

CLS's WEEKLY 3

What You Need To Know About the Markets

APRIL 23, 2019



1. Do healthcare stocks still have a pulse after their recent tumble?
2. The benefits of life-long learning for investors
3. Insights from the ground in China

Market Performance (as of 4/19/2019)

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent ¹	+0.41%	+0.75%	+1.22%	+2.15%	+0.73%	+0.14%	+0.07%
U.S. Investment Grade Bonds ²	+3.70%	+2.59%	+1.79%	+4.51%	+2.58%	-0.35%	-0.13%
Equities	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market ³	+11.44%	+7.03%	+10.62%	+2.69%	+15.02%	+2.61%	+0.06%
Total U.S. Market ⁴	+15.29%	+11.20%	+13.81%	+8.84%	+16.96%	+2.51%	+0.43%
Domestic Large-Cap Equity ⁵	+15.04%	+11.78%	+14.21%	+9.84%	+16.11%	+2.59%	+0.71%
Domestic Small-Cap Equity ⁶	+14.96%	+7.96%	+11.53%	+2.27%	+18.10	+2.25%	-0.56%
International Equity ⁷	+8.43%	+3.24%	+7.90%	-3.97%	+13.22%	+2.74%	+0.31%
Developed International Equity ⁸	+8.37%	+2.84%	+6.95%	-3.80%	+13.35%	+2.61%	+0.34%
Emerging Market Equity ⁹	+8.71%	+4.51%	+11.21%	-4.50%	+12.82%	+3.11%	+0.24%
Diversifiers	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives ¹⁰	+4.24%	+0.56%	+1.51%	0.64%	+3.43%	+0.46%	+0.08%
Commodity ¹¹	-2.80%	-9.18%	+1.74%	-7.65%	+7.28%	+0.90%	-0.60%

¹Morningstar Cash Index ²Bloomberg Barclays Capital U.S. Aggregate Bond Index ³Morningstar GblMkt Large-Mid Index ⁴Morningstar U.S. Market Index ⁵Morningstar U.S. Large Cap Index ⁶Morningstar U.S. Small Cap Index ⁷Morningstar Gbl xU.S. Large-Mid Index ⁸Morningstar DM xUS Large-Mid Index ⁹Morningstar EM Large-Mid Index ¹⁰Morningstar Diversd Alt Index ¹¹Bloomberg Commodity Index

Week in Review

Stocks around the world were slightly higher last week with the U.S. leading the way. U.S. stocks were higher by less than 1% with large-caps performing better than small-caps.

Overseas, developed stocks rose by slightly over 3% and emerging market stocks finished up less than 1%.

Bonds were little changed for the week as the yield on the U.S. 10-year Treasury rose by just 1 basis point to 2.57%.

The Pulse of Healthcare Stocks

U.S. healthcare stocks took a tumble last week. News of potentially popular support around replacing the private healthcare insurance market with a public one sent share prices for UnitedHealthcare, Anthem, and CVS Health lower. This news was the latest challenge for the healthcare sector as it has lagged the U.S. market by more than 15% so far this year.

As a particular segment of the market comes under

pressure, it can often provide better opportunities for active management. Healthcare stocks, despite the poor performance, look fairly promising by the numbers.

First, healthcare stocks are not necessarily cheap, but they aren't expensive either. On a relative-valuation basis, they are mostly in line with U.S. stocks. Second, healthcare stocks have solid fundamentals and represent enterprises with consistent performance on the

top and bottom lines. Lastly, healthcare stocks still represent a way to be more defensive in the markets, assuming any short-term upticks in market volatility.

We continue to focus on finding those areas that look most attractive in the markets. Although healthcare stocks may not be the cheapest, they have other qualities that could make them more worthwhile going forward.



Joe Smith, CFA Deputy Chief Investment Officer

Joe Smith specializes in quantitative research, risk management, and ETF due diligence. He serves as Senior Market Strategist for the CLS AdvisorOne International Equity Fund, CLS's Thematic Growth Strategy, and CLS's Core Plus ETF Strategy.

Prior to joining CLS in 2015, Mr. Smith worked at Russell Investments where he served as an Analyst responsible for asset allocation research, portfolio construction, optimization design, and risk management research. He later joined Russell ETFs as Manager of ETF Product Development and Research, a role in which he developed quantitative indexing strategies implemented as ETFs. Mr. Smith also worked for Charles Schwab Investment Management as a Senior Product Specialist supporting product management activities for the Schwab ETFs fund family. In addition, he worked for CLS during the summer of 2014 as an Investment Analyst.

Mr. Smith received his Bachelor of Science degree in Economics from the University of Washington. He later received his Master of Business Administration from the Tepper School of Business at Carnegie Mellon University.

Mr. Smith holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of San Francisco, Pittsburgh, and Nebraska. He is also a member of the Society of Quantitative Analysts and the Quantitative Work Alliance for Applied Finance, Education, and Wisdom.

