Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

March 9, 2020

ORION

Week in Review

- While yields on fixed income are veering towards zero, yields on equities are actually rising and attractive in a lot of places. Consider global multi-asset income strategies.
- Managing risk and keeping it consistently at the level clients are comfortable with is a helpful remedy and reminder in times like now.
- Taking a look at asset class performance in recent weeks shows wide varying returns and potentially abounding opportunities.

1 *Not All Yields are Falling*

2 *A Remedy for Volatility*

3 *Surveying the Damage*

The Weighing Machine podcast is on Google Play and iTunes.

On Orion's The Weighing Machine podcast, Rusty Vanneman and Robyn Murray cut through the market clamor and focus on time-tested, proven principles that help financial advisors and investors reach their long-term financial goals.

Market Update Video

Market Performance

as of 03/06/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.57%	+1.10%	+1.70%	+2.08%	+0.34%	+0.34%	+0.08%
U.S. Investment Grade Bonds[2]	+4.13%	+4.16%	+5.89%	+13.62%	+5.70%	+5.70%	+1.88%
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+7.92%	+6.01%	+6.97%	+4.40%	-8.79%	-8.79%	+0.41%
Total U.S. Market[4]	+12.26%	+9.26%	+9.49%	+8.39%	-7.83%	-7.83%	+0.36%
Domestic Large-Cap Equity[5]	+12.60%	+10.32%	+10.94%	+11.38%	-6.60%	-6.60%	+0.97%
Domestic Small-Cap Equity[6]	+9.7%	+4.51%	+2.33%	-4.81%	-13.09%	-13.09%	-2.00%
International Equity[7]	+4.31%	+2.87%	+4.32%	-0.42%	-10.25%	-10.25%	+0.28%
Developed International Equity[8]	+4.56%	+2.64%	+4.02%	-0.05%	-10.51%	-10.51%	+ 0.22%
Emerging Market Equity[9]	+3.42%	+3.57%	+5.33%	-1.60%	-9.48%	-9.48%	+0.45%
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+2.37%	+0.13%	+0.39%	+0.34%	-4.23%	-4.23%	-0.41%
Commodity[11]	-5.65%	-5.74%	-5.04%	-10.58%	-12.23%	-12.23%	-0.24%

[1]Morningstar Cash Index [2]Bloomberg Barclay's Capital U.S. Aggregate Bond Index [3]Morningstar Global Market Large-Mid Index [4]Morningstar U.S. Market Index [5]Morningstar U.S. Large Cap Index [6]Morningstar U.S. Small Cap Index [7]Morningstar Gbl ex U.S. Large-Mid Index [8]Morningstar DM ex U.S. Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index.

Despite tumultuous trading, equities managed positive returns last week. Bonds were the big story, as the Federal Reserve cut interest rates on Tuesday morning — a rare, between-meeting emergency cut of 0.5%. The 10-year Treasury yield continued to set record lows, pushing below 1% for the first time and then touching as low as 0.66% on Friday before closing slightly higher (a new low was set again this last Sunday night). Headlines were dominated once again by the COVID-19 disease and its spread around the world, particularly here in the U.S. The virus news flow overshadowed still generally positive economic data (albeit backward-looking), headlined by Friday's non-farm payroll report that showed 273,000 jobs created in February, with upward revisions to previous months' numbers and a jobless rate at 3.6%.

Large-cap U.S. stocks led the way last week, with small-caps falling behind. International markets were positive, with emerging markets outperforming developed. Commodities fell as gains in gold were more than offset by cratering oil prices (which then plummeted further on Sunday night).

GRANT ENGELBART
Senior Portfolio Manager
Director of Research

Grant Engelbart manages CLS's aggressive mutual funds and several ETF and mutual fund separate account strategies, including CLS's American Funds portfolios. He also leads the alternative broad asset class team and serves on several committees across CLS's parent company, NorthStar Financial Services Group, LLC.

Mr. Engelbart first joined CLS as an intern in 2007. He returned in 2009 and held several roles in trading and investment research prior to accepting the role of Portfolio Manager in 2013. He previously held positions at TD Ameritrade and State Street Corporation.

