# MARKET REVIEW & COMMENTARY

## SEPTEMBER 2017

TELEMUS®

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# MARKET REVIEW

## SEPTEMBER 2017

September was a mixed month as stocks were almost universally positive, bonds were almost universally negative and alternatives were mixed. However, September marked an almost complete reversal of the trends in force year-to-date. In September, U.S. 'value' trumped U.S. 'growth' and U.S. small caps wildly outperformed their larger brethren. Bonds of most flavors lost some ground with the exception of high yielders, floating rate and 3 Month T-Bill, which recorded a minor negative. Alternatives were mixed.

Specifically, the S&P500 rose +2.06% while high dividend payers gained +2.28%. Small cap value rose a robust +7.08% and small cap growth climbed +5.44%. Large cap value gained +2.96%, as large cap growth rose 'only' +1.30%. Emerging markets, one of the year's best performers, actually lost -0.40%, while frontier markets also a standout this year, rose +2.04. EAFE continued to climb, gaining +2.49%, as did Europe, which was up +3.30%.

In the short term bond arena, 1-3 year U.S. Treasuries were down -0.17%, 1-5 year corporate paper fell -0.14%, while 1-5 year municipal paper was down -0.39%. Losses followed duration and U.S. Treasuries lost a bit more than corporates. The 5-7 year U.S. Treasury lost -1% while the 10-20 U.S. Treasury index fell a whopping 1.60%. TIPS lost -0.64% and world bonds gave up gains, losing -1.20% for the month. While emerging market paper returned -0.11%, floating rate paper eked out a +0.21% return.

The Bloomberg Commodity Index fell -0.15%, precious metals were down -6.16%, natural resources were up +5.75%, and world real estate lost -1.12%

# MARKET REVIEW

## YEAR-TO-DATE

Year-to-date most U.S. equities have logged positive returns, but in an increasingly wide range. The S&P500 is up +14.24% while U.S. growth stocks are up between +16.81% and +20.72%. On the other hand, U.S. value stocks have underperformed, returning +5.68% and +7.91% International markets are strong with Europe up +22.79% for the year and MSCI EAFE up +19.96%. Emerging markets continue to be the best performers, up a staggering +27.78% for the year to date.

All flavors of bonds continue to maintain positive year-to-date returns.  Taxable bond returns have caught up with the earlier gains in the municipal market. High yielders are up +7.00%, short paper returns are between +0.70% and +2.56%, 5-7 year Treasury paper is up +2.41%, 1-5 year municipals are up +2.56%, and TIPS are up +1.72 %.

Real assets have been volatile resulting in varied year-to-date returns. Precious metals have gained +8.83%, commodities have lost -2.87% and world real estate is up +9.83%.

The markets continue to be resilient in the face of unknowns, as we digest the impact of multiple hurricanes and wait for clarification on what possible tax cuts might be coming. As many Central banks continue to cut stimulus, we anticipate a lot more backing and filling. We continue to rebalance accounts in a disciplined way -- reducing stocks to targets and reinvesting those gains in shorter term bonds and cash.

# INDEX RETURNS AS OF 9/30/2017

## BASIC INDEX RETURNS

| 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 (25% ACWI, 60% US Gov. Cr 1-5, 5% HFRX, 5% commodity, 5% bill) | 0.35% | 1.78% | 5.18% | 7.42% | 15.00% | 28.68% |
| HFRX GLOBAL HEDGE FUND INDEX | 0.60% | 1.83% | 4.43% | 1.91% | 10.25% | -5.41% |
| CPI - SEASONALLY ADJUSTED | 0.00% | 0.51% | 0.91% | 3.12% | 5.88% | 17.49% |
| S&P 500 COMPOSITE | 2.06% | 4.48% | 14.24% | 37.88% | 93.91% | 103.13% |
| LIPPER LARGE - CAP CORE | 2.52% | 4.43% | 13.74% | 33.68% | 86.59% | 88.72% |
| WISDOM TREE LARGE CAP DIVIDEND | 2.28% | 4.20% | 11.18% | 35.37% | 84.06% | 93.30% |
| MSCI ALL COUNTRY WORLD INDEX NET | 1.93% | 5.18% | 17.25% | 25.37% | 61.65% | 44.79% |
| MSCI EAFE NET | 2.49% | 5.40% | 19.96% | 16.86% | 48.14% | 13.07% |
| BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6) | -0.69% | 0.68% | 3.87% | 6.01% | 10.01% | 45.23% |
| BLOOMBERG BARCLAYS US AGGREGATE | -0.48% | 0.85% | 3.14% | 7.83% | 10.68% | 51.56% |
| BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH | 0.09% | 0.26% | 0.57% | 0.95% | 1.09% | 4.78% |