Did you know? [In grad school, Joe spent 40 days in nine countries.](#)

The Benefits of Life-Long Learning

I am an avid reader, and although I work hard during the week, and sometimes over the weekends, I always make time to catch up on my reading. My list of books can range from subjects related to finance, sports, leadership, history, applied mathematics, and even computer programming. Most recently, I enjoyed "Give and Take" by Adam Grant and "Skin in the Game" by Nassim Nicholas Taleb.

Taking time to read may sound like a relaxing luxury for some time-stressed readers. But I consider reading an essential part of my professional development. The most

significant lesson I've learned in my professional career is that life-long learning is the only way you will continue to improve as an investor. Being curious and learning about how something works and how it can be applied have allowed me to approach investment problems with newer perspectives.

I believe over the next 20 years our industry will evolve in the way we both analyze portfolios and provide answers to the tough questions our clients are asking. Some of this change is already happening today as more institutional-level-

risk tools become available to advisors. The good news is technology is advancing to help us improve our analytical abilities and access the answers easier than before.

What is more important is how each of us continues to adapt and take a proactive approach to learning in order to stand ready to embrace the changes that are coming. The best part is learning can pay dividends in our professional lives and enhance our overall happiness and well-being.

By Aleck Liu - Junior Investment Research Analyst

I spent the last two weeks in China visiting Shanghai, Shenzhen, and Wuhan. The first two cities are robust and formidable global financial centers, and the third is my hometown, where my parents grew up before immigrating to the United States. During my visit, I had the privilege of speaking to executives in a variety of capacities about their outlook on China and what lies ahead for the country.

In Shenzhen, the tech capital of China, I walked through the heart of the chip and semiconductor marketplace – and it was chaos. It was like a flea market for computer chips. The largest takeaway from my conversation with a holdings company was that a significant part of Shenzhen's booming economy was vulnerable. A lot of the success of computer chips is predicated on receiving orders by manufacturers: companies that make mobile phones, TVs, computers, etc. If the manufacturer experiences weakness, that weakness will eventually hit the chip makers,

and that could place Shenzhen's foundation of success in jeopardy.

In Wuhan, I spoke with various executives in the infrastructure space. Their comments were noticeably more bullish than the executive in Shenzhen, and I think for good reason. China has had a period of tremendous infrastructure growth, and some of the receivers of the capital flowing into the area were cement and piping companies. Their backdrop is a little bit different than the more-free-market risks of Shenzhen. As long as the government has this mandate for growth and is willing to fuel it by using both money and government policy, I think a bullish case stands for infrastructure investing in China.

In Shanghai, I traveled with a tour group, so I don't have much of an inside perspective of that particular city. But I can say that Shanghai is bustling, with financial center skyscrapers that could rival Manhattan's. Names plastered across the top of these magnificent buildings were PingAn, ICBC, HSBC, China Agricultural Bank, China Communications Bank, and

China Construction Bank. I think it's pretty noticeable that all these banks have the word "China" in their names, which serves as a reminder of some of the economic restrictions in regards to the availability and diversity of funding sources within China. This is another point to keep in mind when looking to invest.

While traveling through China, I was careful to identify aspects of culture and activity that might be of interest to investors here in the U.S. I think some of the encounters I had offer a unique perspective of some of the granular dealings within China, but please keep in mind these are only opinions and perspectives of those respective sectors.

I really enjoyed my time in China – especially the people and food (I think I packed on seven pounds in two weeks!). This trip was an eye-opener for me, and it was the first time I've reached out to schedule talks that involved this type of exchange of information. I can't wait to head back to see what other evolutions and revolutions take place and how these executive's outlooks change over time.

The Morningstar Global Market Large-Mid Index is an index that measures the performance of the global market's equity markets targeting the top 90% of stocks by market capitalization. The Morningstar U.S. Market Index is an index that measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. The Morningstar U.S. Large Cap Index is an index that measures the performance of U.S. large-cap stocks. These stocks represent the largest 70% capitalization of the investable universe. The Morningstar U.S. Small Cap Index is an index that measures the performance of U.S. small-cap stocks. These stocks fall between the 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7% of the investable universe. Morningstar Global ex U.S. Large-Mid Index is an index that measures the performance of Global Markets (ex-U.S.) equity markets targeting the top 90% of stocks by market capitalization. The Morningstar DM ex U.S. Large-Mid Index is an index that measures the performance of developed markets ex-U.S. equity markets targeting the top 90% of stocks by market capitalization. The Morningstar EM Large-Mid Index is an index that measures the performance of emerging markets targeting the top 90% of stocks by market capitalization. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Morningstar Cash Index is an index that measures the performance of a Treasury Bill with six to eight weeks until maturity in the U.S. market. 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. This index provides investors with a means of understanding the performance of commodity futures markets and serves as a benchmark for investment performance of commodities as an asset class. The volatility of the indexes may be materially different from the individual performance attained by a specific investor. In addition, portfolio holdings of investors may differ significantly from the securities that comprise the indexes. You cannot invest directly in an index.

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0399-CLS-4/23/2019