WEEKLY MARKET REVIEW

JANUARY 23, 2018

In This Edition

- *How should investors react to a government shutdown?*
- *How did the bond market perform in 2017?*
- *Muni bonds continue to remain attractive for many investors.*

CLS INVESTMENTS

Market Performance

Equities	LAST WEEK	QTD	YTD '18
Total U.S. Market[1]	+0.82%	+5.00%	+5.00%
Domestic Large-Cap Equity[2]	+0.88%	+5.20%	+5.20%
Domestic Small-Cap Equity[3]	+0.36%	+4.08%	+4.08%
International Equity[4]	+1.40%	+5.13%	+5.13%
Developed International Equity[5]	+1.25%	+4.97%	+4.97%
Emerging Market Equity[6]	+2.02%	+6.43%	+6.43%
Fixed Income	**LAST WEEK**	**QTD**	**YTD '18**
U.S. Investment Grade Bonds[7]	-0.44%	-0.93%	-0.93%
Cash Equivalent[8]	+0.03%	+0.06%	+0.06%
Commodities	**LAST WEEK**	**QTD**	**YTD '18**
Commodity[9]	-0.21%	+0.51%	+0.51%

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

As of 1/19/2018

Week in Review

It was another strong week for global stocks, with most major markets posting positive performance. The S&P 500 Index outperformed small-cap stocks domestically, but the U.S. lagged their international counterparts, particularly emerging markets. The bond market had another down week as the 10-year Treasury bond yield hit its highest level since 2014. Commodities were also down, but remain positive year-to-date.

All eyes were on Congress during the week as they tried to pass a spending bill to avoid a government shutdown. As of this past Saturday those efforts ultimately failed, and as we start the new week, there is still no deal in place. For now the markets don't seem to care about the ongoing drama. Economic data from the week included weaker than expected housing data, University of Michigan sentiment gauges that fell, and a stronger than expected industrial production number.

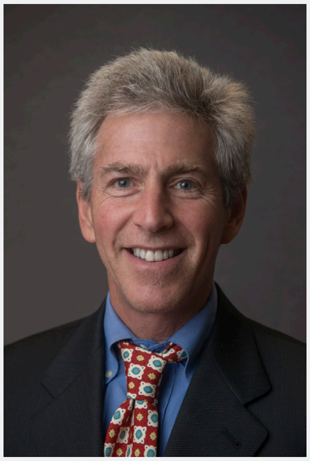
A Subjective Review of Trump's First Year

As I wrote this on Saturday morning, the federal government had officially entered a partial shutdown as members of both parties blocked a bill to fund the government after failing to break a deadlock over immigration. Happy one-year anniversary, President Trump.

Before this situation unfolded, the president's first year was marked by two major events. In the first half of the year, the failed unwind of "Obamacare," and in the second half, the eventual passage of tax reform. Needless to say, investors are jubilant about the latter. Domestically, all major indices are hitting new highs, short-term interest rates are at their highest levels in more than 10 years, and 10-year Treasuries are at their highest levels since early 2017. Even with Bitcoin's recent sell-off, investors who owned the stock coming in to 2017 saw a great return. GDP is expected to show marked improvement when it eventually gets released.

Under a shutdown, very little gets disrupted. Essential functions will continue. We will receive snail mail. Social security and Medicare payments will be made. Airplanes will fly. Our borders will be protected. Yes, many federal employees will be furloughed, but in the past, these shutdowns have amounted to paid vacations. Depending on how long this lasts, our IRS refund checks may be delayed, and the financial markets could experience some near-term price volatility.

Historically, shutdowns have not caused negative consequences on markets or the economy overall. My advice is to go along as you have before and not make any rash decisions based on this temporary state. Investors tend to have a better investment experience by staying balanced, diversified, and disciplined through all market conditions and political drama.



Marc Pfeffer

Managing Director, Institutional Fixed Income, Senior Portfolio Manager

Marc Pfeffer specializes in fixed income strategies. He is a Portfolio Manager on the CLS Flexible Income Fund team and manages the CLS Active Income X Strategy and CLS's ETF strategies. He also manages individual municipal bond portfolios for the CLS Master Manager Strategy and is a senior member of the CLS Investment Committee.

Mr. Pfeffer joined CLS in 2011, continuing as Senior Portfolio Manager for the Milestone Treasury Obligations Fund. The Fund was incorporated into CLS's fund family in January 2012. Mr. Pfeffer has more than 30 years of investment management experience, including time spent as the Chief Investment Officer at Milestone. He also worked previously at Goldman Sachs and Bear Stearns.

