

# WEEKLY MARKET REVIEW

APRIL 18, 2017

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- *Emerging markets continue to outperform other market segments.*
- *The importance of gender equality and your portfolio.*
- *CLS's Protection strategies continue to outpace benchmarks.*



## Market Performance

Equities	LAST WEEK	QTD	YTD '17
Total U.S. Market <sup>1</sup>	-1.19%	-1.48%	+4.18%
Domestic Large-Cap Equity <sup>2</sup>	-1.19%	-1.35%	+4.64%
Domestic Small-Cap Equity <sup>3</sup>	-1.39%	-2.90%	-0.51%
International Equity <sup>4</sup>	-0.09%	-0.44%	+7.39%
Developed International Equity <sup>5</sup>	-0.09%	-0.75%	+6.44%
Emerging Market Equity <sup>6</sup>	-0.09%	+0.28%	+11.76%
Fixed Income	LAST WEEK	QTD	YTD '17
U.S. Investment Grade Bonds <sup>7</sup>	+0.61%	+0.93%	+1.75%
Cash Equivalent <sup>8</sup>	+0.01%	+0.02%	+0.13%
Commodities	LAST WEEK	QTD	YTD '17
Commodity <sup>9</sup>	+0.66%	+1.14%	-1.21%

<sup>1</sup>Russell 3000<sup>2</sup>S&P 500 Index<sup>3</sup>Russell 2000 Index<sup>4</sup>MSCI ACWI ex-U.S. Index<sup>5</sup>MSCI EAFE Index<sup>6</sup>MSCI Emerging Markets Index<sup>7</sup>Bloomberg Barclays Capital U.S. Aggregate Bond Index<sup>8</sup>Bloomberg Barclays Capital 1-3 Month U.S. Treasury Bill Index<sup>9</sup>Bloomberg Commodity

As of 4/13/2017

## Week in Review

Despite shortened trading, last week was full of action. President Donald Trump discussed trade negotiations and North Korean nuclear strategy with Chinese President Xi Jinping, the U.S. dropped its largest non-nuclear bomb on an ISIS tunnel complex in Afghanistan, and Trump said he believes that the dollar is "too strong" and wants interest rates to remain low.

Domestic stocks were down slightly on the short week. Financials, materials, and technology stocks were hit the hardest, while telecom and consumer staples stocks fared the best. Gold gained nearly 3% and bonds gained just under 1% as the yield on the 10-year Treasury declined to 2.24% after investors flocked to safe haven assets amid geopolitical concerns. International markets were fairly flat to slightly down, while emerging market stocks lost about 1%, giving up some of their gains to date.

## What You Need to Know About the Emerging Markets Rally

We are pleased to see emerging markets off to a great start this year, outperforming domestic stocks by nearly three times year-to-date. We've advocated emerging markets for quite some time, as the segment is one of our highest-conviction tilts across multiple strategies. We've cited low and attractive valuations and higher growth probabilities, but we've admittedly been concerned about the effectiveness of various global leaders' policy actions, which we are monitoring closely.

Why have emerging markets outperformed other market segments in recent months? It

comes down to China, which has the single greatest influence on the economic performance of many other emerging market countries. As China's private sector debt and industrial overcapacity ballooned, its demand for imports led to a slump in manufacturing and commodity prices. That affected many emerging market countries that were commodity producers and had close trading ties to China.

Since 2015, Chinese leaders have begun shifting their focus to increasing investment in public infrastructure, social programs such as housing and welfare, and implementing tax cuts for

small businesses. Its monetary policy remains accommodative to encourage consumer activity. The shift to supporting the consumer has helped improve industrial production across the globe and stabilize commodity prices. These are primary factors in the improvement of the global economic recovery. China is a global economic powerhouse, so we will continue to monitor their policy actions. However, we are encouraged by these recent moves, as we believe emerging markets will drive outperformance in portfolios.



**Paula Wieck, CFA**  
*Portfolio Manager*

*Paula Wieck joined CLS in 2006 and is currently the Manager of Investment Research/Portfolio Manager. In these roles, she is responsible for overseeing a team of investment research and performance analysts who provide in-depth research and data for CLS's investment decision making process. She also co-manages four AdvisorOne Funds, which range from aggressive to protection strategies, as well as multiple variable annuity and mutual fund strategies at CLS.*

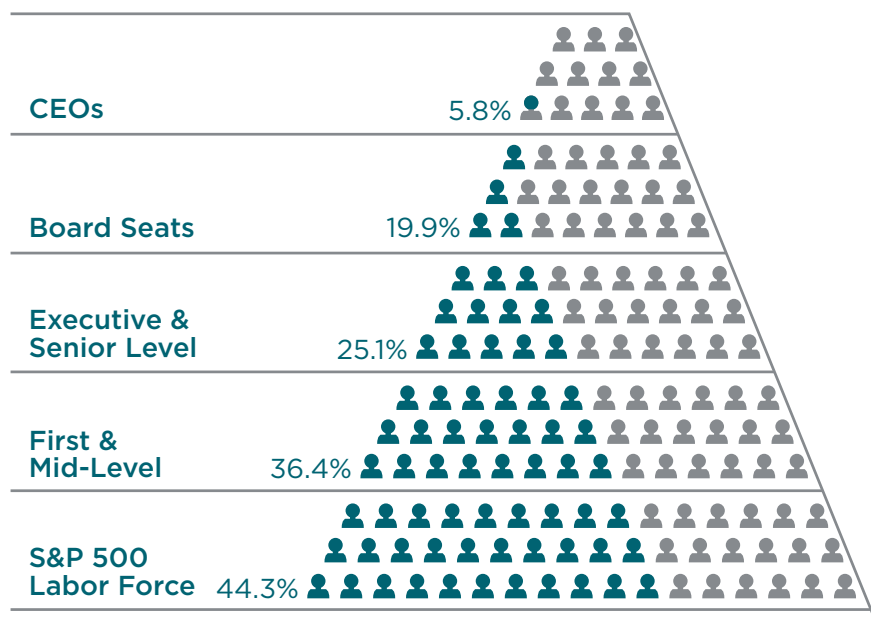
*Prior to joining CLS, Ms. Wieck worked at TD Ameritrade as an Equity Analyst and Orion Advisor Services as an Implementation Specialist. Ms. Wieck holds a Bachelor of Science degree in Banking and Finance from the University of Nebraska at Omaha. She also holds the Chartered Financial Analyst (CFA) designation, is a member of the CFA Society of Nebraska, and holds the Series 6 and Series 65 securities registrations.*