## EXTENDED INDEX RETURNS

| 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 | 1.30% | 5.90% | 20.72% | 45.21% | 103.05% | 136.86% |
| RUSSELL 1000 VALUE | 2.96% | 3.11% | 7.91% | 29.43% | 85.36% | 75.68% |
| RUSSELL MIDCAP GROWTH | 2.83% | 5.28% | 17.28% | 35.15% | 93.96% | 117.46% |
| RUSSELL MIDCAP VALUE | 2.73% | 2.15% | 7.44% | 31.69% | 95.45% | 110.20% |
| RUSSELL SMALL CAP COMP GROWTH | 3.92% | 5.85% | 19.30% | 39.97% | 103.51% | 131.15% |
| RUSSELL SMALL CAP COMP VALUE | 4.58% | 4.10% | 6.92% | 33.97% | 84.73% | 98.13% |
| MSCI EM (EMERGING MARKETS) NET | -0.40% | 7.89% | 27.78% | 16.42% | 21.27% | 11.35% |
| BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH | 0.07% | 0.31% | 0.70% | 1.65% | 2.01% | 8.62% |
| BLOOMBERG BARCLAYS US AGENCY | -0.48% | 0.41% | 2.07% | 5.44% | 6.90% | 36.52% |
| JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE | -0.11% | 2.23% | 8.64% | 19.88% | 21.34% | 97.62% |
| CITI GROUP WORLD GOVERNMENT BOND | -1.20% | 1.81% | 6.38% | 2.49% | -2.12% | 34.60% |
| BLOOMBERG COMMODITY | -0.15% | 2.52% | -2.87% | 28.02% | -42.77% | -50.25% |
| PHILADELPHIA STOCK EXCHANGE GOLD / SILVER | -6.07% | 4.79% | 7.34% | 4.49% | -55.93% | -48.81% |
| LIPPER GLOBL NAT RES | 5.75% | 8.31% | -0.15% | 11.10% | -1.35% | -20.50% |
| LIPPER PRECIOUS METAL FUND | -6.16% | 1.46% | 8.83% | 8.44% | -49.03% | -29.77% |
| MSCI WORLD REAL ESTATE | -1.12% | 1.91% | 9.83% | 21.14% | 40.40% | 17.26% |
| LIPPER REAL ESTATE FUND | -0.35% | 1.03% | 4.25% | 31.01% | 45.29% | 40.66% |

