MARKET REVIEW & COMMENTARY

JUNE 2018

TELEMUS®

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MARKET REVIEW

JUNE

June was a sedate market month which eschewed the fireworks of May. U.S. equities were modestly positive across the board and growth companies continued to outperform their value counterparts. International stocks continued their May slump in dollar terms, and excepting emerging markets were up in June. While the dollar remained range-bound at higher levels, trade issues hurt international bourses and slammed developing markets. Fixed income returns were muted and measured in basis points with only long credit and emerging markets down a bit more than a percent. Real assets reversed their May rally excepting real estate which extended May's gains.

Specifically, the S&P500 rose +0.62%, large cap growth was up +0.96% and large cap value increased +0.25%. Mid cap growth gained +0.39% and mid cap value was up +0.81%. Small cap growth rose +1.07% while its value counterpart gained +0.58%. High dividend payers gained +0.46% as safety trumped interest rate sensitivity. International markets were mixed with Europe down a modest -0.67% and EAFE falling -1.22%. Emerging markets fell -4.15% and frontier markets lost -3.54% as trade, currency and reserve issues conspired to reduce forecasts for many companies in developing markets.

U.S. fixed income returns meandered in June. Short rates hovered at May levels while interest rates on 10 and 30 year Treasuries dropped into the month. Generally, shorter maturities outperformed longer maturities, municipals outperformed Treasuries and credit performed the worst along the maturity spectrum. Specifically, 3 month Tbills gained +.17%, 1-5 year government/credit fell-.05% while 3 year municipals gained +.40%. 10-20 year Treasuries gained +0.03%, the Bloomberg Barclays long credit index was down -1.19% and10 year municipals gained +0.03%. TIPS rose +0.36% and high yielders were positive, gaining +0.40%.   World bonds were down -0.28% and emerging market debt fell -1.03% (in dollars).

Alternatives were modestly negative with the HFRX Global Hedge Fund Index down -0.19%.   Real assets were broadly mixed. The Bloomberg Commodity Index lost -3.50% in the month, The Philly Stock Exchange Gold/Silver Index dropped -2.08% while energy gained +0.71%. Global natural resources depreciated -0.91%, but global real estate was up +1.43% and U.S. real estate rose +3.28%. The dollar gained +0.69% in the month and has more than fulfilled our January prediction that "the dollar may be basing." We think the dollar is overdue for a pullback.

MARKET REVIEW

YEAR-TO-DATE*

The volatility which we have predicted continues. 2018 does not feature the exceptional risk/reward tradeoff which we saw in 2017. However, volatility and investor overreactions in asset classes, sectors and individual names should continue to provide good opportunities. The disparity between returns remains wide. The gap between the returns of ‘growth’ and ‘value’ stocks continues. U.S. growth stocks are up between +9.08% (small cap growth) and +7.25% (large cap growth). U.S. value stocks on the other hand have returned between +3.12% (small cap value) and -1.69% (large cap value). The S&P500 is modestly positive year-to-date, up +2.65%, high dividend payers are down -1.18% and the tech heavy NASDAQ has gained 9.38%. International bourses, which had appeared ready to lead the performance derby early in the year, were crushed in the quarter for U.S. investors. They were up in local currencies. For the year-to-date EAFE is down -2.75% and Europe has fallen -3.23%. Frontier and emerging markets have submerged, with frontier markets down -10.87% and emerging bourses down -6.66%.

Fixed income returns remain modestly negative as interest rate increases have been far more subdued than some analysts’ projections. Municipal bonds are slightly ahead of their Treasury and credit counterparts across the curve. In general, returns continue to follow duration lower. One-three year Treasuries are up +.05%, 3 year municipals are up +0.73% and 1-3 year corporate paper gained +0.11%. The 10-20 year Treasury Index is down -2.61% while the Bloomberg/Barclay Municipal 10yr Index has lost -0.77% year-to-date. TIPS are down only -0.07%, reflecting the tug-of-war between the growth of inflation-aware sentiment and longer duration. High yield bonds in the U.S. are up a skinny +0.24%, while emerging market paper is down -6.09% as currency and interest rates become bigger global issues.

