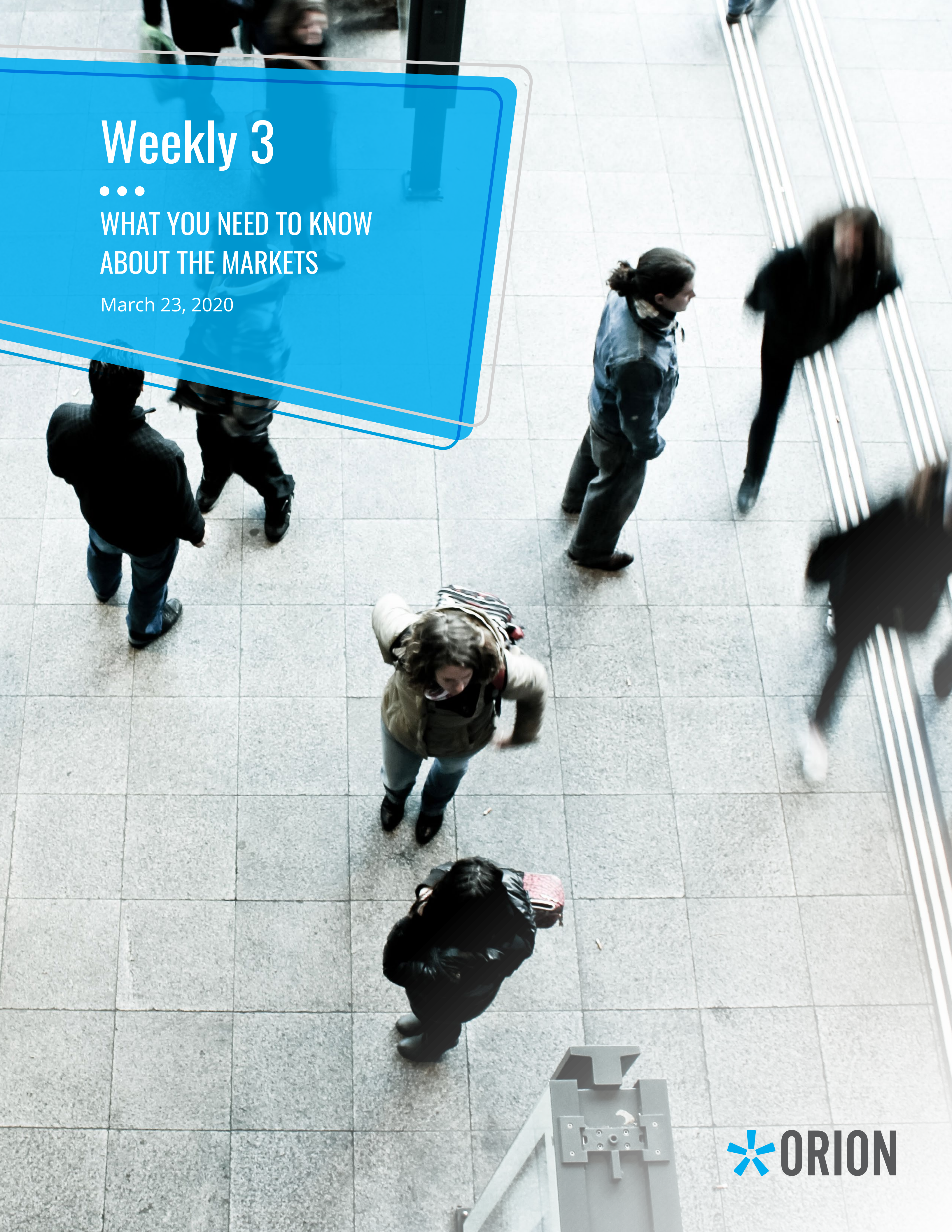

Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

March 23, 2020

ORION

Week in Review

- Wow. Another historic week for the market and for the world we now live in. Extreme volatility persisted last week, with stocks declining sharply as the number of coronavirus cases globally continued to rise. The effects of social distancing will take a significant toll on the global economy and hurt employment, and major central banks and governments around the world announced measures to support the economy. The U.S. called for a $1.2 trillion stimulus plan, European countries announced a combined $1 trillion in new fiscal spending, and the Federal Reserve cut rates by a full 1%, returning its policy rate back near zero in addition to restarting its bond-buying program.
- On the week the S&P declined nearly 15% and is down over 28% YTD. Small caps fared even worse declining over 16% and have declined nearly 40% YTD. In some relatively positive news, the MSCI EAFE Index dropped by 6% and Emerging Market stocks were down by nearly 10%. Watching that pattern, China got hit first and then its equity market started to rebound. We saw a similar pattern this week in Italy and most of Europe. Let's hope the U.S. isn't far behind!
- The Federal Reserve rolled out several measures this week to support the economy and re-liquefy financial markets reeling from the shock of an unprecedented shutdown. We believe they aren't done yet. Additionally, look out for more fiscal measures to be announced as early as Monday.
- Bond market liquidity – the ability to buy and sell large quantities of assets without disrupting the price – has been under extreme pressure over the past two weeks as panic sellers fled risky assets and sought safety from ongoing market volatility.
- Investment grade municipals have fallen 8% the past two weeks. This was their worst performance in nearly 40 Years! High yields munis and taxable bonds were down 17% the past two weeks. Some of the ETFs in the space are trading at their largest discount in their history.
- Oil prices dropped 25% on the week and are lower by 60% YTD.
- The portfolio management team continues to be extremely active in regards to trading portfolios. Tax harvesting occurred in all portfolio segments. Repositioning into some of the more unfairly punished sectors like financials occurred. We purchased High Yield muni's at historic discounts.