# MARKET COMMENTARY

## "MARKETS…DIE ON EUPHORIA."

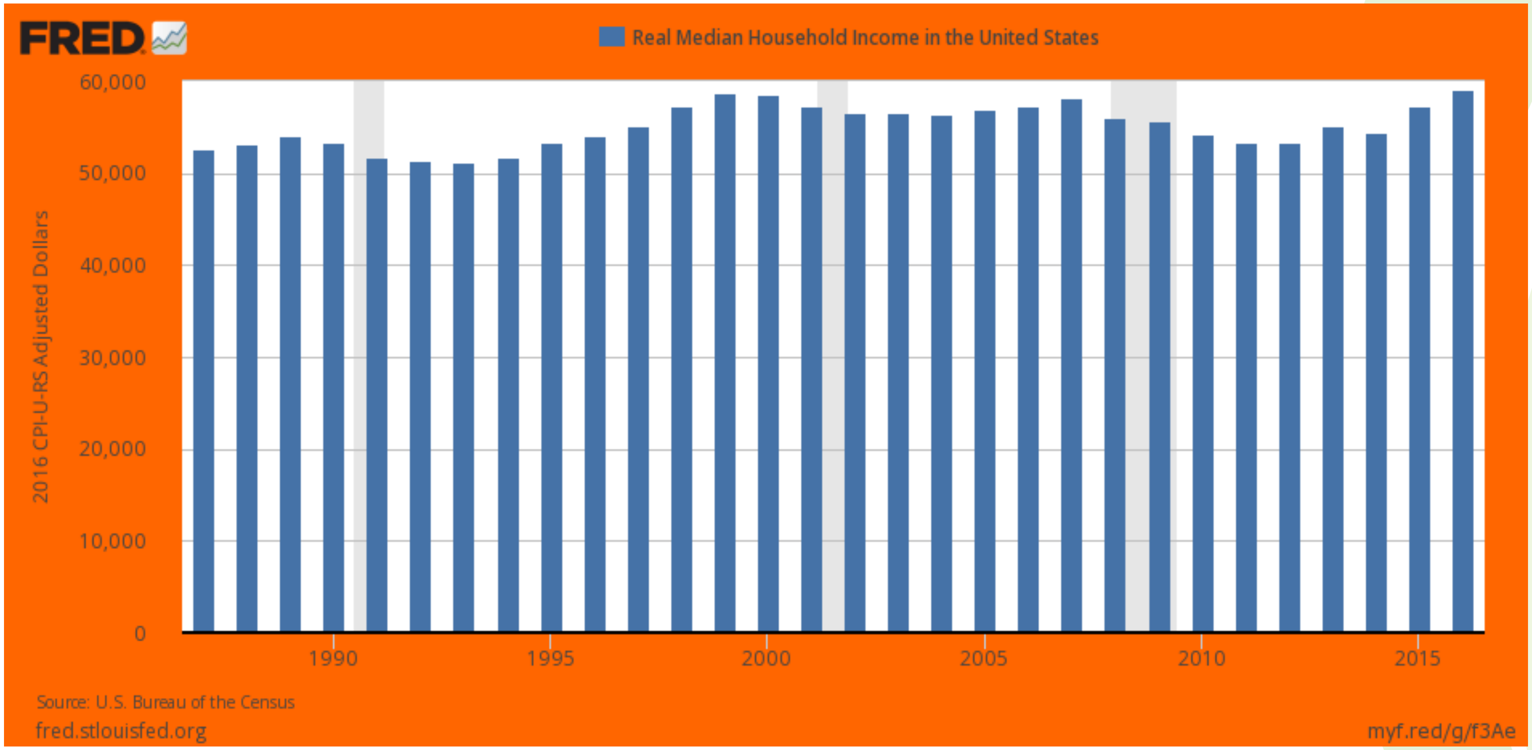
Sir John Templeton, the legendary investor and founder of his eponymous investment firm, now known as Franklin Templeton, was often quoted as saying "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." Eight years into a bull market one might reasonably define the markets as euphoric considering domestic equity markets have experienced dozens of new highs since the beginning of the year, especially considering the acceleration of new highs in the month ending September 30.

The fact that this acceleration is a result of ever-expanding market multiples is a testament to investor optimism that a congressional tax bill will be passed, that business investment will flourish, and corporate earnings will grow and soon justify current market valuations. Given the track record of recent congressional legislative efforts it is no stretch to label current investor optimism as misguided, at best. Irrational optimism comes to mind when you add to the equation a marked change in messaging from the Federal Reserve regarding interest rates (up rather than down) and their balance sheet (smaller rather than larger), as well as two new Fed Governors and a potential new Fed Chair. Finally, the market seems to have little concern that current geopolitical challenges may become more acute and result in market dislocating events.

Lest we not ignore the bull case, the International Monetary Fund (IMF) in its recently released Global Stability Report observed that the global financial system continues to strengthen in response to extraordinary central bank policy support, regulatory enhancements, and a synchronous cyclical upturn in global growth. Further, most developed country central banks are planning continued policy easing, which is likely to support continued growth in Europe, Asia, and Africa. Moreover, US GDP growth has ticked up over the past two quarters, although sustained growth at these levels will be challenged by the shift in Federal Reserve monetary policy that will result in a reduction of monetary accommodation to the tune of $2 trillion in 2018. To the extent that synchronous global growth can be sustained at an annualized rate in excess of 3%, current equity valuations are not extreme.

Notwithstanding the potential for increased economic growth and the prospect for more rational valuations, we believe that equity and fixed income investors will continue their myopic focus on generating above-zero returns in a zero-to-very low interest rate environment. Unfortunately, investor myopia often leads to losing sight of very important fundamental and exogenous influences that greatly increase market risks. We remain cautious one hundred months into this economic recovery, especially considering the uncertainty of sustainable increases in economic growth and heightened geopolitical tensions. It seems timely to reiterate that discretion is the better par of valor and caution the eldest child of wisdom.

