MARKET REVIEW & COMMENTARY

MARCH 2019

TELEMUS®

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MARKET REVIEW

MARCH

Markets continued their broad-based upward trajectory during March. Equity markets were largely positive as U.S. stocks outperformed international equities. In the U.S., large caps did better than small, and 'growth' continued to outperform 'value'. Bonds results were universally positive with long dated bonds performing particularly well. Real assets gained while hedge fund results were mixed.

The S&P 500 increased +1.94% in March, while the tech-heavy NASDAQ gained +2.70%. High dividend payers rose +1.44%. From a style standpoint, 'growth' beat 'value' across capitalizations, with the spread being more pronounced amongst larger capitalizations. Large cap growth rose +2.85%, outperforming large cap value, which increased +0.63%. Mid cap growth stocks rose +1.35% versus mid cap value stocks gaining +0.50%. Small growth decreased -0.73% while small value stocks were down -1.20%. Outside the U.S., the MSCI Emerging Markets rose +0.84%, performing moderately better than the developed market MSCI EAFE index, which was up +0.63%.

Bonds returns were positive in March with the Bloomberg Barclays US Aggregate up +1.92% as interest rates fell across the curve. The yield curve finished the quarter inverted, on one measure, as 3-month Treasury bills were yielding more than 10-year bonds. Across sectors, corporate bonds performed moderately better than Treasuries, which fared better than municipal bonds. More specifically, 1-5 year credit rose +1.04%, while 1-5 year municipals were up +0.50%, and 1-3 year Treasuries rose +0.62%. The Bloomberg/Barclays Long Credit Index increased +4.33% versus a +3.70% return in the Bloomberg/Barclays 10-20 year Treasury Index. Long dated 10-year Municipals gained +1.48%. Outside of the United States, world government bonds were up +1.27%, in dollar terms, and emerging market debt increased + 1.10%.

Real assets were mostly positive in March. The positive results were fueled by crude oil, which increased +5.21%. Commodities, as measured by the Bloomberg Commodity Index, lost -0.18% as gains in oil were offset by softness in other categories such as precious metals, which declined -0.45%. U.S. real estate returned +2.88%, while global real estate rose +4.59% during the month. The dollar appreciated +1.17%.

Alternatives were mixed as the HFRX Equal Weighted Strategies Index was down -0.44%. The HFRX Equity Hedge Index appreciated +0.79%, as fundamental growth and fundamental value strategies performed particularly well up +2.84% and +0.77% respectively. Strategy benchmarks showing declines were the HFRX Event Driven Index, down -1.52%, and the HFRX Special Situations Index falling -3.22%.

MARKET REVIEW

YEAR-TO-DATE

It has been a wonderful quarter! Most sectors have had a year's worth of gains in three months. It is unlikely that upward performance will continue at this pace. As such, we have reduced equity exposure for many clients, taking some of the year's gains off the table.

The S&P 500 has appreciated +13.65% year-to-date, with the tech-heavy NASDAQ gaining +16.81%. High dividend payers are up +12.47%. Small Cap stocks have performed slightly better than large, while 'growth' has notably outperformed 'value' across capitalizations. Large cap growth has risen +16.10%, outperforming large cap value, which increased +11.93%. Mid cap growth stocks have returned +19.62% versus mid cap value stocks gaining +14.38%. Small cap growth increased +18.47% while small cap value stocks are up +13.49%. Among international markets, developed and emerging markets have had nearly identical performance with the MSCI EAFE up +9.98% and MSCI Emerging Markets having risen +9.92%.

Bonds are universally positive year-to-date. Both the ECB and the Fed backpedaled rapidly on quantitative tightening and interest rates dropped as a result. Longer maturity paper has outperformed shorter durations and corporate bonds have surpassed Treasuries and municipals. High yield bond performance has been robust rising +7.26%. Specifically, 1-5 year credit has risen +2.39%, while 1-5 year municipals are up +1.49%, and 3-5 year Treasuries gaining +1.59%. The Bloomberg/Barclays Long Credit Index has increased +7.86% versus a gain of +3.15% in 10-year municipals and +3.82% in the Bloomberg/Barclays 10-20 year Treasury Index. TIPS have increased +3.20%. World government bonds appreciated +1.74%, in dollar terms, while emerging market debt has been especially strong up +6.16%.

Real assets reversed last year's pathetic performance and have skyrocketed year-to-date. Results have been fueled by crude oil, which is up +33.31%, as well as global and U.S. real estate, rising +16.02% and +15.72% respectively. The Philadelphia Stock Exchange Gold/Silver Index has appreciated +8.07%, while the Bloomberg Commodity Index has gained +6.32%. The dollar is up +1.16% on the year.

