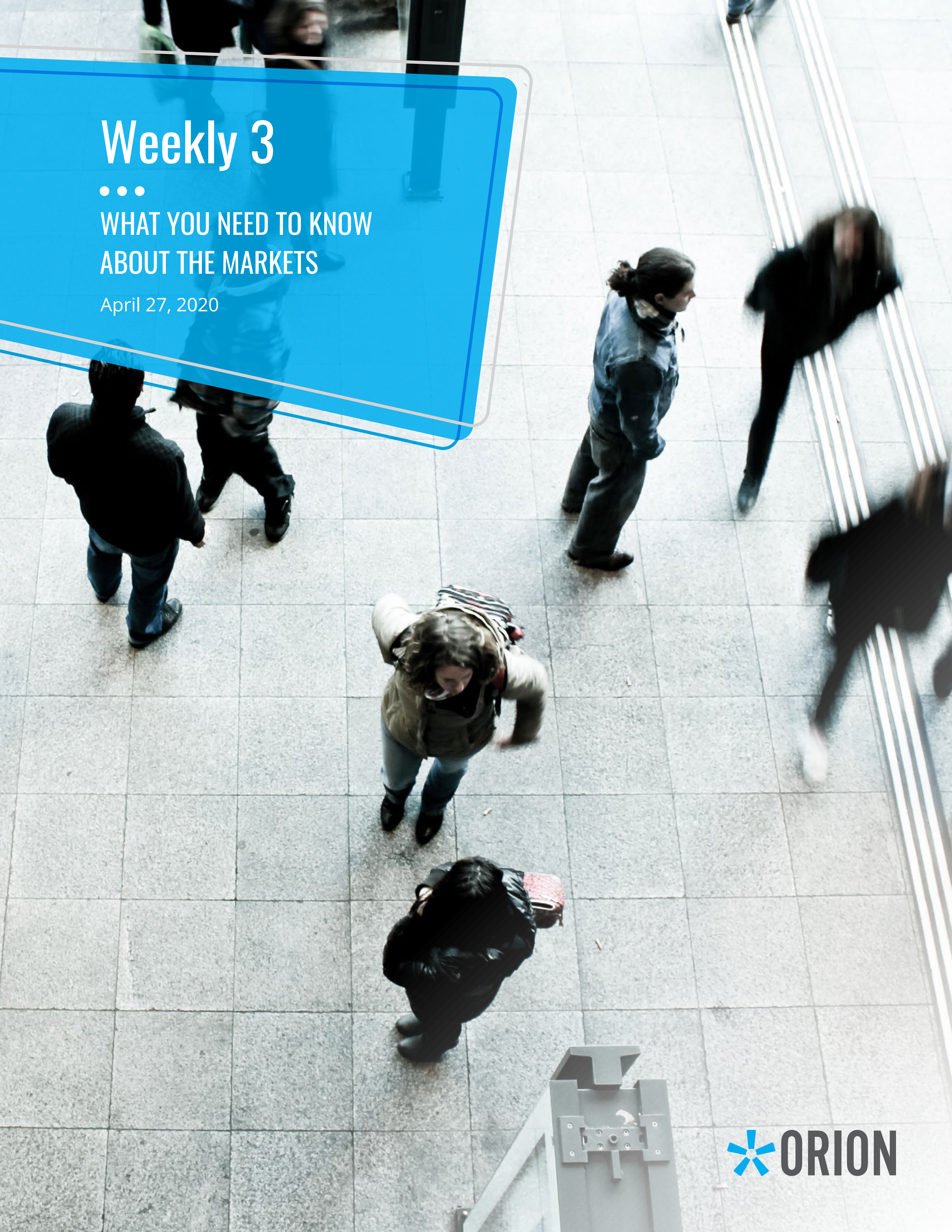
Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

April 27, 2020



ORION

Week in Review

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Market Performance

as of 04/24/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	0.58	1.11	1.70	1.82	0.41	0.01	0.00
U.S. Investment Grade Bonds[2]	4.02	3.68	5.18	11.01	4.99	1.78	0.24
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	6.46	3.34	3.25	-8.20	-16.29	6.82	-1.55
Total U.S. Market[4]	10.83	7.52	7.40	-2.90	-12.72	9.89	-1.20
Domestic Large-Cap Equity[5]	11.54	9.09	9.75	1.93	-9.49	10.19	-1.29
Domestic Small-Cap Equity[6]	6.78	0.44	-3.40	-22.46	-26.35	7.68	-0.09
International Equity[7]	2.57	-0.99	-1.52	-15.23	-21.40	2.99	-1.91
Developed International Equity[8]	2.90	-1.00	-1.68	-14.69	-21.37	2.63	-1.75
Emerging Market Equity[9]	1.41	-1.05	-0.90	-16.81	-21.47	4.04	-2.37
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	1.23	-1.37	-2.22	-7.67	-10.82	3.47	0.01
Commodity[11]	-7.26	-8.89	-8.84	-24.79	-25.29	-2.61	-2.98

Source: Morningstar

[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.

