MARKET REVIEW & COMMENTARY

APRIL 2018

TELEMUS®

Diana Joseph, Co-Chief Investment Officer
Direct: (312) 870-1902 • djoseph@telemus.com

David Post, Co-Chief Investment Officer
Direct: (424) 281-1125 • dpost@telemus.com

Enrich your life. Enjoy your wealth.

MARKET REVIEW

APRIL

Volatility continued into April as stocks climbed a bit for the month. Markets rallied at first, then fell by half and then reversed into months' end. Value outperformed growth across capitalizations. Small cap U.S. stocks outperformed their larger brethren. EAFE and European equities vastly outshone their U.S. counterparts while frontier markets, and, to a lesser extent, emerging markets, underperformed as the dollar began its ascent.

Specifically, the S&P500 rose +0.38%, large cap growth was up +0.35 % and large cap value increased +0.33%. Mid cap growth gained +0.33% and mid cap value was up +0.43%. Small cap growth rose +0.10% while its value counterpart gained +1.73%. High dividend payers lost their 'bond' taint this month, eking out a +0.07% return. Across the pond, European equities rose a robust +2.77% and EAFE was also strong, closing the month up +2.28%. Emerging markets fell -0.44% but frontier markets lost a whopping -3.15%.

U.S. fixed income was largely negative in April; falling as rates rose along the curve. In a continuation of March performance longer maturities were down more than shorter maturities. 10-20 year Treasuries lost -1.52%, the Bloomberg Barclays long credit index was down -1.94%, 10 year municipals were down -0.22% and TIPS lost only -0.06%; reflecting increasing inflation sentiment. Shorter term securities fell less, with 3-5 year Treasuries down -0.63%, 3 year municipals down -.30% and 1-5 year credit down only -0.13%. In general, credit did better than its similar duration Treasury and municipal counterparts and high yield paper actually gained +.65%. T-bills rose a skinny +0.14%. Despite smaller global interest rate increases, world bonds were down -1.89% and emerging market bonds fell -1.53%. Global fixed income underperformance was likely attributable to the looming currency mess caused in part by the rising dollar.

Alternatives were modestly positive with the HFRX Global Hedge Fund Index gaining +0.09%. Real assets rose dramatically. The Bloomberg Commodity Index was up +2.58% while energy gained over +8.0% (depending upon the Index) on concerns about supply centering on Iraq and Venezuela. Global natural resources appreciated +5.28%, precious metals rose +1.51%, global real estate was up +0.92% and U.S. real estate rose +1.48%. The dollar gained +1.87%, fulfilling our January prediction that "the dollar may be basing."

MARKET REVIEW

YEAR-TO-DATE

As we have predicted, the slowing of quantitative easing i.e. money printing has resulted in more volatility. Stock markets blazed in January only to fall hard and then rise in February, rise and then fall in March, and rise in April. The disparity between the returns of 'growth' and 'value' stocks remains wide, despite narrowing a bit in April. U.S. growth stocks are up between +2.48% (small cap growth) and +1.77% (large cap growth). U.S. value stocks on the other hand have lost between -.95% (small cap value) and -2.51% (large cap value). Midcaps are following this playbook with midcap growth up +1.21% and mid cap value down -2.02%. The S&P500 remains modestly negative year-to-date, down -0.38%, while high dividend payers, being treated as a mixture of value and bond surrogate, are down -3.13%. International is outperforming as EAFE has gained +0.72% and Europe is up +0.73%. Emerging and frontier markets maintain positive returns year-to-date; up +0.97% and +1.79%. Any further Dollar strength could threaten these markets relative outperformance.

Fixed income returns remain modestly negative. Municipal bonds are outperforming both corporates and Treasuries this year, although returns have generally followed duration lower. Short Treasuries are down -0.33%, 3 year municipals are down -0.18 % and 1-3 year corporate paper is down -0.27%. The 10-20 year Treasury Index is down -3.95%, Barclays Intermediate Corporate Bond Index fell -1.94% and the Bloomberg/Barclay Municipal 10yr Index has lost -1.83% year-to-date. TIPS fell only -0.85%, reflecting the tug-of-war between the growth of inflation-aware sentiment and longer duration. High yield bonds in the U.S. are now slightly negative, down -0.21%, reflecting possibly enhanced risk-awareness while emerging market paper (EMBI) is down -3.54% as currency and interest rates become bigger issues.