Alternatives are largely positive as the HFRX Equal Weighted Strategies Index is up +0.97% year-to-date. Among hedge fund strategies, the HFRX Equity Hedge Index appreciated +5.95%, as fundamental value and fundamental growth strategies are up +8.10% and +7.23% respectively. Macro driven and market neutral strategies are the notable laggards having declined -0.87% and -0.56%.

INDEX RETURNS AS OF 3/31/2019

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 (50% ACWI, 35% US Gov. Cr 1-5, 5% HFRX, 5% commodity, 5% bill)	0.94%	7.07%	7.07%	19.61%	18.53%	94.54%
HFRX GLOBAL HEDGE FUND INDEX	-0.17%	2.60%	2.60%	5.96%	-1.48%	18.81%
CPI - SEASONALLY ADJUSTED	0.00%	0.15%	0.15%	6.39%	7.42%	19.08%
S&P 500 COMPOSITE	1.94%	13.65%	13.65%	46.25%	67.81%	338.09%
LIPPER LARGE - CAP CORE	1.37%	12.52%	12.52%	43.76%	56.89%	289.32%
WISDOM TREE LARGE CAP DIVIDEND	1.44%	12.47%	12.47%	40.29%	61.49%	328.70%
MSCI ALL COUNTRY WORLD INDEX NET	1.26%	12.18%	12.18%	35.56%	36.71%	210.15%
MSCI EAFE NET	0.63%	9.98%	9.98%	23.44%	12.19%	135.79%
BLOOMBERG BARCLAYS MUNICIPAL BOND 5Y (4 - 6)	0.70%	2.11%	2.11%	5.46%	11.64%	36.02%
BLOOMBERG BARCLAYS US AGGREGATE	1.92%	2.94%	2.94%	6.20%	14.48%	44.72%
ICE BANK OF AMERICA / MERRILL LYNCH US T - BILL 3MONTH	0.22%	0.59%	0.59%	3.62%	3.77%	4.37%

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	2.85%	16.10%	16.10%	58.24%	88.33%	402.25%
RUSSELL 1000 VALUE	0.63%	11.93%	11.93%	34.73%	45.03%	287.97%
RUSSELL MIDCAP GROWTH	1.35%	19.62%	19.62%	52.31%	67.65%	405.99%
RUSSELL MIDCAP VALUE	0.50%	14.38%	14.38%	31.31%	41.69%	356.25%
RUSSELL SMALL CAP COMP GROWTH	-0.73%	18.47%	18.47%	61.06%	61.96%	425.16%
RUSSELL SMALL CAP COMP VALUE	-1.20%	13.49%	13.49%	32.86%	33.00%	298.92%
MSCI EM (EMERGING MARKETS) NET	0.84%	9.92%	9.92%	35.59%	19.80%	135.53%
BLOOMBERG BARCLAYS US TREASURY BILL 6 MONTH	0.25%	0.66%	0.66%	4.10%	4.66%	6.22%
BLOOMBERG BARCLAYS US AGENCY	1.40%	1.81%	1.81%	4.64%	10.59%	25.16%
JP MORGAN EMERGING MARKET BOND INDEX(EMBI) + COMPOSITE	1.10%	6.16%	6.16%	12.62%	24.64%	109.39%
CITI GROUP WORLD GOVERNMENT BOND	1.27%	1.74%	1.74%	2.89%	2.99%	24.34%
BLOOMBERG COMMODITY	-0.18%	6.32%	6.32%	6.82%	-37.31%	-22.83%
ALERIAN ENERGY MLP	3.43%	16.82%	16.82%	18.07%	-21.53%	162.32%
PHILADELPHIA STOCK EXCHANGE GOLD / SILVER	0.67%	8.07%	8.07%	9.85%	-16.27%	-43.22%
LIPPER GLOBL NAT RES	1.24%	13.34%	13.34%	15.01%	-20.23%	49.16%
LIPPER PRECIOUS METAL FUND	-0.45%	7.41%	7.41%	8.61%	-6.49%	-17.47%
MSCI WORLD REAL ESTATE	4.59%	16.02%	16.02%	22.22%	43.69%	268.76%
LIPPER REAL ESTATE FUND	3.35%	15.88%	15.88%	19.16%	49.38%	324.47%

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

MARKET REVIEW

CONCLUSION

Much has changed in early 2019. Central banks, only recently committed to years of tightening/normalization, have again loosened policy. This has had the predictable result of global market rallies across virtually all asset classes. What had appeared to be a slow, years' long embrace of quantitative tightening (QT) ended abruptly and quantitative easing (QE) resumed, although at a more moderate pace.

What this means is that the current elongated cycle now has some greater chance of continuing. However, we are seeing diminishing marginal utility in QE moves so that it will take more and more to accomplish less. As well, few countries have amassed the tools which might be needed to combat the next slowdown. Hence, additional gains now are probably borrowing from the future.

Since it is impossible to predict the future we will continue to rebalance portfolios back into line with asset allocations that are correct for your risk tolerance and situation.

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