Alternatives remain stuck on either side of zero. The HFRI Fund Weighted Composite Index is up +.81% year-to-date, Hedged Equity strategies are up +1.16%, Event Driven strategies have gained +2.37% while Macro strategies have lost -1.81%. Real assets have been volatile and their range of returns is wide. Year-to-date the HFRX Macro Energy Index is up 13.49%, but metal commodities have lost -4.26%, precious metals are down -6.42% and global real estate has lost -.76%. The U.S. dollar has capped a roller coaster ride, down in the first quarter, then up in the second with a modest 2.73% year-to-date gain. The U.S. Fed’s slow rate increases versus the rest of the world’s low rates, bode well for the dollar to increase further but our burgeoning debt weighs the other way.

We are clearly closer to the end of these economic and market cycles than we are to the beginning. However, much greater issues such as Quantitative Tightening (QT), the global debt buildup and trade clashes will be of far more import to how the cycle unwinds.

* International markets are up in local currency but down in dollars. Emerging markets are down in both.

INDEX RETURNS AS OF 6/30/2018

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)	0.46-%	0.38%	-0.26%	13.55%	27.14%	41.49%
HFRX GLOBAL HEDGE FUND INDEX	-0.19%	0.17%	-0.85%	2.50%	6.76%	-3.89%
CPI - SEASONALLY ADJUSTED	0.00%	0.43%	1.06%	5.36%	7.55%	15.20%
S&P 500 COMPOSITE	0.62%	3.43%	2.65%	40.23%	87.70%	163.39%
LIPPER LARGE - CAP CORE	0.52%	3.05%	1.81%	36.18%	76.55%	136.64%
WISDOM TREE LARGE CAP DIVIDEND	0.46%	2.09%	-1.18%	35.38%	73.30%	158.65%
MSCI ALL COUNTRY WORLD INDEX NET	-0.54%	0.53%	-0.43%	26.62%	56.79%	75.68%
MSCI EAFE NET	-1.22%	-1.24%	-2.75%	15.43%	36.62%	32.36%
BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6)	0.27%	0.87%	0.30%	4.93%	10.79%	40.46%
BLOOMBERG BARCLAYS US AGGREGATE	-0.12%	-0.16%	-1.62%	5.25%	11.89%	44.09%
BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH	0.17%	0.46%	0.81%	2.05%	2.12%	3.59%

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	0.96%	5.76%	7.25%	51.98%	113.26%	205.77%
RUSSELL 1000 VALUE	0.25%	1.17%	-1.69%	26.88%	63.57%	125.91%
RUSSELL MIDCAP GROWTH	0.39%	3.16%	5.40%	35.75%	87.27%	170.24%
RUSSELL MIDCAP VALUE	0.81%	2.41%	-0.16%	28.79%	70.57%	160.88%
RUSSELL SMALL CAP COMP GROWTH	1.07%	6.09%	9.08%	38.46%	98.57%	198.46%
RUSSELL SMALL CAP COMP VALUE	0.58%	5.71%	3.12%	31.57%	66.24%	152.04%
MSCI EM (EMERGING MARKETS) NET	-4.15%	-7.96%	-6.66%	17.75%	27.71%	25.00%
BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH	0.18%	0.50%	0.84%	2.66%	3.00%	6.65%
BLOOMBERG BARCLAYS US AGENCY	-0.04%	0.00%	-0.53%	3.36%	7.82%	29.52%
JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE	-1.03%	-4.14%	-6.09%	12.40%	21.88%	82.26%
CITI GROUP WORLD GOVERNMENT BOND	-0.28%	-3.35%	-0.94%	8.68%	5.65%	22.70%
BLOOMBERG COMMODITY	-3.50%	0.40%	0.00%	-13.00%	-28.17%	-61.25%
ALERIAN ENERGY MLP	-1.54%	11.80%	-0.63%	-16.76%	-18.86%	87.01%
PHILADELPHIA STOCK EXCHANGE GOLD / SILVER	-2.08%	0.58%	-4.32%	29.22%	-9.50%	-58.21%
LIPPER GLOBL NAT RES	-0.91%	5.16%	0.28%	12.39%	6.83%	-33.35%
LIPPER PRECIOUS METAL FUND	-0.73%	0.87%	-6.52%	21.16%	1.41%	-41.68%
MSCI WORLD REAL ESTATE	1.43%	3.17%	-0.76%	19.98%	35.96%	60.46%
LIPPER REAL ESTATE FUND	3.28%	7.10%	0.16%	23.22%	42.80%	72.05%

Note: The data is cumulative not annualized. All data in U.S. dollars.

