

CLS's

# WEEKLY 3

What You Need to Know  
About the Markets

JUNE 18, 2019



1

**The IPO Market Says  
it's 1999; the Bond  
Market Says it's 2008**

## Week in Review

Global equity markets were up last week, and many of the stock indexes we track were positive. The U.S. market was up 0.51%, with growth and value coming in largely even and REITs leading the way, up 0.83%. Emerging markets had a great week, up about 0.66%, especially when compared to their developed international counterparts, which were down 0.2%. Bonds were relatively flat for the week.

2

**Indexing Can Be  
Very Active Too**

Commodities made large gains. The aggregate index was up 0.93%. Corn was a large contributor, and energy made a small contribution spurred by Middle Eastern tensions.

3

**Three Lessons  
Investors Can Learn  
from Being a New  
Parent (or Vice Versa)**

All eyes are on the Federal Reserve for the week, and markets eagerly await its decisions on rates. The markets are currently pricing in two to three hikes this year.



## Marc Pfeffer

### Chief Investment Strategist

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 at Buffalo with a Bachelor of Science degree in finance. He received his Master of Business Administration degree, with a focus on finance, from Fordham University. Mr. Pfeffer holds his FINRA Series 7, 63, and 65 licenses.

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

# Market Performance (as of 6/14/2019)

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent <sup>1</sup>	+0.45%	+0.83%	+1.33%	+2.26%	+1.11%	+0.52%	+0.05%
U.S. Investment Grade Bonds <sup>2</sup>	+3.96%	+2.89%	+2.27%	+7.41%	+5.20%	+2.19%	+0.02%
Equities	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market <sup>3</sup>	+9.73%	+5.89%	+11.33%	+0.35%	+13.31%	+1.08%	+0.27%
Total U.S. Market <sup>4</sup>	+14.21%	+10.23%	+13.82%	+4.91%	+16.57%	+2.17%	+0.51%
Domestic Large-Cap Equity <sup>5</sup>	+14.01%	+10.81%	+14.39%	+6.17%	+15.87%	+2.38%	+0.52%
Domestic Small-Cap Equity <sup>6</sup>	+13.46%	+6.63%	+10.25%	-6.13%	+14.93%	-0.50%	+0.44%
International Equity <sup>7</sup>	+6.19%	+1.88%	+9.08%	-4.70%	+9.96%	-0.23%	+0.00%
Developed International Equity <sup>8</sup>	+6.36%	+1.74%	+8.63%	-4.52%	+11.27%	+0.73%	-0.20%
Emerging Market Equity <sup>9</sup>	+5.64%	+2.35%	+10.78%	-5.07%	+6.10%	-3.03%	+0.66%
Diversifiers	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives <sup>10</sup>	+3.72%	+0.29%	+1.46%	+0.21%	+3.32%	+0.35%	+0.12%
Commodity <sup>11</sup>	-4.46%	-9.60%	-2.93%	-10.74%	+2.57%	-3.53%	+0.93%

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

# 1

## The IPO Market Says it's 1999; the Bond Market Says it's 2008

Outside of the disappointing IPOs from LYFT and UBER, it feels like the frothiness from 20 years ago as innovative companies are taking off like a rocket after they are free to trade. I still don't understand how Beyond Meat soared as much as 600%! Heck, Chewy, which was bought by PetSmart in 2017 for \$3.4 billion, raised \$1 billion in its public launch.

But despite this excitement, the bond market is sending signals that the economy is about to go into recession. Three-month T-bills are inverted versus the 10-year, and more than a 100 basis point drop in yields has occurred in most maturities since

last fall. The expectation from the Fed entering 2019 was for three rate hikes, and now federal fund futures is pricing in nearly three cuts for the remaining six months of 2019. So much for its predictions!

This week, we will have the most anticipated Fed meeting to date in 2019. While no change is anticipated by most, there is still a one in five chance.

Here are the key messages I will be looking for to determine the Fed's mindset:

1) A signal of openness toward more accommodative policy, in line with

recent communication from several members of the committee.

2) A shift away from "patient" and an acknowledgment of rising downside risks to both the growth and inflation outlook.

Lastly, I expect some members to have several rate cuts penciled in for 2019 with others still wanting and expecting rate hikes in 2020 or beyond.

Whatever happens, and whatever year it may be in the IPO and bond markets, we'll be watching carefully for signs of opportunity.

# 2

## Indexing Can Be Very Active Too

*By Joe Smith, CFA  
Deputy Chief Investment Officer*

Indexing is often thought of as being fairly passive. You simply buy the list of stocks held in the S&P 500 or Russell 1000 and hold onto them for the long run. But indexing can have quite a bit of active management to it, too.