Alternatives have held up better with slight gains and losses. The HFRX Global Hedge Fund Index is down -0.92% and real assets remain mostly negative year-to-date despite outstanding April returns. Precious metals are down -5.93% and world real estate is down -2.92%. However, energy is up +2.92%, commodities are up +2.17%, softs remain generally up worldwide and the dollar remains down -0.31% year-to-date despite its recent surge.

The 'going nowhere' U.S. markets reflect a tug of war between robust corporate earnings, slow synchronous global growth and continuation of money-printing on the one hand, and disruptive geopolitics, the accumulation of global government debt, and the inevitable end of this long-in-the-tooth economic cycle on the other.

INDEX RETURNS AS OF 4/30/2018

BASIC INDEX RETURNS

	MONTH TO DATE RETURN	QUARTER TO DATE RETURN	YEAR TO DATE RETURN	LATEST 3 YEARS RETURN	LATEST 5 YEARS RETURN	LATEST 10 YEARS RETURN
BALANCED INDEX (50% ACWI, 35% US Gov. Cr 1-5, 5% HFRX, 5% commodity, 5% bill)	0.52%	0.52%	-0.13%	12.15%	24.35%	37.65%
HFRX GLOBAL HEDGE FUND INDEX	0.09%	0.09%	-0.92%	1.41%	6.05%	-3.39%
CPI - SEASONALLY ADJUSTED	0.00%	0.00%	0.63%	5.71%	7.77%	16.59%
S&P 500 COMPOSITE	0.38%	0.38%	-0.38%	35.17%	83.93%	137.11%
LIPPER LARGE - CAP CORE	0.33%	0.33%	-0.88%	31.30%	73.74%	116.40%
WISDOM TREE LARGE CAP DIVIDEND	0.07%	0.07%	-3.13%	30.16%	69.28%	123.16%
MSCI ALL COUNTRY WORLD INDEX NET	0.96%	0.96%	-0.02%	24.00%	52.43%	64.47%
MSCI EAFE NET	2.28%	2.28%	0.72%	15.57%	33.17%	27.10%
BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6)	-0.39%	-0.39%	-0.95%	3.56%	7.04%	37.72%
BLOOMBERG BARCLAYS US AGGREGATE	-0.74%	-0.74%	-2.19%	3.24%	7.56%	42.08%
BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH	0.14%	0.14%	0.49%	1.72%	1.81%	3.47%

