

# Weekly 3

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WHAT YOU NEED TO KNOW  
ABOUT THE MARKETS

May 14, 2020



# Week in Review

**Rusty Vanneman, CFA, CMT** – Chief Investment Officer: [rusty@orion.com](mailto:rusty@orion.com); 402-896-7641

**Marc Pfeffer** [marc.pfeffer@clsinvest.com](mailto:marc.pfeffer@clsinvest.com); 402-896-7225

**Case Eichenberger** [case.eichenberger@clsinvest.com](mailto:case.eichenberger@clsinvest.com); 402-896-7004

## Market Performance

as of 05/08/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent <sup>1</sup>	0.58	1.12	1.69	1.73	0.42	0.01	0.00
U.S. Investment Grade Bonds <sup>2</sup>	3.87	3.79	5.13	10.20	4.52	1.33	-0.33
EQUITIES	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market <sup>3</sup>	8.00	4.23	4.07	-2.93	-13.00	11.02	2.48
Total U.S. Market <sup>4</sup>	12.35	8.44	8.52	2.63	-9.16	14.36	4.02
Domestic Large-Cap Equity <sup>5</sup>	12.89	9.81	10.48	6.87	-6.50	13.83	3.62
Domestic Small-Cap Equity <sup>6</sup>	9.00	2.41	-0.63	-14.83	-20.25	16.60	5.73
International Equity <sup>7</sup>	4.16	-0.07	-0.86	-10.03	-18.17	7.22	0.70
Developed International Equity <sup>8</sup>	4.57	-0.15	-1.04	-9.65	-18.05	6.96	1.18
Emerging Market Equity <sup>9</sup>	2.77	0.14	-0.13	-11.15	-18.51	7.96	-0.64
DIVERSIFIERS	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives <sup>10</sup>	1.96	-1.04	-1.84	-6.16	-9.83	4.63	0.78
Commodity <sup>11</sup>	-6.43	-8.71	-7.27	-19.86	-22.71	0.76	2.66

Source: Morningstar

<sup>1</sup>Morningstar Cash Index <sup>2</sup>Bloomberg Barclay's Capital U.S. Aggregate Bond Index <sup>3</sup>Morningstar Global Market 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 ex U.S. Large-Mid Index <sup>8</sup>Morningstar DM ex U.S. Large-Mid Index <sup>9</sup>Morningstar EM Large-Mid Index <sup>10</sup>Morningstar Diversified Alternatives Index <sup>11</sup>Bloomberg Commodity Index.

### 1 CIO Weekly Viewpoint

### 2 Investing in a New World

### 3 How to Get Your Small-Cap Value Fix



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

- U.S. stocks finished decisively higher last week, with technology and energy stocks leading the way. Increasing hopes that treatments and a vaccine might bring an eventual end to the health and economic crisis seemed to continue to support stocks throughout the week.
- The S&P 500 rose 3.5% on the week. Small-caps starred for the third straight week, rising 5.5%. Growth massively outperformed value.
- Commodities were up more than 2.5%, led by oil, which recorded its first back-to-back weekly gains since February. REITS were up nearly 2%.
- International stocks had a disappointing week. Emerging market stocks were the lone equity markets in the red, falling 0.5%. European stocks rose by nearly 1%.
- On the economic front, the April employment report showed that a massive 20.5 million jobs were lost last month, erasing roughly all the jobs the economy had added in this past decade's expansion. The unemployment rate spiked to 14.7%, the highest since the Great Depression. The silver lining was that 80% of the job losses were reported as temporary layoffs.
- U.S. Treasury yields generally decreased slightly on the worse-than-expected jobless claims data, but the Treasury Department's indication that it would ramp up issuance of long-term debt to finance the federal deficit kept some upward pressure on bond yields with the longest maturities. Federal funds futures traded at levels implying that market participants were pricing in expectations for negative yields next year despite the Federal Reserve's apparent unwillingness to take official short-term rates below 0%. This bears further watching.
- Important economic data being released this week include inflation on Tuesday and consumer sentiment and retail sales on Friday.



**MARC PFEFFER**  
*CLS Chief  
Investment Officer*

Source: Bloomberg

# Investing in a New World

## 2

The world has no doubt changed following the COVID-19 pandemic. It's very possible that there are environments, work arrangements, lifestyles, and industries that will be at least somewhat changed forever. Identifying these trends has been the task of active managers around the world. Here are just a few areas we've been thinking about in terms of identifying investment opportunities:

## Work from Home

This might be one of the most obvious trends out there, and prices likely reflect that. Technology-enabled platforms that increase communication, cloud and web services, telecommunications infrastructure, and productivity software are just a few examples. The trick here is to determine which of these stands to benefit the most going forward and which will drop off precipitously once we return to work (if that ever fully happens). For example, it seems to be pretty commonly accepted that video conferencing will slow once we get back to work. I can definitely see that happening — but it may not slow as much as we think. A meeting with three people in the office may still require a fourth person who's at home or on the road, requiring that video software. I suspect many one-off business and sales trips will be rethought if they can simply be handled by a 30-minute video conference versus two days of travel!

## Health Care

Another obvious one, at least on the surface. Biotechnology and pharmaceutical companies that are tackling various methods of dealing with the virus are very much en vogue right now (we have a strategy for that!). However, other parts of the health care system will also likely benefit and continue to do so. Health supplies, hospital infrastructure, even new technologies that screen people for fevers are likely to continue to be built out.

## Manufacturing/Supply Chain

Just-in-time inventory may change to "just-in-time-as-long-as-it's-local" inventory. Supply chains are being rethought globally, with the potential for more plants to come closer to home to minimize disruptions. This also has the potential to create more jobs, potentially helping workers displaced from issues with service businesses. The investment opportunities here are mixed. Companies can mitigate supply chain disruptions by having plants in the U.S. (or Canada/Mexico), but they will likely pay higher labor costs than they would in other parts of the world.