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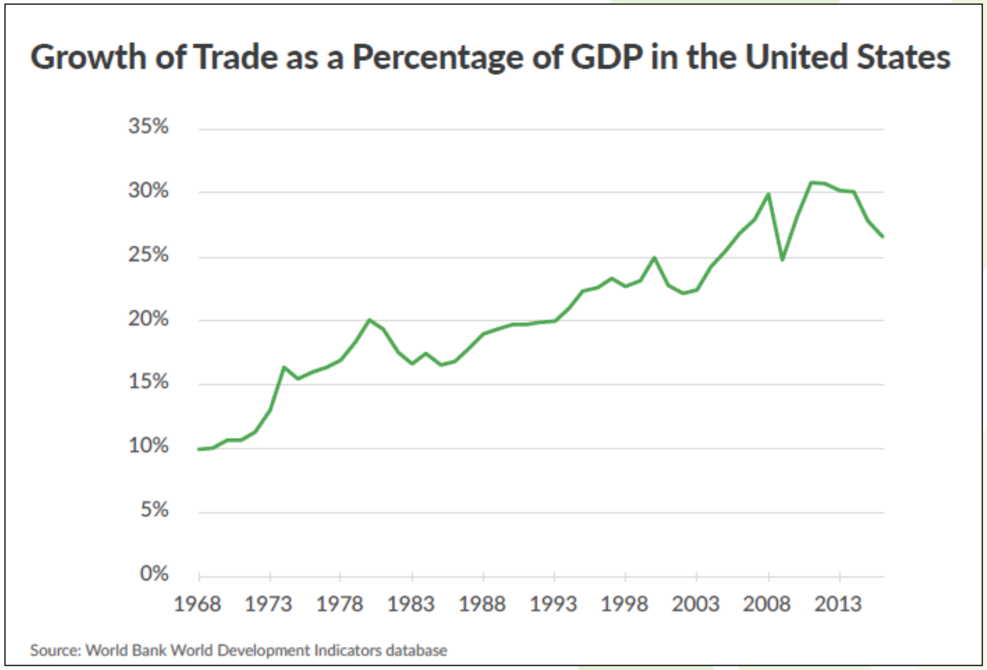
MACRO REVIEW

Trade threats flare; trade war starts?!

President Trump's jawboning progressed into the possibility of a global trade war this month. Wait, aren't we IN a trade war? Not yet. Not really. Many of the announced tariffs only recently became effective or don't take effect right now. The President's timing, if he has to do this, couldn't be better. Tariffs generally result in rising prices, falling availability of goods and lower economic output so flexing our muscles at a time of strength is optimum. The global economy, despite a transient Eurozone deceleration, continues to chug along. U.S. tax cuts have augmented the wealth and spending of consumers and businesses. Second quarter GDP is projected to have grown over 3%. The gambit only works however, if the result is fast and favorable to us. This is because by late 2019-2020 the tailwinds wane and the headwinds of rising interest rates, expanding global debt, increased Quantitative Tightening and the advancing age of the economic and market expansions converge with the economic harm engendered by tariffs.

Trade has grown to be a larger share of our (growing) GDP.



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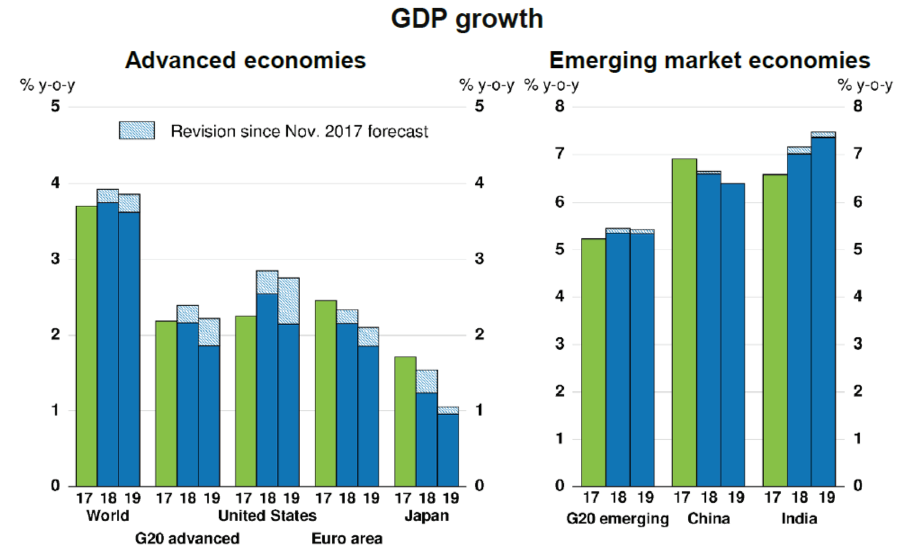
Consequently, a protracted trade war would hit home, literally, despite some favorable terms negotiated for us. The non-linear results are already manifest. National Public Radio reports that Whirlpool added 200 jobs in Ohio in advance of tariffs on imported washing machines and an Oregon solar plant was able to continue life following the imposition of tariffs on imported solar panels. Conversely, a Florida newspaper, reeling from U.S. imposed tariffs on Canadian newsprint, experienced a 3 million increase in costs and began layoffs. Corporations with U.S. manufacturing facilities including Harley-Davidson, BMW AG, General Motors and DowDuPont, Inc, are all looking to move production from here(and reduce American jobs).