## Can Female Executives Improve the Quality of Your Portfolio?

When a recent CFA Institute survey revealed that only one in five CFA charterholders are female, I wasn't completely shocked. As a female portfolio manager, I'm often one of the only women in the room. While CLS works hard to make sure we have a diverse team, and I work with fantastic, forward-looking male colleagues and partners across the nation, I'd love to see the number of my female peers increase in the industry. Numerous studies have revealed female leadership in corporate America as a whole is lackluster. Women only represent 5% of CEOs, 19% of board members, and 25% of executive and senior-level positions across multiple corporate sectors. Despite decades of progress, global corporations still have much work to do. But, why should investors care?

According to MSCI, research shows companies with strong female leadership have performed about 36% better in terms of return on equity (ROE) than companies where female leadership is lacking. Additionally, the Peterson Institute for International Economics found that companies that have no women in executive, senior, or board level positions are associated with a 15% drop in profitability compared to those with 30% female representation in leadership roles.

### Women in S&P 500 Companies



Sources: Catalyst, *Women CEOs of the S&P 500* (2017).  
EY Center for Board Members, *2015 Top Earners in S&P 500 Companies*, Unpublished data.  
Catalyst, *2015 Catalyst Census: Women and Men Board Directors* (2016).  
U.S. Equal Employment Opportunity Commission (EEOC), *Unpublished 2014 S&P 500 EEO-1 data*.  
S&P 500 is owned by S&P Dow Jones Indices, LLC.  
As of March 1, 2017

The State Street Global Advisors (SSGA) Gender Diversity Index ranks female representation in leadership roles among the largest 1,000 listed U.S. companies in their respective sectors. According to backtests, the SSGA Gender Diversity Index outperformed the Russell 1000 Index in most instances going back to 2003. Running the data through our proprietary factor models, the index's exposure to quality ranks as high, if not higher, than many high-quality domestic indices.

As a woman, and a portfolio manager, I can get behind this research. We've recently added exposure to this unique take on domestic high-quality in CLS portfolios, and we will continue to look for opportunities to do so in the months ahead.

## CLS Protection Update

CLS's Protection strategies are off to a fantastic start this year. They have outpaced their benchmarks for much of the first quarter. The strategies have been invested 100% in diversified equities throughout the first quarter, and first part of April. Last week, market values dipped below the first trigger, and the allocation moved 5% from diversified equities into protection. The Protection strategies tend to be beneficial to investors who have shortened time horizons or stronger emotional responses to large losses.

Any time the market experiences a sustained uptrend, the Protection strategies seek growth opportunities. If the market declines below a predetermined point, we move a portion of the portfolio into more conservative investments to protect its value and keep investors on track with their long-term financial goals.

One effective aspect of the Protection strategies is they not


only protect on the downside, but they adjust protection on the upside too. Once the strategy's market value surpasses its sensitivity level, the new market value is used to recalculate the new high water mark and new protection triggers. In essence, the upside protection mechanism locks in gains so they are protected. During the first quarter, we had two step-ups where this mechanism was initiated and the gains were locked in.

The Protection strategies' composition can vary considerably depending on market conditions. As we've mentioned, the strategies were fully invested during the quarter allowing it to benefit from strong market performance.

Outperformance for the quarter was primarily driven by the portfolio's higher allocation to equities relative to its benchmark. Equities outperformed bonds and cash during this time, while the security selection within the equity

make-up also had a positive impact. During the quarter, allocations to domestic factor exposures, particularly quality, were beneficial. The allocation also has significant tilts to the value factor. Although value underperformed the broad market, the smart beta security selection to high-value ETFs outperformed their cap-weighted benchmarks. In the opportunistic allocation, emerging markets was one of the strongest performing asset classes during the quarter.

In essence, the strategies continue to allow investors to participate in market gains, while having downside protection against large market declines.



The Russell 3000 Index is an unmanaged index considered representative of the U.S. stock market. The index is composed of the 3,000 largest U.S. stocks. The S&P 500® Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Russell 2000® is an index comprised of the 2,000 smallest companies on the Russell 3000 list and offers investors access to small-cap companies. It is a widely recognized indicator of small capitalization company performance. The MSCI All-Countries World Index, excluding U.S. (ACWI ex US) is an index considered representative of stock markets of developed and emerging markets, excluding those of the US. The MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East. The MSCI Emerging Markets Index is a composite index which tracks performance of large and mid-cap firms across 21 countries classified as emerging market countries. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Barclay's Capital 1-3 Month U.S. Treasury Bill® Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. The Bloomberg Commodity Index is made up of 22 exchange-traded futures on physical commodities and represents 20 commodities that are weighted to account for economic significant and market liquidity. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

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