Mr. Pfeffer graduated from the State University of New York with a Bachelor of Science degree, and from Fordham University with a Master of Business Administration degree. He holds his FINRA Series 7, 63, and 65 licenses.

Did you know? Marc is also an avid poker player.

Active vs. Passive in the Bond Market

The content for the section was provided by Joshua Jenkins, CFA, CLS Portfolio Manager

Who won the debate in 2017?

At CLS, we frequently tout the merits of active management. During strong bull markets, cap-weighted benchmarks can take on a momentum-like quality that proves tough to beat for many active managers (after fees). Like much in the market, performance in active management is cyclical. Investors who hold on during periods of underperformance have been rewarded in the past.

When it comes to beating benchmarks, not all areas of the market are created equal. Historically, fixed income managers have been considered more apt to outperform than their equity counterparts. There is a laundry list of reasons, many of which center on bond market efficiency and benchmark construction.

So, how did this play out in 2017? Were active bond managers able to live up to their billing? Or, was the low-cost advantage of their passive rivals too much to overcome? To answer these questions, we compared bond ETFs to their category peer groups, which consisted of both mutual funds and ETFs. We focused on peer group ranks rather than returns to account because comparing a cash-like ultrashort bond fund and a high-yield fund is not an apples-to-apples comparison.

The data below shows that despite having an expense ratio nearly double that of passive funds, the active ETFs performed markedly better than their passive counterparts. This holds true with simple or dollar-weighted averages. With an average peer group ranking above 50%, passive ETFs not only failed to keep up with active ETFs, they likely trailed costlier active mutual funds, too.

Being active in fixed income allocations is a large part of our Creative Diversification investment theme. To do this, we use actively managed ETFs and rotate across fixed income sectors to ensure we emphasize exposure in the most attractive areas. When it comes to being active in fixed income, we put our money where our mouths are. This includes using active bond ETFs at a rate that far exceeds the rest of the market. In 2017, it definitely added value.

Fixed Income ETF

	Total Assets	Count	Average Net Expense Ratio	Weighted Average Net Expense Ratio	Average 1-Year Peer Group Rank	Weighted Average 1-Year Peer Group Rank
Active	33,018,366, 479	55	0.56	0.51	45.9	34.6
Passive	549,899,936,679	210	0.26	0.19	53.0	52.6
Grand Total	582,918,303,158	265	0.32	0.21	51.5	51.5

Source: Bloomberg, as of 1/19/18

Why Muni Bonds are Still Attractive to Many High-Net-Worth Investors

Although the new tax code has reduced marginal tax rates, municipal bonds remain a viable and relatively attractive investment for many high-net-worth investors.

Muni bonds are not taxed at the federal level, and depending on the state you live in, many are issued with exemptions from state and local taxes, too. So, investors get to keep more of their income. Additionally, muni bonds have historically been safer investments than debt issued by corporations. While there are exceptions, of course, default rates are much lower for municipal bonds when compared to corporate bonds with similar credit ratings.

Many municipalities can raise taxes or cut services in order to make payments. Furthermore, municipal bonds are less correlated with interest rates than other parts of the bond market. For example, although 10-year Treasuries have reached their highest level in about a year, the municipal ratio has dropped. Debt issued by U.S. states and local governments maturing in 10 years yields approximately 82% of Treasuries, compared to approximately 85% a month ago, as seen in the chart from Bloomberg below.

As rates continue to rise as a result of a stronger domestic economy, revenues from municipal issuers will also rise, making them a stronger credit. I believe they will continue to be a good source of income for investors going forward. As mentioned previously, I manage several individual, customized municipal portfolios as part of CLS's Master Manager Strategy. Additionally, municipal bonds have been held for several years in the Advisor One funds.

If you are interested in learning more about fixed income options, please reach out.

Thanks for reading.

Rates (All results in % unless noted)	Last Close	Previous Date	1-Week	1-Month
2-Year Muni Benchmark	1.58	1.59	1.59	1.49
10-Year Muni Benchmark	2.14	2.12	2.12	2.05
30-Year Muni Benchmark	2.79	2.77	2.78	2.68
Curve Slope 2 to 30-Year (basis points)	120.5	118.4	118.6	119.1
Munis as a % of Treasury 10-Year	81.66	81.94	83.57	85.39
10-Year Muni SIFMA Swap Rate	2.09	2.07	1.99	1.88

Source: Bloomberg, as of 1/19/2018

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 Bloomberg Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Bloomberg 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 exchange-traded futures on physical commodities and represents 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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