The equanimity of U.S. markets is attributable to the widely held belief in the investment community that President Trump leads with ballistics and concludes with compromises. Whatever you think of his style, he is getting results, as Tesla opens in China without a Chinese partner and Shanghai yesterday sped up its cancellation of the foreign ownership limits which have disadvantaged American businesses for decades. So while world businesses are reeling on uncertainty, the feeling is that this time too, there will be compromise before tariffs extract too much of their economic toll. A delayed or partial resolution would exacerbate the issues we already face as this economic cycle marches into the sunset.

Meanwhile, the global economic expansion continues.



Note: GDP in volume. Fiscal years starting in April for India. The G20 aggregate does not include EU countries that are not G20 members in own right. G20 emerging includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, Turkey and South Africa, and G20 advanced included other G20 economies. 2017 is actual data or latest estimates.
Source: OECD Economic Outlook database.

Source: OECD Interim Economic Outlook March 2018

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and remains synchronized.

GDP growth

Year-on-year, %. Arrows indicate the direction of revisions since November 2017

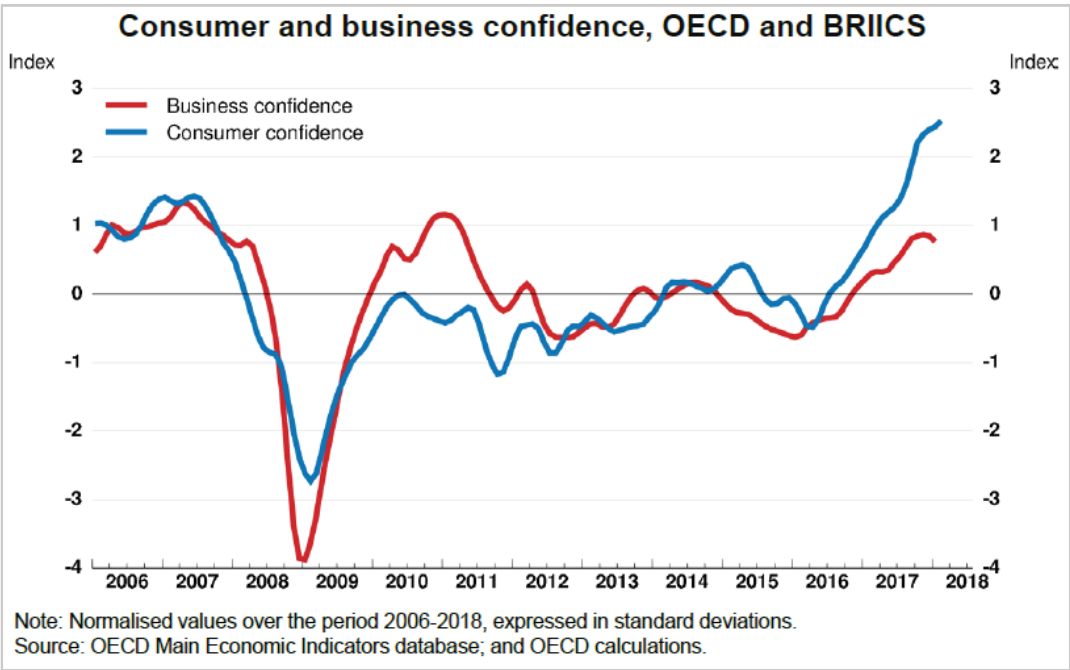
	2017	2018	2019		2017	2018	2019
World	3.7	3.9 ↑	3.9 ↑	G20	3.8	4.1 ↑	4.0 ↑
Australia	2.3	3.0 ↑	3.0 ↑	Argentina	2.9	3.2 =	3.2 =
Canada	3.0	2.2 ↑	2.0 ↑	Brazil	1.0	2.2 ↑	2.4 ↑
Euro area	2.5	2.3 ↑	2.1 ↑	China	6.9	6.7 ↑	6.4 =
Germany	2.5	2.4 ↑	2.2 ↑	India[1]	6.6	7.2 ↑	7.5 ↑
France	2.0	2.2 ↑	1.9 ↑	Indonesia	5.1	5.3 ↑	5.4 =
Italy	1.5	1.5 =	1.3 =	Mexico	2.3	2.5 ↑	2.8 ↑
Japan	1.7	1.5 ↑	1.1 ↑	Russia	1.5	1.8 ↓	1.5 =
Korea	3.1	3.0 =	3.0 =	Saudi Arabia	-0.8	1.6 =	1.7 =
United Kingdom	1.7	1.3 ↑	1.1 =	South Africa	1.2	1.9 ↑	2.1 ↑
United States	2.3	2.9 ↑	2.8 ↑	Turkey	6.9	5.3 ↑	5.1 ↑