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

CIO Weekly Viewpoint

1

MARC PFEFFER
CLS Chief Investment Officer

Most of the major indexes fell moderately last week in response to first-quarter earnings reports and the unprecedented plunge of oil prices into negative territory.

The S&P 500 index fell just over 1% on the week.

- The largest market-cap stocks in the S&P 500 continued to outperform the rest.
- Growth outperformed value.
- However, small-cap stocks outperformed all other domestic categories and had a small, positive gain for the week.

The turmoil in energy futures seemed to weigh heavily on overall sentiment early in the week.

- On Monday, the May futures contract for West Texas Intermediate crude oil, due to expire Tuesday, closed at -$37.63 per barrel. In other words, buyers were getting paid to take and store each barrel. Another first.

Alternatives:

- Commodities were down 2% on the week, led by a 31% drop in oil prices.
- REITS were down nearly 5%.

International stocks were negative. Europe fell 2%, and emerging market stocks slipped almost 2.5%. Japan was down more than 3%.

On Thursday, the House of Representatives overwhelmingly passed a $484 billion spending bill to replenish a new, but swiftly depleted, program providing loans to small businesses, as well as to provide further funding for coronavirus testing and hospitals.

Some interesting tidbits:

- On March 23, the stock market hit its lowest point since December 2016. Now it's back to where it was in early March.
- The market fell 34% from all-time highs, taking just 23 days to fall — the fastest-ever 30% drop from a bull-market peak.
- The stock market has risen more than 25% in the past month. So, are we in a bull market or a bear market?
- Even with the small decline last week, the S&P 500 is still on pace for April to be the strongest months since October 2011.

U.S. Treasury yields moved slightly lower on the week, and credit spreads widened a bit.

The earnings season continues this week with about one-third of companies in the S&P 500 reporting first-quarter results.

Important economic data being released this week include the first-quarter GDP estimate, the Federal Reserve rate announcement on Wednesday, and the manufacturing Purchasing Managers' Index (PMI) on Friday.

You think we miss sports?

- The first round of the NFL draft drew 15.6 million viewers across ABC, ESPN, and the NFL network on Thursday night. It was a new ratings record and up 37% from last year. The second day also set records.

Oil Did … What?

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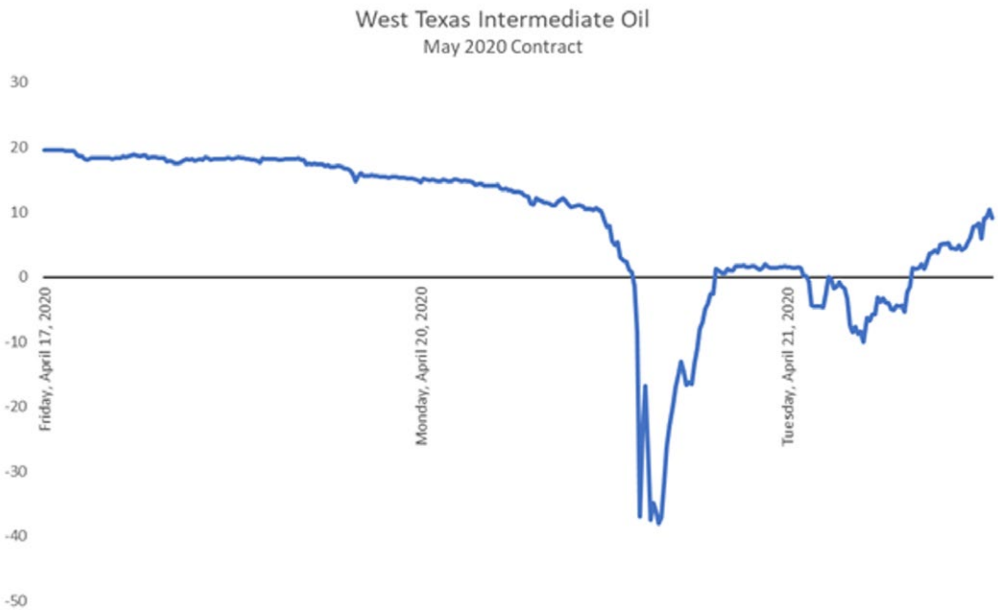
2020 has proven to be a year of firsts, and on Monday, April 20, it recorded another one. Oil prices went negative. Yes, front-month West Texas Intermediate (WTI) crude prices closed at -$37/barrel. That's a one-day return of -305%. What? How? Huh? Let's dive in.

