

MARKET REVIEW & COMMENTARY

FEBRUARY 2019



TELEMUS[®]

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MARKET REVIEW

FEBRUARY

Markets continued their rally through February. Equity markets were universally positive as U.S. stocks outperformed international equities. In the U.S., small caps did better than large, and 'growth' outperformed 'value' across capitalizations. Bonds results were largely positive although long dated bonds had modest declines. Real assets gained while hedge fund results were mixed.

The S&P 500 increased +3.21% in February, while the tech-heavy NASDAQ gained +3.60%. High dividend payers rose +3.50%. From a style standpoint, 'growth' beat 'value' across capitalizations, with the spread being more pronounced amongst smaller capitalizations. Large cap growth rose +3.58%, outperforming large cap value, which increased +3.19%. Mid cap growth stocks rose +5.86% versus mid cap value stocks gaining +3.18%. Small growth increased +6.70% while small value stocks were up +3.26%. Among international markets, the MSCI EAFE rose +2.55% as developed markets outperformed emerging. The MSCI Emerging Markets was up a muted +0.23%.

Bonds were mixed in February as interest rates rose and the yield curve slightly steepened. Shorter maturity paper outperformed long, while corporate and municipal bonds performed better than Treasuries. Within corporate bonds, high yield was particularly strong rising +1.66%. More

specifically, 1-5 year credit rose +0.34%, while 1-5 year municipals were up +0.36%, and 3-5 year Treasuries retreated -0.07%. The Bloomberg/Barclays Long Credit Index declined -0.07% versus a -0.65% return in the Bloomberg/Barclays 10-20 year Treasury Index. Long dated 10-year Municipals gained +0.55%. Floating rate bonds were up +0.42%. Outside of the United States, world government bonds were down -0.92%, in dollar terms, and emerging market debt lost -0.08%.

Real assets were mostly positive in February. The positive results were fueled by crude oil, which increased +6.26% in the month. Commodities in general, as measured by the Bloomberg Commodity Index, gained +1.01% as gains in oil were offset by softness in other categories such as precious metals, which declined -0.40%. U.S. real estate returned +0.96%, while global real estate rose +0.36% during the month. The dollar was up +0.61%.

Alternatives were mixed as the HFRX Equal Weighted Strategies Index was down -0.18%. Among hedge fund strategies, the HFRX Equity Hedge Index appreciated +1.16% and the HFRX Macro/CTA Index was up +0.76%. Strategy benchmarks showing declines were the HFRX Absolute Return Index, down -0.10%, and the HFRX Merger Arbitrage Index falling -2.99%.

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YEAR-TO-DATE

The S&P 500 appreciated +11.48% year-to-date, while the tech-heavy NASDAQ gained +13.73%. High dividend payers are up +10.88%. From a style standpoint, 'growth' beat 'value' across capitalizations. Large cap growth has risen +12.89%, outperforming large cap value, which increased +11.23%. Mid cap growth stocks have returned +18.03% versus mid cap value stocks gaining +13.81%. Small growth increased +19.35% while small value stocks are up +14.88%. Among international markets, the MSCI Europe has gained +10.17%, while the broader MSCI EAFE is up +9.29%. Emerging markets have risen +9.00%, while frontier markets have gained a more modest +5.59%.

Bonds are universally positive year-to-date as interest rates have fallen from the start of the year. Longer maturity paper has largely outperformed shorter durations. Corporates performed best, ahead of municipals and Treasuries across maturities. High yield bonds have been particularly strong rising +6.26%. Specifically, 1-5 year credit has risen +1.34%, while 1-5 year municipals are up +0.99%, and 3-5 year Treasuries gained +0.34%. The Bloomberg/Barclays Long Credit Index has increased +3.38% versus a gain of +1.64% in 10-year municipals and +0.12% in the Bloomberg/Barclays

10-20 year Treasury Index. TIPS increased +1.33%. World government bonds have appreciated +0.47%, in dollar terms, while emerging market debt has been particularly strong up +5.00%.

Real assets have been robust performers year-to-date. The positive results have been fueled by global and U.S. real estate, rising +10.93% and +12.49% respectively, and crude oil, which is up +26.71%. The Philly Stock Exchange Gold/Silver Index has appreciated +7.35%, while the Bloomberg Commodity Index gained +6.51%. The dollar is down -0.02% for the year.