- These are unique times and our daily life patterns are changing for the foreseeable future. We recognize many of you have a lot of questions on how to navigate individual and client portfolios during this turbulence. We won't have all the answers either.
  - But, **we believe wholeheartedly that staying the course; meaning balanced, diversified portfolios for the long-term is your best option for success**.
  - We will continue to update you to our thinking as it evolves.

If you have any questions, please feel free to reach out to us:

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Case Eichenberger case.eichenberger@clsinvest.com; 402-896-7004

1 *Liquidity, Liquidity, and More Liquidity*

2 *Coronavirus in the U.S. is Unlikely to Mimic China and Italy*

3 *Strong Client Relationships are More Important than Ever*

The Weighing Machine podcast is on Google Play and iTunes.

On Orion Portfolio Solutions' 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 03/20/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.58	+1.11	+1.72	+2.06	+0.40	+0.40	+0.02
U.S. Investment Grade Bonds[2]	+3.52	+2.74	+3.92	+6.51	+0.01	+0.01	-2.29
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+4.93	+0.23	-2.38	-20.97	-29.86	-29.86	-11.95
Total U.S. Market[4]	+9.10	+3.15	+0.17	-18.47	-29.40	-29.40	-15.30
Domestic Large-Cap Equity[5]	+9.69	+4.73	+2.34	-14.42	-26.66	-26.66	-14.49
Domestic Small-Cap Equity[6]	+5.61	-3.62	-9.39	-34.23	-39.84	-39.84	-17.59
International Equity[7]	+1.38	-2.74	-5.31	-24.57	-31.17	-31.17	-7.78
Developed International Equity[8]	+1.55	-3.22	-5.75	-24.99	-32.00	-32.00	-6.86
Emerging Market Equity[9]	+0.73	-1.24	-4.00	-23.49	-28.78	-28.78	-10.22
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+0.68	-2.92	-4.82	-14.62	-18.02	-18.02	-7.45
Commodity[11]	-6.87	-8.25	-8.88	-24.42	-24.23	-24.23	-6.43

[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.

Liquidity, Liquidity, and More Liquidity

1

Information is changing and actions are taking place at such a fast pace that I thought it would be helpful to record the unfolding events, specifically the response of the Federal Reserve, by providing a timeline.