EXTENDED INDEX RETURNS

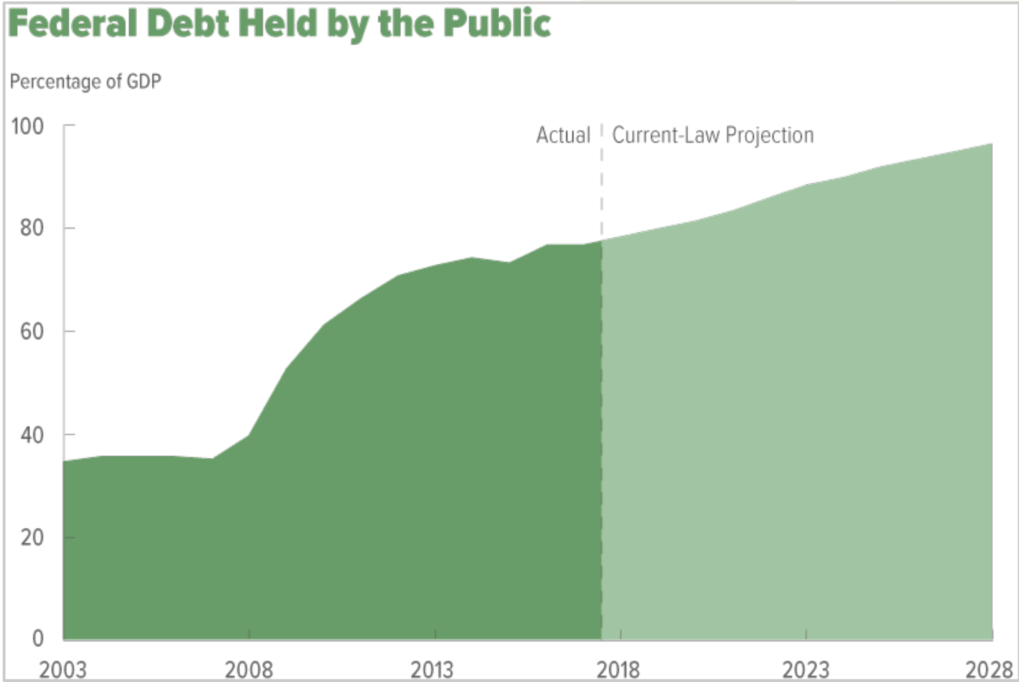
	MONTH TO DATE RETURN	QUARTER TO DATE RETURN	YEAR TO DATE RETURN	LATEST 3 YEARS RETURN	LATEST 5 YEARS RETURN	LATEST 10 YEARS RETURN
RUSSELL 1000 GROWTH	0.35%	0.35%	1.77%	43.67%	102.24%	179.11%
RUSSELL 1000 VALUE	0.33%	0.33%	-2.51%	24.79%	64.90%	102.26%
RUSSELL MIDCAP GROWTH	-0.94%	-0.94%	1.21%	29.77%	82.30%	153.18%
RUSSELL MIDCAP VALUE	0.49%	0.49%	-2.02%	25.33%	68.27%	141.47%
RUSSELL SMALL CAP COMP GROWTH	-0.33%	-0.33%	2.48%	32.81%	90.90%	176.70%
RUSSELL SMALL CAP COMP VALUE	0.87%	0.87%	-1.60%	25.58%	59.95%	127.46%
MSCI EM (EMERGING MARKETS) NET	-0.44%	-0.44%	0.97%	19.10%	26.03%	23.99%
BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH	0.15%	0.15%	0.49%	2.33%	2.66%	6.42%
BLOOMBERG BARCLAYS US AGENCY	-0.59%	-0.59%	-1.12%	2.33%	5.00%	27.74%
JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE	-1.53%	-1.53%	-3.54%	12.74%	13.48%	82.92%
CITI GROUP WORLD GOVERNMENT BOND	-1.89%	-1.89%	0.56%	7.45%	2.97%	23.28%
BLOOMBERG COMMODITY	2.58%	2.58%	2.17%	-12.01%	-31.64%	-55.62%
ALERIAN ENERGY MLP	8.09%	8.09%	-3.92%	-28.82%	-20.75%	73.72%
PHILADELPHIA STOCK EXCHANGE GOLD / SILVER	0.04%	0.04%	-4.83%	11.36%	-25.80%	-52.61%
LIPPER GLOBL NAT RES	5.28%	5.28%	0.39%	2.79%	3.82%	-25.22%
LIPPER PRECIOUS METAL FUND	1.51%	1.51%	-5.93%	11.49%	-18.78%	-36.25%
MSCI WORLD REAL ESTATE	0.92%	0.92%	-2.92%	10.72%	17.97%	35.33%
LIPPER REAL ESTATE FUND	0.91%	0.92%	-5.62%	11.57%	23.44%	49.73%

MARKET REVIEW

GOING NOWHERE FAST...

The tug of war between very good current news and the caution borne of experience this late in the economic cycle are keeping the financial markets in thrall. Robust corporate earnings, the continuation of net money printing across most of the world, low global interest rates, the shrinking U.S unemployment rate, the U.S. consumer price index (CPI) finally pushing up towards the Fed's desired 2% rate and U.S. tax cuts coming at a time of growth all bode well for continuation of the strong economic cycle in the near term. However, are we again sowing the seeds of our eventual comeuppance?

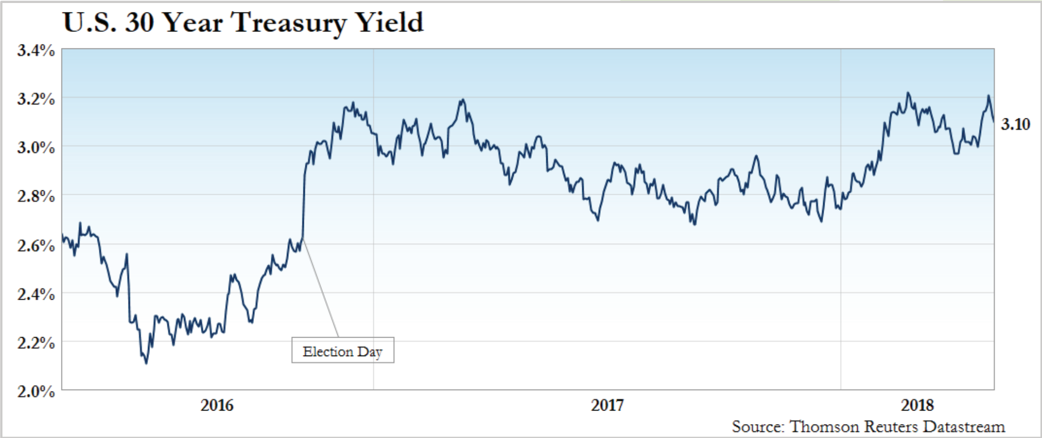
Achieving the Fed's desired 2% CPI empowers them to keep raising the interest rate they control. Should the Fed continue to raise rates, housing affordability and the cost of business funds available for investment should cause some slowing in underlying demand. This would rein in business and personal investment at the margin in the future. The recent tax cuts, coming while the economy is still growing, are expected to boost growth in the short term but add to public debt in the long-term. The non-partisan Congressional Budget Office's projection appears to the right.

