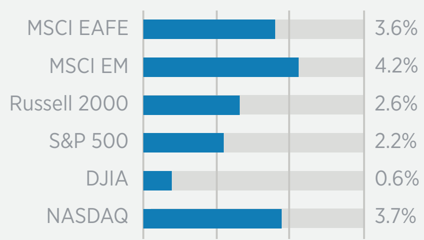
Within real estate, U.S. REITS were up +1.07%, while global real estate appreciated +1.74%.

Crude oil prices held steady in October and finished higher by a modest +0.20%. The Alerian MLP index, which tracks oil and gas pipelines, was a notable laggard as it lost -6.22% in October. The Index remains up +4.18% year-to-date.

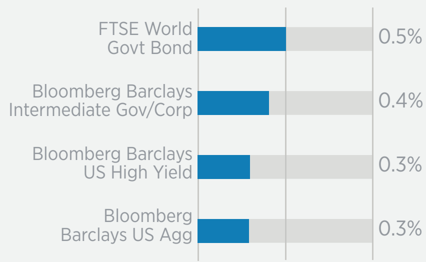
After a reversion in September, precious metals regained their strength, with the Philadelphia Stock Exchange Gold/Silver index up +8.17%.

The dollar weakened during October declining -2.04%. It's year-to-date return is now a modest +1.23%.

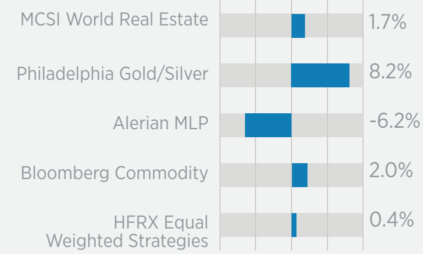
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• The Federal Reserve cut the Fed Funds rate by 1/4 percentage point for the third time, but indicated this would likely be the last cut unless conditions materially changed. • Progress was made in trade negotiations between the U.S. and China as the parties focused on a narrower initial deal.	• Manufacturing activity has begun to contract and new orders have slowed. • Despite tariff related price hikes, Inflation remains below the Fed's 2% target.
DEVELOPED INTERNATIONAL	• Prime Minster Boris Johnson agreed on a Brexit deal with the European Union. • Japan's new consumption tax, which took effect during October, lead to strong consumer spending in advance of it taking effect. • Euro area GDP came in higher than expected for the 3rd Quarter.	• The Bank of Japan and European Central Bank have both hinted there is limited room in easing monetary policy further. • Manufacturing activity remains in decline across the Eurozone.
EMERGING MARKETS	• Turkey cut interest rates again in October, and has now cut rates by 10% this year. Inflation has fallen to single digits from 25% earlier in the year. • Inflation in Brazil continues to moderate and presently stands below 3%.	• Inflation in Argentina is tracking above 50%. Tax revenue is lagging inflation and posing challenges for fiscal conditions. • India is fighting slowing economic growth with five successive rate cuts and a recent reduction to the corporate tax rate. • Emerging Market export growth is now contracting year-over-year.

INVESTMENT COMMITTEE POSITIONING

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
GROWTH		■		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.
INCOME		■		Unexpected declines in interest rates have resulted in bonds achieving better than expected returns. While we continue to expect interest rates to remain range bound, they are likely at the bottom end of their range. Bonds remain an important component to diversified portfolios.
DIVERSIFIER		■		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.

PORTFOLIO REVIEW

While progress has been made toward resolving key geopolitical risks, the current market environment reflects limited downside probabilities around events such as Brexit, trade negotiations and slowing economic conditions. Given that uncertainty remains, we continue to believe its prudent to have balanced portfolios that are positioned in line with their strategic asset allocation targets. However, within asset classes, we are more defensively positioned. Should the trade war drag on, or economic conditions soften further, we would expect the defensive posture to be a benefit for clients.