TELEMUS MONTHLY COMMENTARY

September 2019

PERSPECTIVE

We have begun to see the impact of the U.S. and China trade dispute flow into economic indicators, both internationally and more recently in the domestic economy. U.S. manufacturing slowed in September, a second consecutive monthly decline. Central banks are trying to react to the trade induced slowdown by lowering interest rates, with some even considering additional measures of stimulus. The rapid about-face from tighter to easier monetary policies is an indicator of an increased dependence on central bank support. Recent actions by central banks have thus far proved useful in satisfying markets, but each incremental dose is likely to have a more muted effect. In the interim, we would expect monetary policy and geopolitical headlines to be the primary influences on the market. Overtime, however, economic activity and ultimately corporate performance will have to stand on its own.

SLEEVE COMMENTARY

GROWTH

After a volatile month of August, equity markets simmered in September. The broad market, as evidenced by the S&P 500, gained +1.87% on the month.

Within the market there was a notable reversal away from the trends that have persisted throughout 2019. The most significant shift was in the performance of value stocks, which outperformed their growth counterparts by close to four percentage points. Most growth indexes, in fact, showed slight declines for the month. For the year, value stocks continue to lag by a wide margin.

International stocks mildly outpaced their U.S. peers during September, though they remain well behind domestic equities year-to-date.

Throughout 2019, investor preferences have been remarkably consistent, and September's results were a noteworthy shift.

INCOME

After falling considerably in August, interest rates rebounded in the month of September, putting pressure on bond prices. The Treasury yield curve twisted as yields on Treasuries one year and under fell, while yields on those maturing after one year increased. In aggregate, this shift resulted in modest declines for the month, as the Bloomberg Barclays U.S. Aggregate index declined -0.53%.

Long-term bonds, which are most sensitive to changes in interest rates, fell the most. Corporate bond returns edged out Treasuries primarily due to their higher yields. Mortgaged backed securities stabilized in September producing a modest gain.

Municipal bond results lagged both Treasury and corporate bonds. The supply/demand dynamics within the municipal bond market improved in September as there was an increase in issuance. This led to higher yields across maturities.

DIVERSIFIER

Results for alternative investment strategies were mixed on the month.

Hedge fund results, in aggregate, were flat. Event driven funds were among the strongest performers, while macro driven strategies lost ground.

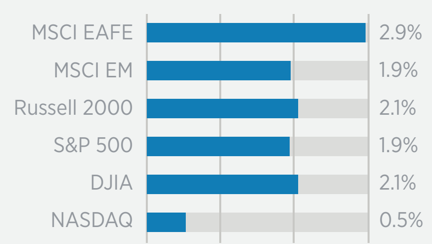
Within real estate, U.S. REITS were up +2.71%, while global real estate appreciated +1.18%.

Among commodities, crude oil had a volatile month after an attack on a Saudi Arabian oilfield created a spike in oil prices. As the month wore on, the commodity price softened and ended up retreating -1.87% for the month. The Alerian MLP index, which tracks oil and gas pipelines, gained +0.71%.

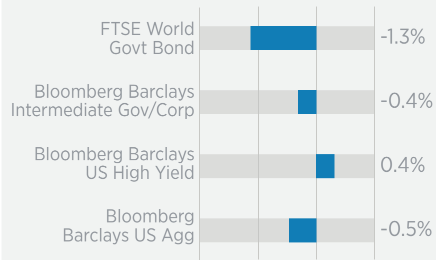
After a strong summer, precious metals experienced a notable pullback of roughly -10%. These commodities, however, remain up over +25% on the year.

The dollar remains strong and gained 0.47% in September.

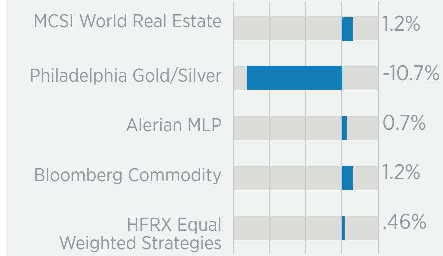
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

	POSITIVES	NEGATIVES
UNITED STATES	• A second 1/4 percentage point cut to the Fed Funds rate signals the Federal Reserve's commitment to supporting the economy. • Lower interest rates have resulted in an acceleration of home sales.	• Manufacturing activity has begun to contract. • Trade negotiations with China remain at a standstill, hampering business investment and exports.
DEVELOPED INTERNATIONAL	• Eurozone unemployment remains at the lowest level in over a decade. • As the Canadian economy improves, its real estate market has begun to recover.	• Germany's manufacturing activity level is at a 10-year low. Some policy makers are beginning to discuss fiscal stimulus measures. • Weak exports and a recent sales tax hike are potential headwinds to domestic growth in Japan.
EMERGING MARKETS	• A weaker currency (yuan) and cuts to bank reserve requirements should provide some support to a softer Chinese economy. • Consumer confidence in Brazil has hit a multi-year high.	• India announced a plan to cut corporate taxes by an amount equal to $20 billion. • China's economy is softening, with economic forecasts calling for sub-6% GDP growth in the second half of 2019. • Mexico's economic growth is slowing as a result of lower investment spending.

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

The current market environment may not accurately reflect the level of uncertainty around worldwide economic conditions, trade tensions and geopolitical risks across the globe. Given the wide range of potential outcomes, we have sought to position portfolios in line with their strategic asset allocation targets. However, within asset classes, we have become 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.