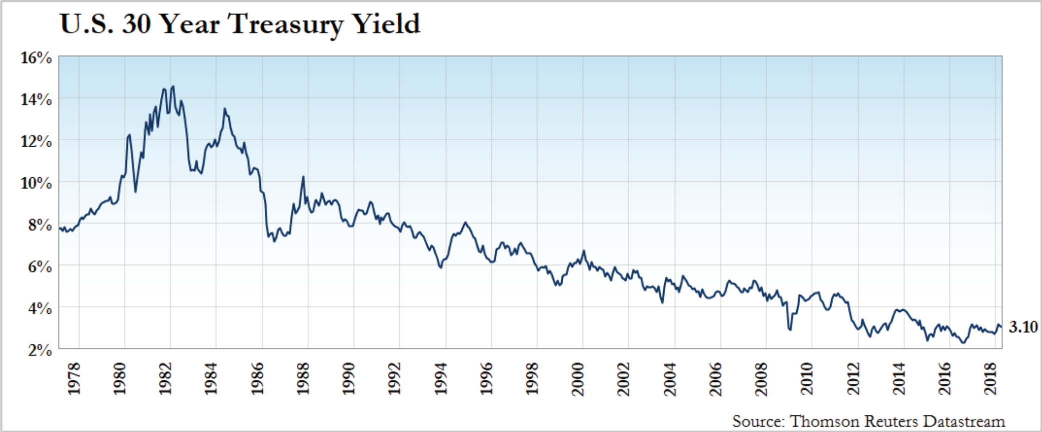


Source: Congressional Budget Office, April 9th, 2018 Report

MARKET REVIEW

The U.S. issues Treasury bonds to fund the public debt and the burden would increase should interest rates rise past those projected at the moment. The bigger the slice of the budget pie going to pay off our debt the smaller the pieces available for everything else. Regardless our debt is projected to reach almost 100% of our GDP by 2028 - only eleven years in the future. Interest rates have remained moribund. Despite testing their very recent highs and pulling back somewhat, longer term Treasury bonds have not exceeded their 2014 yields, much less in a sustainable way.