GRANT ENGELBART
CFA, CAIA, CLS Director of Research and Senior Portfolio Manager

Most commodities trade based on the price of their futures contracts. A futures contract is an agreement to buy or sell an asset at a predetermined price some point in the future. Buyers are long and have an obligation to buy the underlying asset when the contract expires; sellers are short and have an obligation to sell. Futures are used by both speculators and hedgers — those making a stance on the price movement are speculators, and those protecting their assets or future crops are typically hedging.

So, what happened on Monday? The nearest to expiration, or "front month" futures contract is what is typically quoted in the news. This was the May futures contract for WTI, which was set to expire on Tuesday, April 21 (don't ask me why May expires in April). This meant that, upon expiration, everyone who was long those futures contracts was going to receive their share of oil (known as "taking delivery") if they didn't sell before expiration. For buyers such as oil refineries that have a use for that oil, that's fine, they can take delivery. Everyone else needed to sell and move to the next month ("roll forward").

Well, turns out no one needs oil right now. There's too much oil that is not being used and nowhere to store it. What ensued was historic selling of the May futures contract, so much so that its price went negative. I'm guessing a few systems went haywire along the way, not able to make sense of a negative oil price. In fact, there is a volatility index for oil prices, which spiked more than 1,000% that day!



Source: Bloomberg April 21, 2020

As we've seen in the oil market, commodities are volatile investments. However, when properly diversified and added to a portfolio, they can provide real benefits, believe it or not. Especially if inflation returns, commodities can be beneficial and are currently trading at levels almost unheard of. Choosing the right way to invest in commodities is more important than ever. For example, there are many ETFs that own oil futures contracts nearly one year out and had no issues dealing with the drama that unfolded on April 20.

Hopefully 2020's next "first" will be a more positive one!

5 Things I Learned from the Covid Crash of 2020

3

CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

I admit I have no crystal ball. The selling may not be over. For now, we have seen the stock market bottom on the back of COVID-19 cases slowing, the curve flattening, and unprecedented size and speed of fiscal and monetary policies around the globe.

However, there is value to be found in stocks now. Here are my five takeaways from the Covid Crash for long-term investors to keep in mind.

Undeniably, the market is forward-looking; I am reminded of this every day.

With stocks, bonds, and commodities moving swiftly and with magnitude on any given day, the data that comes in after the fact is priced in well before.

This chart from our partners at ClearBridge (page 17) shows, on average, stocks bottom three months prior to the end of a recession. If you are waiting for the recession to end or a green light to buy stocks, you've already missed a lot of gains.

Market timing is almost impossible, but some lucky few get it right. Good luck next time.

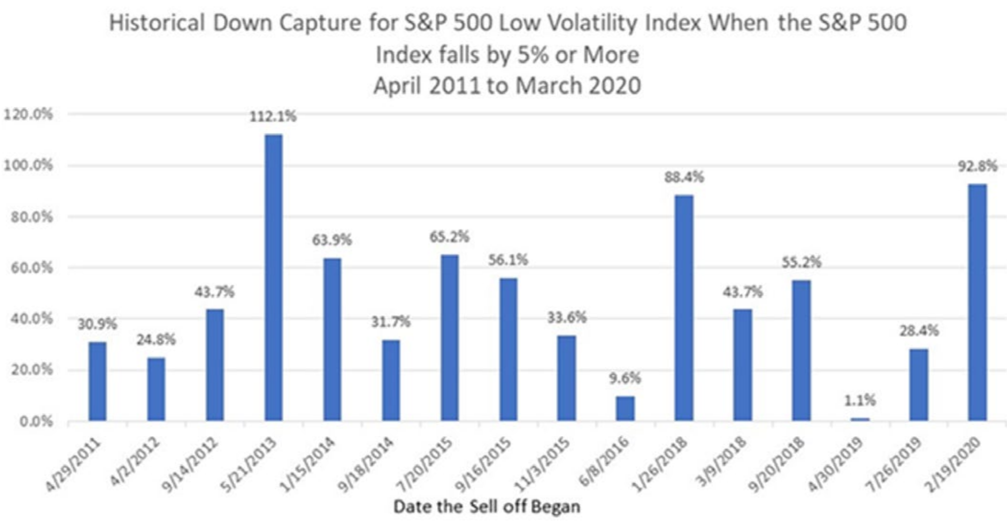
Ninety-nine percent of our clients have stuck to their financial plans during this volatility. However; some, can't help themselves and try to time the market. I have seen several time it wrong — selling on March 13 or 20 — and some time it right — selling late February and getting back in late March.