Mr. Engelbart received his Bachelor of Science degree in Finance from the University of Nebraska at Lincoln. He holds the Chartered Financial Analyst (CFA®) designation, Chartered Alternative Investment Analyst (CAIA®) designation, and Series 65 license. He is a member of the CFA Society of Nebraska and the CAIA Chicago Chapter.

*Mr. Engelbart was named one of the Top Ten Money Managers to Watch by Money Management Executive in 2018.**

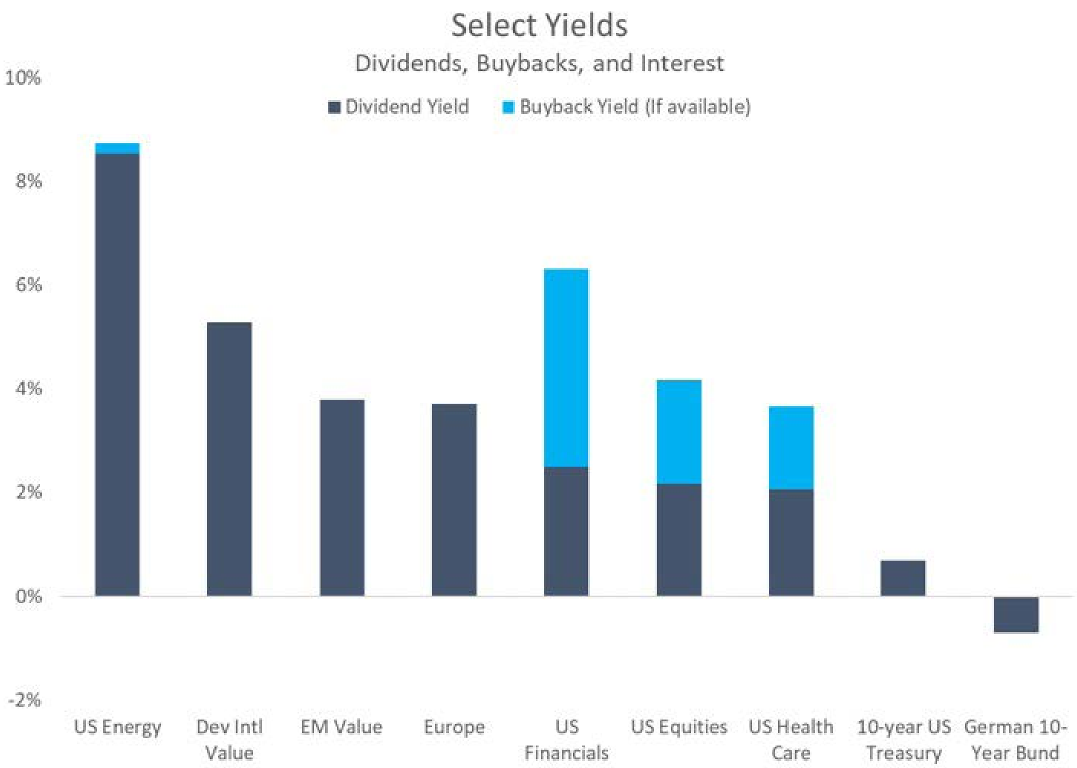
**CLS Investment, LLC ("CLS") Portfolio Manager, Grant Engelbart, CFA, CAIA, was selected as a "Top 10 Fund Managers to Watch" in 2018 by Money Management Executive. Money Management Executive is an unbiased, third-party publication covering the asset management industry. Money Management Executive chose the list of managers to watch by screening Morningstar data from funds with a single manager, ranked as having the best three-year annualized returns in their respective categories. The list of managers was published March 12, 2018. Money Management Executive is not affiliated with CLS. Ratings and awards may not be representative of any one client's experience and are not indicative of CLS's future performance.*

Not All Yields are Falling

1

Just when you thought yields couldn't go any lower…. The 10-year U.S. Treasury yield dipped below 0.7% last Friday (and even lower since). The abrupt move in yields to never-before-seen (in the U.S.!) levels has caused income-oriented investors to wonder where to invest. However, as yields in fixed income shrink to (literally) nothing, investors should remember that yields on equities are actually rising, and quickly.

