

CLS's WEEKLY 3

What You Need To Know About the Markets

NOVEMBER 21, 2017

1. Fixed income ETFs continue to be important in portfolios despite stock market double digit returns.
2. The price of bitcoin continues to skyrocket, but will it last?
3. How do the House of Representatives and the Senate tax bills stack up?



Market Performance

Equities	LAST WEEK	QTD	YTD '17
Total U.S. Market ¹	+0.13%	+2.46%	+16.72%
Domestic Large-Cap Equity ²	-0.06%	+2.65%	+17.27%
Domestic Small-Cap Equity ³	+1.24%	+0.26%	+11.23%
International Equity ⁴	-0.32%	+1.83%	+23.35%
Developed International Equity ⁵	-0.59%	+0.82%	+20.95%
Emerging Market Equity ⁶	+0.72%	+5.14%	+34.35%
Fixed Income	LAST WEEK	QTD	YTD '17
U.S. Investment Grade Bonds ⁷	+0.24%	+0.06%	+3.20%
Cash Equivalent ⁸	+0.02%	+0.12%	+0.68%
Commodities	LAST WEEK	QTD	YTD '17
Commodity ⁹	-0.57%	+2.89%	-0.07%

¹Russell 3000²S&P 500 Index³Russell 2000 Index⁴MSCI ACWI ex-U.S. Index⁵MSCI EAFE Index⁶MSCI Emerging Markets Index⁷Bloomberg Barclays Capital U.S. Aggregate Bond Index⁸Bloomberg Barclays Capital 1-3 Month U.S. Treasury Bill Index⁹Bloomberg Commodity Index

As of 11/17/2017

Week in Review

Global stocks were mixed last week on the heels of Congress's progress in overhauling the U.S. tax code. Small-caps led the way as the Russell 2000 Index rose 1.2%. The Russell 3000 Index and S&P 500 Index saw modest changes, up 0.13% and down 0.06% respectively. International markets were mixed for the week, with emerging markets up 0.72% and the MSCI ACWI ex-U.S. Index down 0.32%. Commodities were lower by 0.57%. Most bonds rallied with the Bloomberg Barclays Aggregate Bond Index up 0.24%. Yields on the U.S. 10-year Treasury declined 6 basis points to close at 2.34%.

The Growth of Fixed Income ETFs

Although the stock market is up double digits, both domestically and internationally, money continues to flow into fixed income ETFs. It seems investors are finally getting the message. Fixed income is an important asset class and belongs in any diversified, balanced portfolio. Through the week of November 8, bond funds and ETFs saw inflows for 49 straight weeks, according to the latest [Investment Company Institute](#) data.

Bond ETFs have been around for approximately 15 years, but they have only recently seen growth in assets. They have also grown more numerous. There are nearly 350 bond ETFs today, more than four times the amount there was in 2008. Demand continues to be strong — and for good reason.

Fixed income ETFs are more liquid than underlying bonds. Most fixed income ETFs are liquid to trade and typically easier to trade than underlying bonds. Bonds also trade less frequently than stocks, and their true price is harder to gauge.

Bond ETFs also offer a more efficient way for investors to gain exposure to various interest rate and credit risks. For example, PIMCO Enhanced Short Maturity Active ETF (MINT), a holding in several CLS portfolios, is an active ETF with the objective of providing maximum income consistent with the preservation of capital. Several holdings are floating-rate securities that adjust based on the fluctuation of short-term interest rates.

These bond ETFs allow investors to gain diversified fixed income exposure at a low price (in many cases, prices keep going lower). Due to increased demand and the liquidity of fixed income ETFs, they generally do a better job at price discovery than underlying bonds. Additionally, they are quicker at adjusting to current market conditions than less frequently traded underlying securities.

Lastly, bid-ask spreads have come down sharply on these products. The average spread of all fixed income ETFs is now 0.34%. The asset-weighted spread is only 0.03%, and 35% of these have spreads less than 0.1%.



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.