The Fed has provided an unprecedented, historic amount of liquidity to the market. Money markets, the nerve center of the financial markets, have been significantly impaired and clogged up over the last two weeks. Everything from the Commercial Paper (CP) markets, corporate bonds, and municipals have been impacted. ETFs in these products are trading at huge discounts to their net asset values, in many cases.

As of the morning of Monday, March 23, the Fed announced an unlimited amount of liquidity will now be provided to the markets. Let's hope this helps the plumbing concerns.

Here is a list of all the liquidity measures taken thus far:

March 3

- Federal funds rate cut by 50 bps.
- Primary credit rate at regional banks decreased by 50 bps.

March 12

- $60 billion of reserve management purchases made across a range of maturities for the next month.
- $500 billion of three-month repurchasing operations (repo) was offered
  - Three- and one-month repo to be offered for $500 billion weekly for the remainder of the month.
  - At least $175 billion will continue to be offered in daily overnight repo and another $45 in two-week repo twice per week.

March 13

Purchases:

- 20- to 30-year maturities for around $4 billion each
- 7- to 20-year maturities for around $5 billion
- 4.5- to 7-year maturities for around $8 billion
- 2.25- to 4.5-year maturities for around $8 billion
- 0- to 2.25-year maturities for around $8 billion

March 15

- Federal funds rate cut by 100 bps to 0.
- Treasury holdings increased by $500 billion.
- Agency Mortgage-Backed Securities increased by $200 billion.
- Primary credit rate decreased by 150 bps.
- Reserve requirements reduced to zero.

MARC PFEFFER

Chief Investment Officer

Marc Pfeffer serves as CLS's Chief Investment Officer. In his role, Marc is responsible for leading CLS's Portfolio Management Team and overseeing all investment operations at CLS, including investment philosophy, process, positioning, and performance.

Prior to taking on the role of CIO, Marc was CLS's Chief Investment Strategist. He was also previously a Portfolio Manager on the CLS Flexible Income Fund team, and managed the CLS Active Income X Strategy and CLS's ETF strategies. He also managed individual municipal bond portfolios for the CLS Master Manager Strategy and continues to serve as a senior member of the CLS Investment Committee.

Marc has more than 30 years of investment management experience, including time spent as the Chief Investment Officer at Milestone Treasury Obligations Fund. He also worked previously at Goldman Sachs and Bear Stearns.

Marc 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 the Series 65 license.

March 17

- A Commercial Paper Funding Facility was established to provide liquidity to U.S. issuers of commercial paper through , a subsidiary created by a parent company to isolate financial risk.
  - The Treasury will provide $10 billion in credit protection to the Federal Reserve through the SPV.
- A Primary Dealer Credit Facility established to offer overnight and term funding for up to 90 days. This will be available for at least six months.

March 18

- A Money Market Mutual Fund Liquidity Facility, or MMLF, was established for asset money market funds to help meet demands for redemptions.

March 19

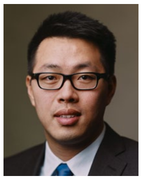
- Temporary dollar liquidity arrangements (swap lines) were established with several reserve banks around the globe, including in:
  - Australia, Brazil, Denmark, Korea, Mexico, Norway, New Zealand, Singapore, and Sweden.

March 20

- MMLF expanded to provide liquidity for crucial state and municipal money markets.

Coronavirus in the U.S. is Unlikely to Mimic China and Italy

2



JACKSON LEE, CFA
Quantitative Portfolio Manager

It has been almost three months since the first reported case of the coronavirus (COVID-19), which has now infected more than 300,000 people worldwide and taken the lives of many. The markets have taken a nosedive as there are many uncertainties surrounding the impacts of the pandemic on the economy. Many indices around the world are trading at deep discounts, including the S&P 500, which is now trading at a 32% discount from its peak just about a month ago. While the end of this pandemic is nowhere in sight as new confirmed cases and death tolls continue to rise around the world, here is some positive information investors can turn to.