The chart below shows select markets and their current dividend yield. Value stocks overseas have yields pushing 4-5%, and many U.S. value-oriented sectors have comparable yields. Financial companies have also struggled as rates fall, but they offer significant returns to shareholders in the form of dividends and stock buybacks, which are another consideration for yield that's often overlooked.



As of 3/6/2020. Sources: Morningstar, JP Morgan

The principal on an equity investment will, of course, fluctuate quite a bit more than that of fixed income, but the opportunity for growth is substantially higher, especially after a drawdown. Dividends also present some interesting advantages over traditional bond income – they are typically taxed more favorably (if qualified), tend to grow over time (especially in monetary terms), and are often coupled with stock buybacks. There is also evidence of performance and risk advantages for stocks that pay and grow dividends.

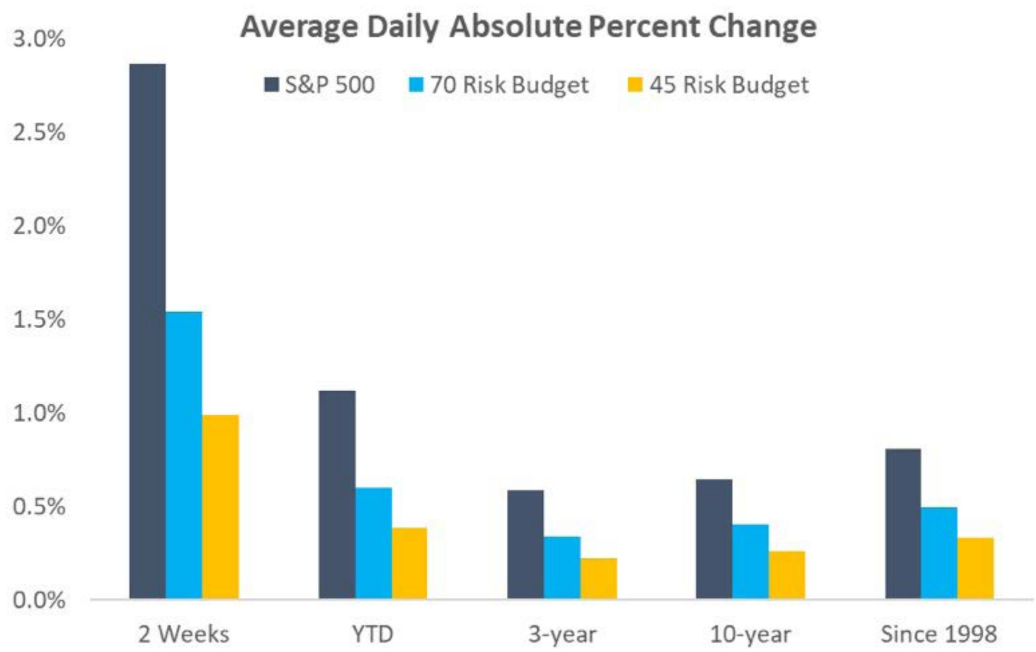
So when considering an income strategy, don't forget the part of the market where yields are actually rising: stocks. Consider a global, multi-asset approach to take advantage of asset class diversification and income opportunities.

A Remedy for Volatility

2

1,000 points up, 1,000 points down. It goes without saying that volatility has returned (maybe someday people will stop quoting points). There are several ways to weather this volatility. Diversification is likely the best (sure beats cash or bonds right now), but we think it should be taken a step further. Measuring and knowing the risk clients are taking is crucial to becoming comfortable with their allocations and staying invested. This was the fastest market correction in history; who's to say it won't be the quickest recovery in history when it does happen?