Note: GDP in volume. Difference in percentage points based on rounded figures. Dark green for upwards revision of 0.2 percentage points and more. The G20 aggregate does not include EU countries that are not G20 members in own right.
1. Fiscal years starting in April.

Source: OECD Interim Economic Outlook March 2018

MARKET REVIEW

Engendering historically high business and consumer confidence.



Source: OECD Interim Economic Outlook March 2018

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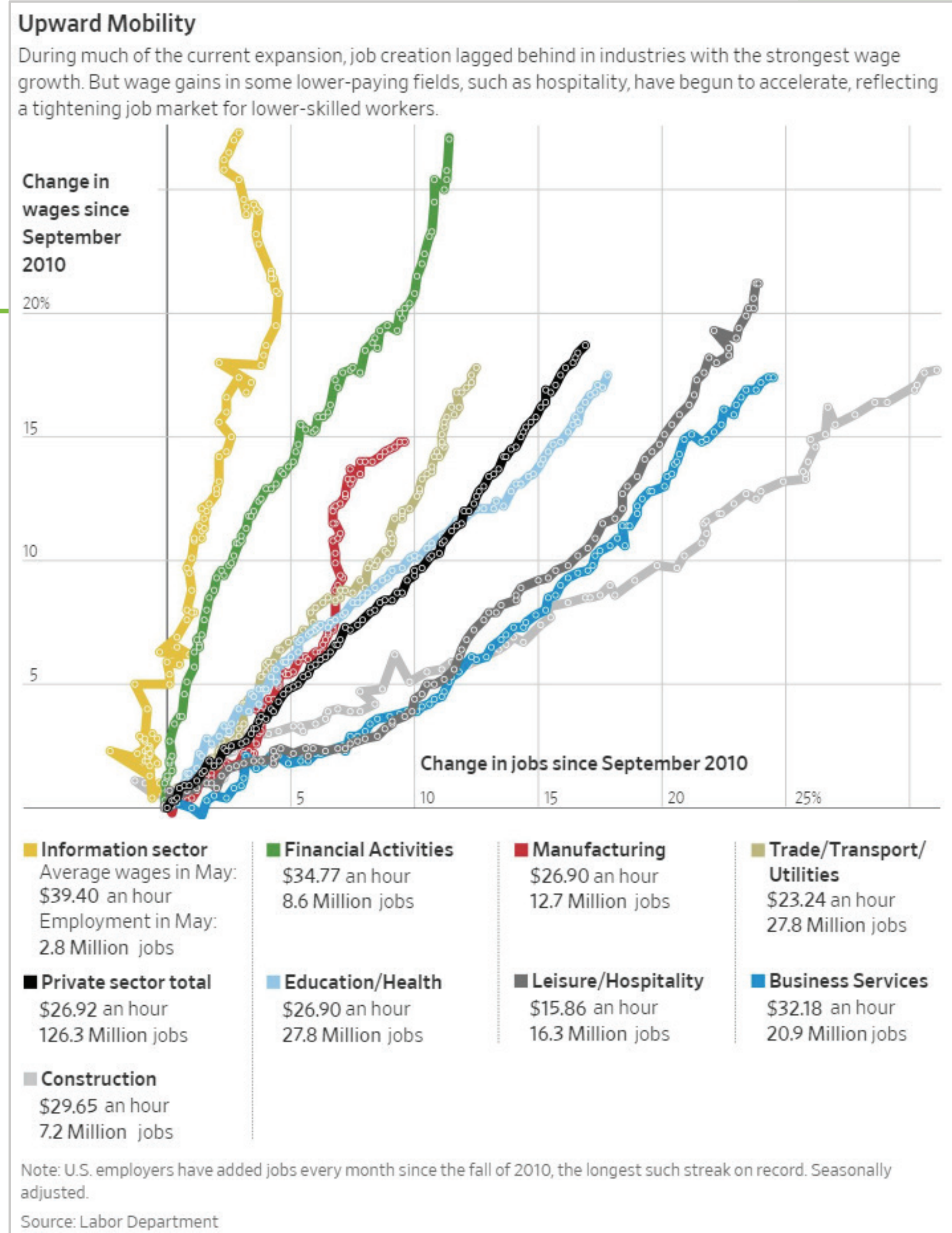
The jobless rate in the United States has plummeted to an eighteen year low and while the unemployment rate recently climbed from 3.8% to 4%, this increase was attributable to 600,000 workers, many formerly discouraged, joining the labor force in June. As well, many industries report acute labor shortages although in a peculiar twist, the wage gains in those fields remain small. However, the growth in jobs and wages during this expansion is clear.