# FLAT MEDIAN HOUSEHOLD INCOME FOR THE PAST 30 YEARS



# FLAT EARNINGS GROWTH SINCE 2014


Source: S&P Dow Jones Indices

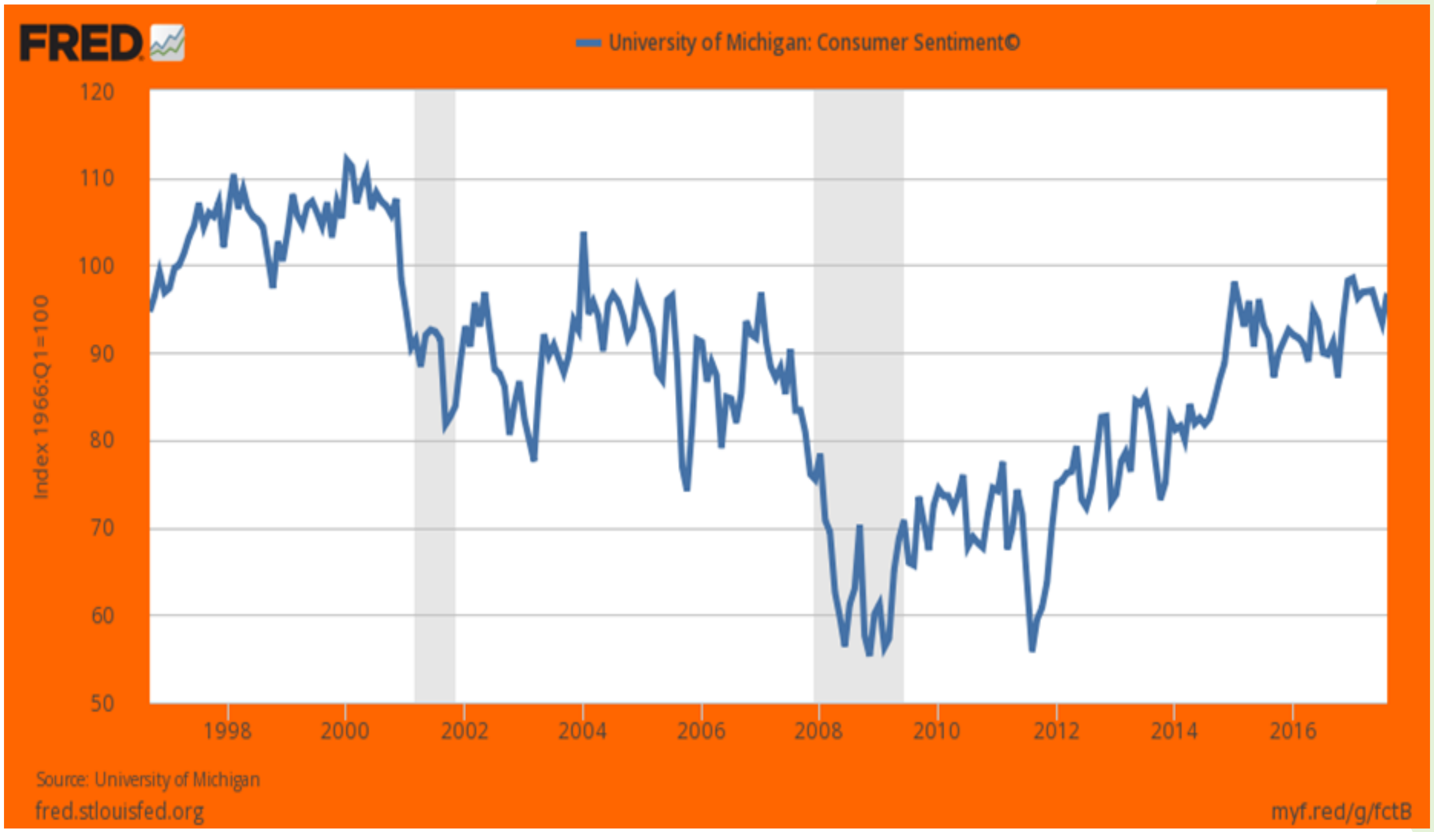
# MARKET MOVES UP IN THE FACE OF FAILED EXPECTATIONS


[Source: Investors Business Daily]

# ACCELERATION (UPWARD BEND) PRIOR TO MARKET DECLINES


[Source: National Intelligence Council, *Global Trends, Paradox of Progress,* January 2017]

# CONSUMER SENTIMENT PEAKS SHORTLY BEFORE RECESSION




[Source: National Intelligence Council, *Global Trends, Paradox of Progress,* January 2017]

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