Earlier this month, Wuhan, the city in China where the outbreak first began, closed the last temporary hospital that was built to handle COVID-19 as new cases plummet. It took China roughly six weeks to reach its peak from the time the local governments first acknowledged the issue, and it has since kept new cases under control. Other countries could use the timeline and the data from China as a baseline on what they could expect, but there are many factors that could impact the outcome. The World Health Organization has praised the Chinese government's ability to lock down cities as an effective measure to contain the spread of the disease. Furthermore, lessons learned from the SARS outbreak helped speed up the process of identifying the virus and expanding the country's health care capacity to treat potential patients, which played an important role in containing the coronavirus.

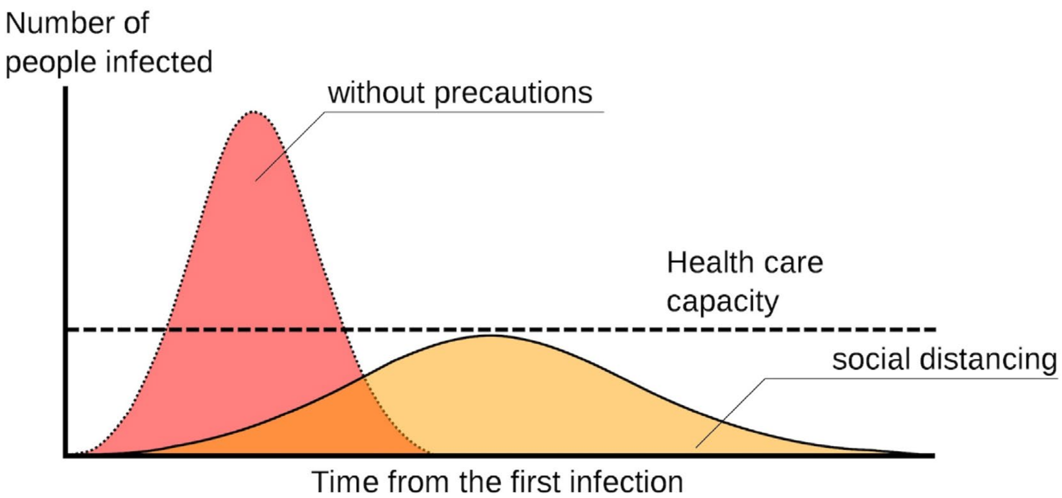
The extreme measures imposed by the Chinese government have also received criticism, specifically related to human rights and the true effectiveness of the tactics. Italy, which has been using a similar lockdown method, has unfortunately yielded a very different result as the mortality rate is much higher, at nearly 9%. While this data is daunting and the media has drawn comparisons between the U.S. and Italy, the table below shows some of the obvious factors why the U.S. will likely not have the same experiences as China or Italy.

Country/Region	Population	Death	Death Rate	Confirmed Cases	Confirmed Cases as % of Population	Density (People/Km²)	Median Age	Tested	Tested/Population
Total	7,794,798,739	12,972	4.26%	304,462	0.004%	15.00	31		
China (Total)	1,439,323,776.00	3,259	4.01%	81,305	0.006%	153	38	-	-
China (Hubei)	11,080,000.00	3,139	4.63%	67,800	0.612%	310	-	-	-
Italy	60,461,826.00	4,825	9.01%	53,578	0.089%	206	47	206,886	0.342%
US	331,002,651.00	307	1.20%	25,489	0.008%	36	38	103,945	0.031%
Spain	46,754,778.00	1,375	5.42%	25,374	0.054%	94	45	30,000	0.064%
Germany	83,783,942.00	84	0.38%	22,213	0.027%	240	46	167,000	0.199%
Iran	83,992,949.00	1,556	7.55%	20,610	0.025%	52	32	80,000	0.095%
France	65,273,511.00	562	3.89%	14,431	0.022%	119	42	36,747	0.056%
Korea, South	51,269,185.00	102	1.16%	8,799	0.017%	527	44	316,664	0.618%
Switzerland	8,654,622.00	75	1.14%	6,575	0.076%	219	43	4,000	0.046%
United Kingdom	67,886,011.00	234	4.62%	5,067	0.007%	281	40	64,621	0.095%