Source: Wall Street Journal, June 1, 2018, “Unemployment Rate Falls to 18-Year Low; Solid Hiring in May”

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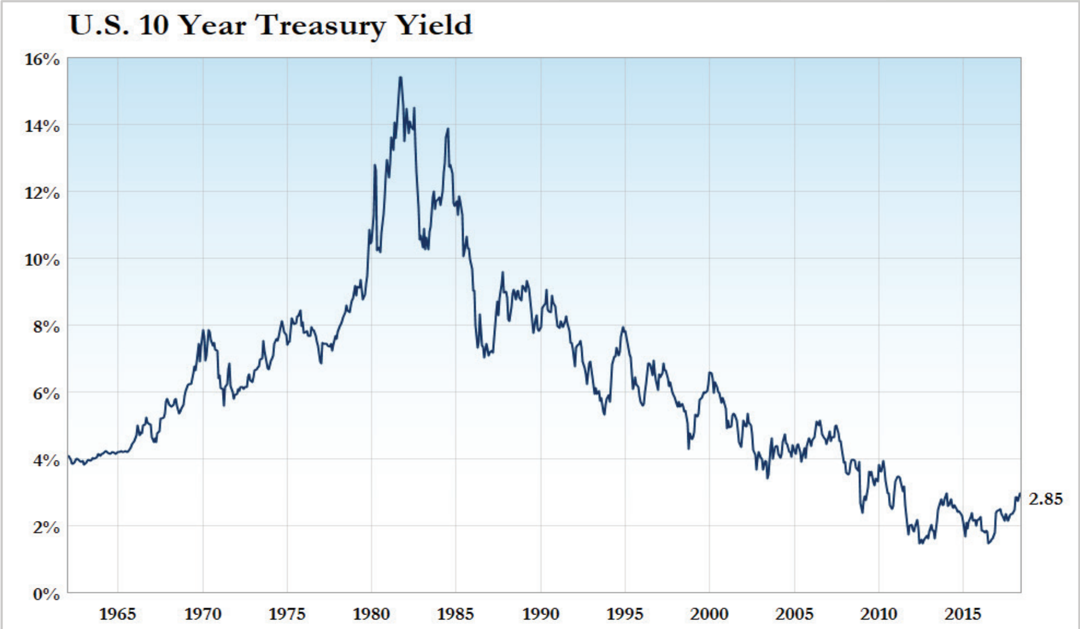
Higher wages are good for employees but are likely to crimp currently robust corporate profits in the year ahead. Thus, market valuations will become more extended absent an unlikely pickup in sales. It is thus likely that slow-growers will continue to lag companies whose revenue and profits are high.

Finally, we note that longer term interest rates have yet to puncture their prior highs decisively or for a long time. Such evidence is required to conclude that rates have changed their very long downward trajectory as is evidenced by the over fifty chart of the ten year Treasury to the right.

We hope that the almost-trade wars follow the path of the recent NATO spat. Trump lambasts the 'offenders', extracts some concessions and declares victory. A full- fledged trade war would be disastrous for all involved and we already have the back half of the recovery in view.



Through June 30, 2018; collected from Eikon on 7/6/2018

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