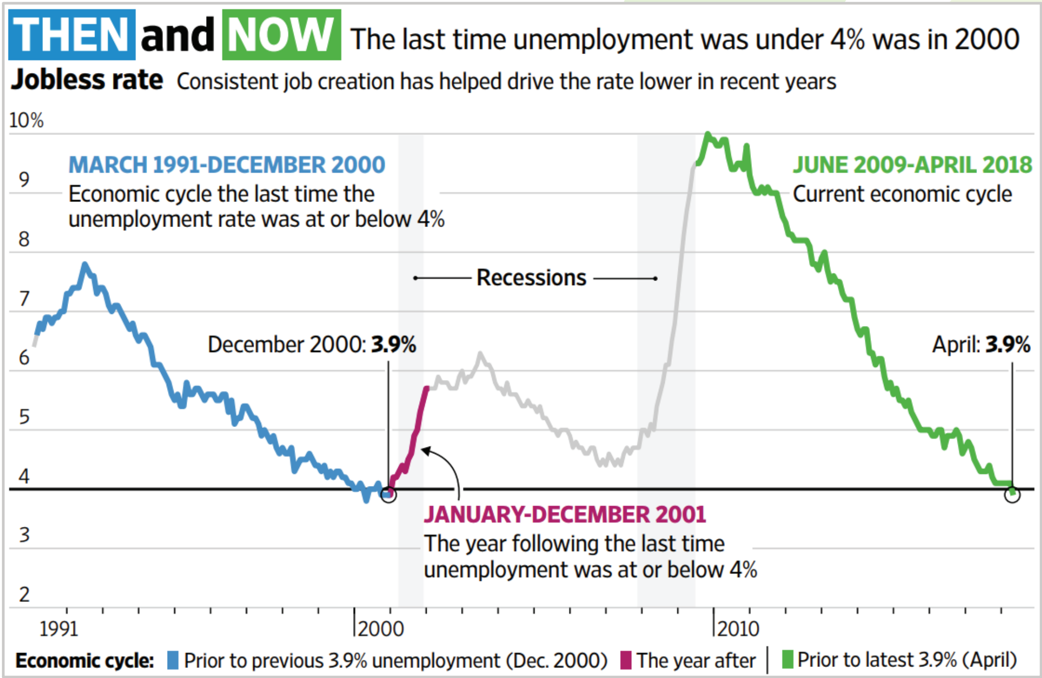




MARKET REVIEW

Yet, the CBO projects that the Fed will continue to raise the interest rate it controls, curtailing growth and investment somewhat. And then there is the falling U.S unemployment rate.

As more people gain jobs we can see the green shoots of wage pressure rising. This will be good for family pocketbooks and maybe for consumer spending but not so good for corporate profits, which could shrink as their cost of goods and people, rises. Also the continuous decline in the number of younger people versus older people worldwide is expected to continue to put pressure on wage growth.



Source: Barrons, April 16h 2018

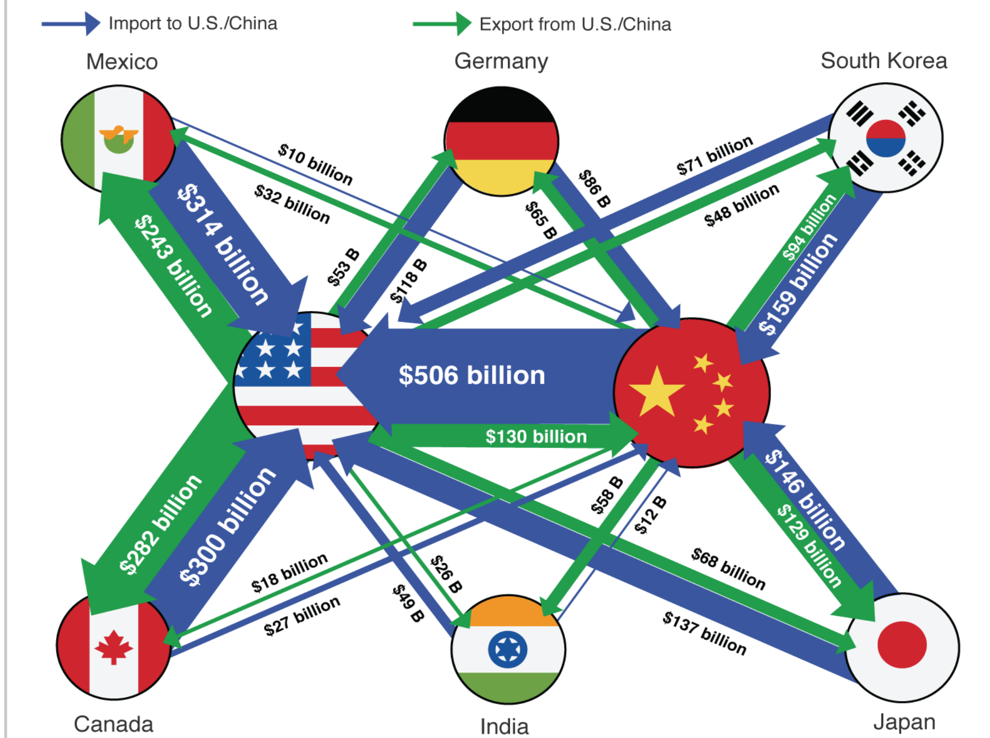
MARKET REVIEW

Finally, we live in a connected global economy as the chart from Barron's April 16, 2018 issue aptly reflects in the context of trade.

The current tug-of-war occurring in the financial markets is merely reflective of the economic tug-of-war. While everything seems pretty good at this time, it is difficult to envision things getting a whole lot better. So we need to carefully watch our asset allocations and make sure they are what is needed to get us from point A to point B while being a bit circumspect about the future and what lies ahead.

Major Trade Partners With the U.S. and China

Line width represents value of traded goods



Sources: U.S. International Trade Commission (U.S. 2017 data); UN Comtrade Database (China 2016 data)

TELEMUS®

Enrich your life. Enjoy your wealth.