June is a special month for indexed portfolios. Both the S&P 500 and Russell 3000 indexes undergo major rebalances that can create a lot of activity for passive and active managers. This year's rebalances are no different, particularly given the flurry of recent IPO activity.

So, what's in and what's out? Here's a short recap of what is likely to be added

to major market indexes come the end of June:

Notable additions with recent IPOs:

- Uber
- Lyft
- Spotify
- Beyond Meat
- PagerDuty

Companies with the largest weighting by market capitalization after index rebalances:

1. Microsoft
2. Amazon
3. Apple
4. Google
5. Facebook

What does all of this activity mean for investors? For advisors leveraging CLS's new direct indexing offering through FTJ FundChoice, these changes create opportunities to see how effective indexing can be at enhancing tax management. Index rebalances naturally lend themselves to providing opportunities for investors to sell out of any losses in order to offset capital gains over time. We expect this month's rebalances to be no different, and we continue to proactively manage for taxes as the S&P 500, Russell 1000, and Russell 2000 indexes make their changes.

# 3

## Three Lessons Investors Can Learn from Being a New Parent (or Vice Versa)

By Jackson Lee, CFA  
Quantitative Associate Portfolio Manager

Each year, my wife and I make a trip to China to visit her family. While my portion of the trip usually only lasts about two weeks, she typically stays for an extra month since she only gets to see her parents once a year. Last year was no exception – until two weeks after I came home. I remember it vividly. It was a Tuesday when she called me at 3 a.m. and told me something that forever changed my life. She was pregnant. Fast forward nine months, and we finally got to welcome our first child in May. So far, it has been an eventful experience.

Being a first-time parent, I've realized there are many similarities between parenting and investing. Here are three examples:

### 1. The Less You Know, the More You Panic

After coming home from the hospital, we struggled the first few nights. My wife and I worried about everything and basically panicked every time our baby cried. The more we panicked, the louder she cried, and it was exhausting for all of us. Investors often make the

same mistake. When there is volatility in the market, emotion can take over at the worst possible time. Investors often forget a 10% decline in the market happens once a year on average and market volatility is normal. Just like crying babies are normal.

### 2. It Might be Late, But You Can Always Count on It

Anyone who has been around a newborn knows when they cry, they usually want one of two things: food and/or a diaper change. While the first may be on a relatively consistent schedule, the second varies and sometimes even comes with extra surprises. However, the number of surprises per day is usually the same. Similarly, when it comes to the market, some markets may not perform on schedule, but because the market is cyclical, they are sure to show up eventually. For example, emerging markets and value stocks have underperformed their counterparts for quite some time now. But if history has taught us anything, they will eventually make a comeback. While we do not have a crystal ball to tell us when that will happen, at current valuations, odds suggest sooner rather than later.

### 3. Suddenly, Everyone is an Expert

Since day one of the pregnancy, everyone around us has tried to give us advice on what we should expect and how we should raise our child. Granted, some advice has been helpful, but some has been less so. We see this happening in investing all the time. Take Bitcoin for example. When the price of Bitcoin skyrocketed in 2017, it was the most talked about investment. Everyone had an opinion, and it was generally a consensus view that Bitcoin was the next big thing. Investors piled into something they had zero understanding of and then watched as Bitcoin lost more than 80% of its value over the next year.

Like parenting, the idea of investing can be daunting. The future of your family depends on the decisions you make today. Fortunately, investors can turn to professional managers like CLS that have a systematic approach to help investors to stay disciplined. As parents, we just have to do the best we can and try to figure it out as we go.

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.

The S&P 500 Index is an unmanaged index of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Russell 2000 Index is an index comprised of the 2,000 smallest companies on the Russell 3000 Index and offers investors a benchmark for small cap stocks. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. 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.

CLS Strategies are not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates (all such entities, collectively, "Morningstar Entities"). The Morningstar Entities make no representation or warranty, express or implied, to the owners of the CLS Strategies or any member of the public regarding the advisability of investing in CLS Strategies generally or in the specific strategy presented here in particular or the ability of the CLS Strategies to track general market performance.

**THE MORNINGSTAR ENTITIES DO NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE CLS STRATEGIES OR ANY DATA INCLUDED THEREIN AND MORNINGSTAR ENTITIES SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN.**

Any 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. The views expressed herein are exclusively those of CLS Investments, LLC, and are not meant as investment advice and are subject to change. No part of this report may be reproduced in any manner without the express written permission of CLS Investments, LLC. Information contained herein is derived from sources we believe to be reliable, however, we do not represent that this information is complete or accurate and it should not be relied upon as such. 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.

The CFA® is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals. To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org).

CLS Investments, LLC ("CLS"), and FTJ FundChoice, LLC ("FTJ") are affiliated companies through their parent company NorthStar Financial Services Group ("NorthStar").

0855-CLS-6/18/2019