Source: Worldometers 3/21/2020 and GitHub 3/21/2020

Compared to China, the U.S. is so far in a much better place because China provided us with some lead time for preparation. While the U.S. might not implement as extreme measures as China, there are lessons the U.S. could take from China's playbook. From a data standpoint, there is now a lot more information on the virus, including insight on higher mortality rates in Italy, which are associated with Italy's older population. Perhaps one of the biggest advantages for the U.S. is lower population density, as this should slow the infection rate, or flatten the curve, if the general public continues to practice social distancing. As the chart below demonstrates, a flatter curve assumes the same number of people being infected, but over a longer period, placing less strain on the health care system.

2



Source https://www.livescience.com/coronavirus-flatten-the-curve.html

There is no doubt that we are in a very difficult time, and it is only natural for the public to be concerned. Through all this tragedy, however, there are a few silver linings. First and foremost, this is a wakeup call for all of us to practice good personal hygiene even after this pandemic is over. This is also a good time to take a step back and spend some quality time with our families as we do our part by social distancing. Take the opportunity to learn a new skill set that will help you advance either professionally or personally. At the end of the day, this too shall pass, and the current market environment provides great opportunities for active managers.

Strong Client Relationships are More Important than Ever

3

> "When you are a pessimist and the bad thing happens, you live it twice. Once when you worry about it, and the second time when it happens."
> — Amos Tversky, a father of behavioral economics

As a psychologist who specializes in behavioral finance, it won't be surprising to learn that I think a lot about human behavior, especially as it pertains to the impact that market and economic forces can have on it. From this point of view, I believe that times like the present are when financial advisors have an opportunity to really demonstrate their value, even if a client's portfolio is taking a hit.

This value comes in the form of their relationship. I strongly believe advisors who have invested in building trust and have gained the confidence of their clients will be able to effectively weather any storm. Of course, the right portfolio matters, but that does not fully explain why clients stick around and what leads to the best long-term outcomes.

Several studies have shown the long-term benefits of a strong advisor-client bond. For instance, [1]McKinsey and Company showed that greater client satisfaction led to an increased share of the wallet, while Vanguard estimated that an additional 1.5% return could be obtained through effective advisor-client interaction.

The evidence demonstrating the benefits of a strong relationship during tough times appears to suggest a sort of universal law across diverse industries. Gallup has reported that employees who like their managers are less likely to leave their jobs. It's also commonly understood in the field of mental health that patients who establish a rapport with their therapist will achieve better outcomes regardless of therapeutic approach.

So what can advisors actually do? First and foremost, be empathetic and acknowledge that the current pandemic is indeed scary and affirm that it's normal to be anxious. It can even be helpful for advisors to share their own experiences and how they have been personally impacted by the event. This interaction, alone, can serve as a useful outlet for stressed-out clients.

Second, understand how the stressed-out brain processes information. Stress creates a fight or flight reaction that inhibits critical and abstract thought. In other words, stress hurts the sort of thinking that's good for investing. Prolonged stress can even lead to a depressive state, which psychologists describe as *an inability to construct a future*. Advisors must understand that this state of mind can make it nearly impossible to imagine a brighter future beyond the present.

Advisors are well-positioned to step in and help their clients recall the brighter future they discussed when they initially started working together. This discussion should be a recall of their goals and a reinforcement of how they can still be achieved. Put another way, the conversation is grounding with an eye to the future. Finally, advisors can help paint this picture by sharing supporting information regarding past recoveries as described by our senior portfolio manager, Kostya Etus, in the previous Weekly Three.

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1 Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263) and https://www.mckinsey.com/industries/retail/our-insights/the-three-cs-of-customer-satisfaction-consistency-consistency-consistency

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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