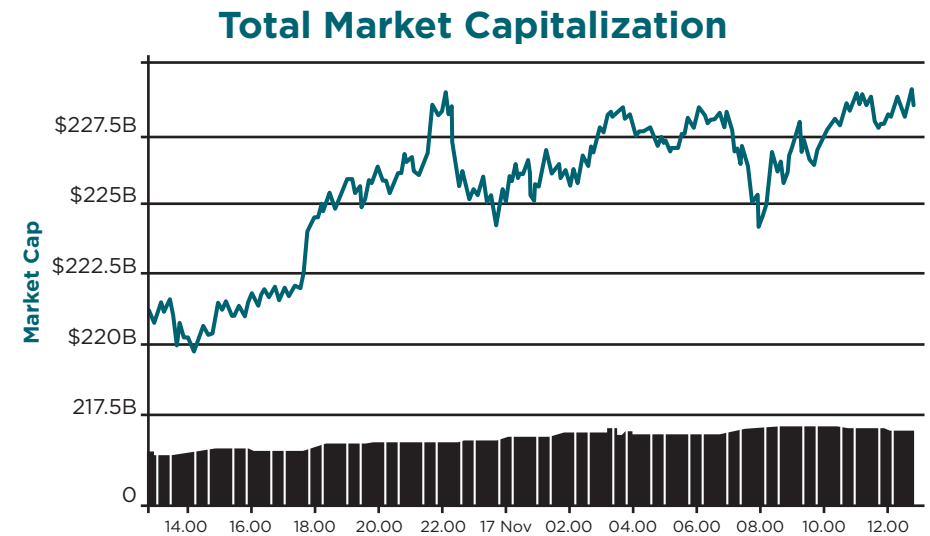
Did you know? [Marc is also an avid poker player.](#)

Where Will It End for Bitcoin?

When I first [wrote about bitcoin](#), I started with the basics: what it is and what people think about it. The price of bitcoin was below \$4,000 at that time, but that was up sharply from where it was just a month before. Now, the price of bitcoin has passed \$8,000 for the first time. That's a milestone even the most bullish investors thought was still some time away.

In the last week alone, the cryptography market has grown by \$28 billion – that is how big the *entire* cryptography market was in early April!

I have no idea whether bitcoin or other cryptocurrencies will fail or succeed, but they are here for now, and many investors will look to capitalize on their presence in the markets. The CME Group, which is the world's largest options



and futures exchange, recently announced a plan to launch bitcoin futures before year end.

One can choose to embrace the future of digital currencies and consider them for investment or stay on the sidelines and observe.

I'll be one of the latter for now, but for those who are interested, below are a few sites that can offer some more in-depth information on bitcoin.

- [Bitcoin News](#)
- [Cryptocoins™ News](#)
- [CoinMarketCap](#)

Tax Time

Last week, House Republicans passed their bill to overhaul the nation's tax code, while the Senate continued to debate its corresponding proposal, which includes an effort to make individual tax breaks temporary and repeal a key aspect of Obamacare. Before the bill is passed into law, the two chambers must resolve the differences of each bill.


After a year marked by record-low volatility, the markets are seeing

some movement as uncertainty has crept into the equation. What's also fascinating is how unpopular these plans seem to be with the American public. The latest Quinnipiac University Poll survey found that just 25% of voters view the GOP plan as a "good idea."

As someone who lives in New York, I believe the elimination of the state and local tax deduction, the potential elimination of the property tax deduction, and a possible cap

reduction in mortgage interest could have an adverse impact on real estate. I suspect the same would occur in other high-state-income/high-priced real estate areas, such as California and Massachusetts.

This [chart](#), created by Bloomberg, illustrates how the House and Senate tax bills stack up.



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.

The graphs and charts contained in this work are for informational purposes only. No graph or chart should be regarded as a guide to investing. While some CLS portfolios may contain one or more of the specific funds mentioned, CLS is not making any comment as to the suitability of these, or any investment product for use in any portfolio. This material does not constitute any representation as to the suitability or appropriateness of any security, financial product or instrument. There is no guarantee that investment in any program or strategy discussed herein will be profitable or will not incur loss. This information is prepared for general information only. It does not have regard to the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that security values may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not a guide to future performance. Individual client accounts may vary. Investing in any security involves certain non-diversifiable risks including, but not limited to, market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.

3244-CLS-11/21/2017