Alternatives are largely positive as the HFRX Equal Weighted Strategies Index is up +1.42% year-to-date. Among hedge fund strategies, the HFRX Equity Hedge Index appreciated +5.13%, the HFRX Absolute Return Index has increased +1.13%, and the HFRX Event Driven Index is up +2.35%. Macro driven and market neutral strategies are among the few categories in decline, as the HFRX Macro/CTA Index lost -1.16% and the HFRX Equity Market Neutral is down -1.30%.

INDEX RETURNS AS OF 2/28/2019

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)	1.48%	6.07%	6.07%	23.40%	17.59%	101.46%
HFRX GLOBAL HEDGE FUND INDEX	0.63%	2.77%	2.77%	7.46%	-1.54%	18.98%
CPI - SEASONALLY ADJUSTED	0.00%	-0.02%	-0.02%	6.30%	7.44%	18.73%
S&P 500 COMPOSITE	3.21%	11.48%	11.48%	53.20%	66.00%	367.39%
LIPPER LARGE - CAP CORE	3.00%	11.01%	11.01%	51.17%	56.11%	316.59%
WISDOM TREE LARGE CAP DIVIDEND	3.50%	10.88%	10.88%	47.83%	63.17%	362.85%
MSCI ALL COUNTRY WORLD INDEX NET	2.67%	10.78%	10.78%	43.79%	35.61%	231.53%
MSCI EAFE NET	2.55%	9.29%	9.29%	30.65%	10.78%	149.17%
BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6)	0.49%	1.40%	1.40%	4.33%	9.92%	35.68%
BLOOMBERG BARCLAYS US AGGREGATE	-0.06%	1.00%	1.00%	5.16%	12.13%	43.97%
ICE BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH	0.18%	0.38%	0.38%	3.44%	3.55%	4.18%

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	3.58%	12.89%	12.89%	64.23%	81.27%	431.90%
RUSSELL 1000 VALUE	3.19%	11.23%	11.23%	43.53%	47.55%	318.49%
RUSSELL MIDCAP GROWTH	5.86%	18.03%	18.03%	61.01%	62.36%	446.82%
RUSSELL MIDCAP VALUE	3.18%	13.81%	13.81%	42.72%	43.17%	393.61%
RUSSELL SMALL CAP COMP GROWTH	6.70%	19.35%	19.35%	74.81%	59.22%	476.75%
RUSSELL SMALL CAP COMP VALUE	3.26%	14.88%	14.88%	46.34%	36.10%	338.53%
MSCI EM (EMERGING MARKETS) NET	0.23%	9.00%	9.00%	52.25%	22.45%	167.14%
BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH	0.18%	0.41%	0.41%	3.94%	4.42%	6.07%
BLOOMBERG BARCLAYS US AGENCY	0.02%	0.41%	0.41%	3.40%	8.88%	24.54%
JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE	-0.08%	5.00%	5.00%	14.98%	24.98%	114.47%
CITI GROUP WORLD GOVERNMENT BOND	-0.92%	0.47%	0.47%	4.30%	1.61%	25.91%
BLOOMBERG COMMODITY	1.01%	6.51%	6.51%	11.10%	-36.94%	-19.90%
ALERIAN ENERGY MLP	0.27%	12.94%	12.94%	23.65%	-23.03%	155.30%
PHILADELPHIA STOCK EXCHANGE GOLD / SILVER	-0.59%	7.35%	7.35%	18.66%	-23.81%	-36.32%
LIPPER GLOBL NAT RES	1.00%	11.95%	11.95%	27.77%	-20.87%	58.85%
LIPPER PRECIOUS METAL FUND	-0.40%	7.89%	7.89%	16.13%	-13.40%	-7.03%
MSCI WORLD REAL ESTATE	0.36%	10.93%	10.93%	28.43%	37.32%	278.22%
LIPPER REAL ESTATE FUND	1.10%	12.13%	12.13%	26.36%	44.10%	323.08%

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

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CONCLUSION

We reiterate virtually the same paragraph from last month here. Over the past month, the economy has shown signs of hitting a stabilization point. While quantitative tightening (QT) continues, for the time being, and unemployment remains low at 4.0%, some economic indicators have started to level off. The market is paying close attention to corporate earnings outlooks, the outcome of trade negotiations and the direction of Fed policy. These uncertainties are likely to lead to episodes of volatility. Therefore, asset allocations need to reflect our risk tolerances now – we will not know if a 20% decline has ended or is merely on its way to a 50% decline while it is happening.



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