Measuring this risk also helps the stomach-wrenching daily fluctuations of markets. In the chart below, we compare the benchmarks for two different risk levels (70, a very common 60/40-like allocation, and a more conservative 45) and show the daily fluctuations for those portfolios versus the S&P 500 index. As you can see, the measured-risk portfolios mitigate the daily moves by even more than expected (for example, the 70 Risk Budget benchmark has daily moves that are 50-60% of those of the S&P 500). Risk management is key to navigating clients and advisors through this volatile period. Let us know if you want to measure your risk tolerance or your portfolio's Risk Budget.



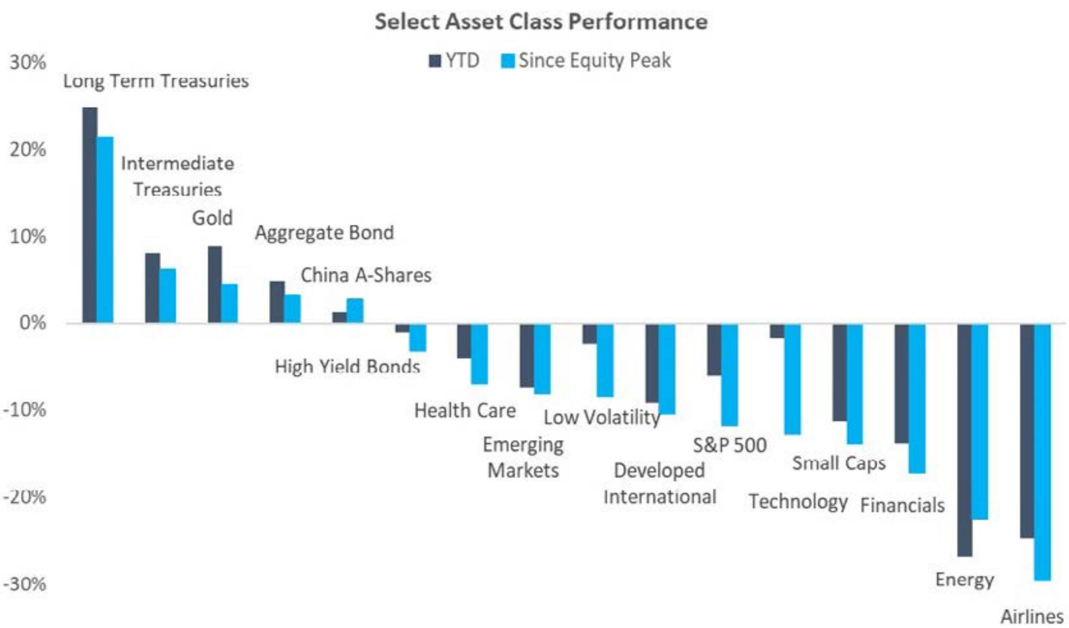
As of 3/6/2020 Source: Morningstar, CLS Investments

Surveying the Damage

3

Although it has been a swift decline, it is worth taking a look at the winners and losers in the market so far. There are likely obvious reasons for the performance of various asset classes over this period, and there are also opportunities. Amazingly, long-term (25+ years) zero-coupon Treasury bonds are up more than 25% this year, after returning more than 20% last year. This isn't a commonly owned asset class, but it represents the longest-duration high-quality fixed income and offers an extreme example of what can happen when interest rates fall. Intermediate Treasury bonds, gold, and, maybe most surprising to a lot of observers, Chinese A (onshore) equities are higher on the year!

On the flip side, there are, of course, many negative returns. Defensive sectors (think staples, utilities, health care), low volatility, and international stocks have had negative returns but have fared better than the U.S. stock market. Smaller stocks, financial firms, and energy companies are some of the hardest-hit sectors due to falling interest rates, which hurts financials, and falling demand, which hurts energy. Airlines are one of the worst performing groups as travel has been curtailed globally. Needless to say, in these hardest-hit areas, opportunity abounds. Attractive valuations and fundamentals are being trumped by macroeconomic forces that will reverse at some point.



As of 3/6/2020 Source: Morningstar

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 Morningstar Diversified Alternatives Index allocates among a comprehensive set of alternative underlying ETFs that employ alternative and non-traditional strategies such as long/short, market neutral, managed futures, hedge fund replication, private equity, infrastructure or inflation-related investments. 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 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 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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