Timing the market can be more stressful than being locked in your house. With large market swings and stocks up more than 20% off their lows, volatility can make investors either mad or overconfident. Both are bad states for smart decision-making.

In a black swan event, correlations go to one among risk asset classes. Patience is key.

Stock markets globally fell during the extreme volatility; that's not too surprising. What was surprising, to some, is **how investment-grade bonds, gold, long/short funds, and low-volatility sectors/stocks fell in tandem and did not provide much shelter from the storm**. Note that U.S. Treasuries, the U.S. dollar, and the Japanese yen (all playable with ETFs) did provide refuge.

The chart below shows one scenario regarding low-volatility stocks. While they traditionally capture much less drawdown, they can at times capture most or more. Over the long term, these sectors/stocks can still help cushion declines.



SOURCE: Invesco/Morningstar as of March 22.

Opportunities present themselves for active managers.

When major volatility occurs, we witness the truly irrational behavior of the market and its participants over a short period of time. **Occasionally, an event will occur that can create a significant buying opportunity for long-term investors**.

Below we show the spreads (difference of the yield over safe Treasuries) of investment-grade corporate bonds. When spreads contract, like they did from 2010 through 2020, prior to the current market, the asset class may not present enough reward for the risk. When spreads widen, such as they are doing now, they present a significant opportunity for active managers to add to this asset class for higher expected returns. The chart shows spreads are wide but have come in a bit lately, which indicates this asset class has performed well.

SOURCE: CLS/Bloomberg as of April 22.

Investment philosophies and beliefs in traditional alpha premiums get tested.

The most basic principles of stocks outperforming bonds and the wisdom of buying cheap can look wrong from time to time.

As of March 31, 2020, the bond market has outpaced the stock market over the last 20-year period. This challenges our basic beliefs about how the market works. However, **what is the likelihood that stocks won't beat bonds going forward?** If you still believe in stocks, we urge you to not abandon your belief in buying cheap assets (value). We haven't.

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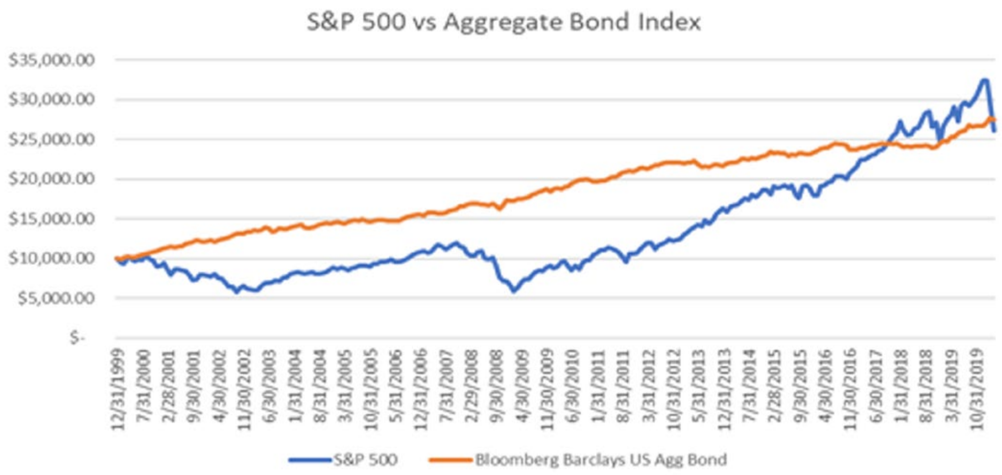

SOURCE: CLS/Morningstar as of March 31.

We'll only know when the bottom is truly in hindsight. These last couple months have been a trying time for markets and societies around the world. Stay well.

The most basic principles of stocks outperforming bonds and the wisdom of buying cheap can look wrong from time to time. As of March 31, 2020, the bond market has outpaced the stock market over the last 20-year period. This challenges our basic beliefs about how the market works. However, what is the likelihood that stocks won't beat bonds going forward? If you still believe in stocks, we urge you to not abandon your belief in buying cheap assets (value). We haven't.

Michael Hadden, CLS Associate Portfolio Manager, assisted with this section.

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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