## Delivery

If you are a retailer or even own a restaurant and don't deliver in this environment, it's been very tough. Retailers are working to get groceries to consumers in a matter of hours. Food delivery services are expanding to more and more restaurants, and some restaurants are even delivering themselves. Uber Eats expanded some 50% in the first quarter. While many of these services will likely decline, there are likely many new users of these services that are now hooked.



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

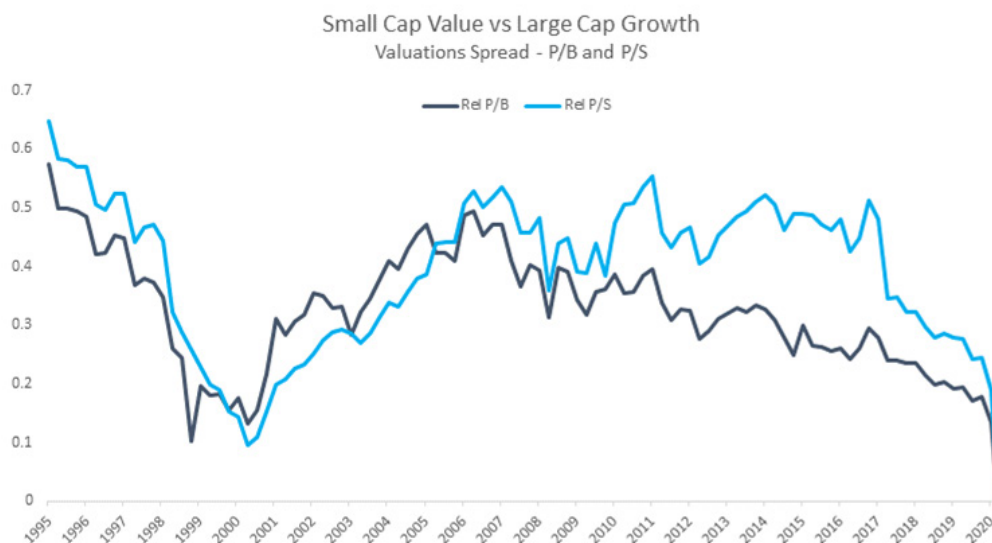
There are, of course, many potential losers as a result of these changes, too. The trick is to determine if the decline in business activity the market is pricing in is warranted. Will we travel again? Of course. But at what capacity, and how soon? Will restaurants ever be back at full capacity? Or mass transportation? I believe there is a great opportunity for active managers to parse through the opportunities and deliver for investors going forward.

2

# How to Get Your Small-Cap Value Fix

# 3

We are experiencing a historic opportunity in both small-cap and value stocks. Relative valuations of small-caps versus large-caps and value versus growth are at some of the lowest levels we have ever seen. When you combine the two, and look at small-cap value valuations, it is something magical. The graph below shows that small-cap value valuation spreads versus large-cap growth have never been this low (since 1995). The last time they were close to being this low (in 2000), small-cap value outperformed large-cap growth by 26% per year over the next 5 years and by 12% per year over the following 10 years!



Source: Bloomberg

So how can someone on the OPS platform take advantage of this opportunity?

I have compiled the Morningstar Size Scores (smaller score = smaller size) and Value-Growth Scores (smaller score = more value) for all OPS strategies that are in Morningstar and have more than 60% in equities. I then averaged the scores to identify attractive combinations of size and value. The table of the top 20 results is below. A few observations:

- Several of our new SMAs are on the list, including: River Road, Cardinal, Hotchkis & Wiley, and Templeton — they have been well-timed additions to the platform!
- Our very own OPS High Dividend TSP takes third place and is one of the best value plays on the platform.
- It's not surprising to see Buckingham well-represented on the list, given its use of DFA-based products — DFA funds generally tilt toward both value and small-caps.
- Lastly, CLS is represented on the list through one of their tactical offerings, as well as some of their model portfolios. CLS believes in investing in the most attractive opportunities based on relative valuations, and thus it's no surprise that its portfolios are generally tilted toward value and small-caps.

Please let me know if you would like to see the full list or more details on any of these strategies. Thank you.



**KOSTYA ETUS**  
CFA, OPS Director  
of Research

NAME	VALUE-GROWTH SCORE	SIZE SCORE	AVERAGE
River Road Div All-Cap Value Composite	11	235	123
Cardinal Capital SMID Cap Value Equity	151	100	125
OPS - High Dividend 30 TSP	23	257	140
Buckingham Global Equity DFA	89	211	150
Buckingham Cap App I - TM	99	207	153
Buckingham Conservative I - TM	99	207	153
Buckingham Defensive I - TM	99	207	153
Buckingham Equity I - TM	99	207	153
Buckingham Moderate I - TM	99	207	153
Hotchkins & Wiley - Lg-Cap Fundamental V	42	265	154
AdvisorOne CLS Shelter N	84	227	155
Buckingham Global Moderate SA	96	225	161
Buckingham Global Capital Appr SA	97	227	162
361 Global Long/Short Equity I	116	217	166
CLS Core Plus ETF Risk Budget 90 Agg	103	250	176
Gotham Absolute 500 Institutional	76	277	177
CLS Core Plus ETF Risk Budget 100 Agg	99	256	177
CLS Smart ETF Risk Budget 60 Moderate	128	228	178
CLS Smart ETF Risk Budget 90 Aggressive	125	234	179
Templeton International ADR Equity SMA	69	291	180

Source: Morningstar Direct

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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Contact Us Today



17605 Wright Street | Omaha, NE 68130

402.895.1600 | [orion.com](http://orion.com)