

Weekly 3

...

WHAT YOU NEED TO KNOW
ABOUT THE MARKETS

May 18, 2020

Week in Review

Rusty Vanneman, CFA, CMT – Chief Investment Officer: rusty@orion.com; 402-896-7641

Marc Pfeffer marc.pfeffer@clsinvest.com; 402-896-7225

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

Market Performance

as of 05/15/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent ¹	0.58	1.12	1.69	1.69	0.42	0.01	0.00
U.S. Investment Grade Bonds ²	3.87	3.85	5.14	10.01	4.86	1.66	0.33
EQUITIES	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market ³	7.47	3.55	3.04	-4.10	-15.09	8.36	-2.40
Total U.S. Market ⁴	11.77	7.80	7.54	1.04	-11.40	11.54	-2.47
Domestic Large-Cap Equity ⁵	12.46	9.32	9.71	5.86	-8.20	11.76	-1.81
Domestic Small-Cap Equity ⁶	7.78	1.02	-2.60	-18.38	-24.88	9.84	-5.80
International Equity ⁷	3.63	-0.85	-2.00	-10.95	-20.27	4.47	-2.56
Developed International Equity ⁸	.01	-1.05	-2.24	-11.59	-20.61	3.63	-3.12
Emerging Market Equity ⁹	2.29	-0.25	-1.21	-9.07	-19.30	6.92	-0.97
DIVERSIFIERS	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives ¹⁰	1.64	-1.39	-2.23	-7.30	-10.90	3.39	-1.19
Commodity ¹¹	-6.47	-9.12	-8.09	-21.40	-23.53	-0.30	-1.06

Source: Morningstar

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

1 CIO Weekly Viewpoint

2 One Year Down, 17 More to Go

3 Checking in on Corn



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 • U.S. stocks finished decisively lower last week, posting their biggest weekly decline since March. Weak economic data and escalating tensions between the U.S. and China more than offset hopes that treatments and a vaccine might bring an eventual end to the health and economic crisis.
- The S&P declined more than 2% on the week. Small caps, which had starred for three straight weeks, fell more than 5%. Growth massively outperformed value once again.
- Commodities were down more than 1% despite a 20% rise in oil prices. REITS were hit hard falling more than 9%.
- International stocks also declined. Emerging Market stocks fell 1% while European stocks fell over 3% led by banks.
- Chairman Powell gave comments suggesting there is still plenty the Fed can do to help businesses and households endure the economic shock of the coronavirus pandemic. The interview he did Sunday night is helping markets to begin the week.
- U.S. Treasury yields generally decreased slightly on the worse-than-expected economic data. Fed funds futures continued to trade 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%.
- Important economic data being released this week include housing starts on Tuesday, the Fed meeting minutes on Wednesday, and the May preliminary Purchasing Managers' Index (PMI) on Thursday.
- Live sports are back. The betting numbers are crazy. So, were we really missing sports or the betting?

Source: Bloomberg



MARC PFEFFER
CIO Chief
Investment Officer

One Year Down, 17 More to Go

2

Around this time last year, my wife and I were blessed with our baby girl. I cannot believe how fast the year has gone by and, more surprisingly, how we have not had to go to the emergency room yet. As we were planning for our daughter's first birthday party, we reflected on how far we have come as parents, and I could not help but draw parallels between my first-year experience of parenting and investing.

During my wife's pregnancy, we tried to make sure we were as prepared as we could be, and my wife made many sacrifices to help ensure a healthy baby. All the screenings throughout the 40 weeks indicated our baby was healthy; but when the day finally came, we were hit with the unexpected. She had to be admitted to the NICU for her first three days of life. At one point, her doctors discussed the need for open-heart surgery, which she thankfully did not end up requiring. Each time we heard negative news from her doctors, we were overcome with panic, feeling we needed to do something to help our child.

Investors often react similarly when dealing with negative news as we have seen throughout the ongoing pandemic. When the impact of the coronavirus first began to be felt in the U.S. back in late February, investors started to panic sell, which led to the global market plummeting nearly 40%. There was certainly merit to the decline; but if history is any indication, the market will recover and keep grinding higher. It has jumped by more than 25% since the March lows. As Warren Buffet famously said, "Be fearful when others are greedy, and be greedy when others are fearful."

Like most parents, I constantly compare the development of my daughter with the milestone charts created by the experts. I often forget that these charts are created only as general guidelines and each baby is unique. More interestingly, I only tend to worry when she lags in an area, but I pay less attention to areas where she's ahead of the curve. We see similar behaviors in investing. Investors often lose sight of their long-term objectives and let emotions drive their investment decisions, especially when they are underperforming an arbitrary benchmark (often the S&P 500).

Take global equity portfolios for example. Many studies have shown that having an international allocation between 40% and 50% will provide the maximum risk reduction and generate a higher risk-adjusted return. Over the past decade, however, that has not been the case as the S&P 500 has outperformed the international market by more than 150% cumulatively. While 10 years is enough time for most to start losing faith, let's not forget the picture was exactly the opposite during the prior decade — emerging markets outperformed the U.S. by close to 200%!

I do not have a crystal ball telling me when the international market will start to outperform. However, many signals suggest that once the dust settles, the growth potential for international stocks looks promising, and they are trading at cheaper valuations. Let's not forget the diversification benefits, too. As a parent, I plan to continue to invest in international markets over the next 17 years for my daughter's college savings plan.

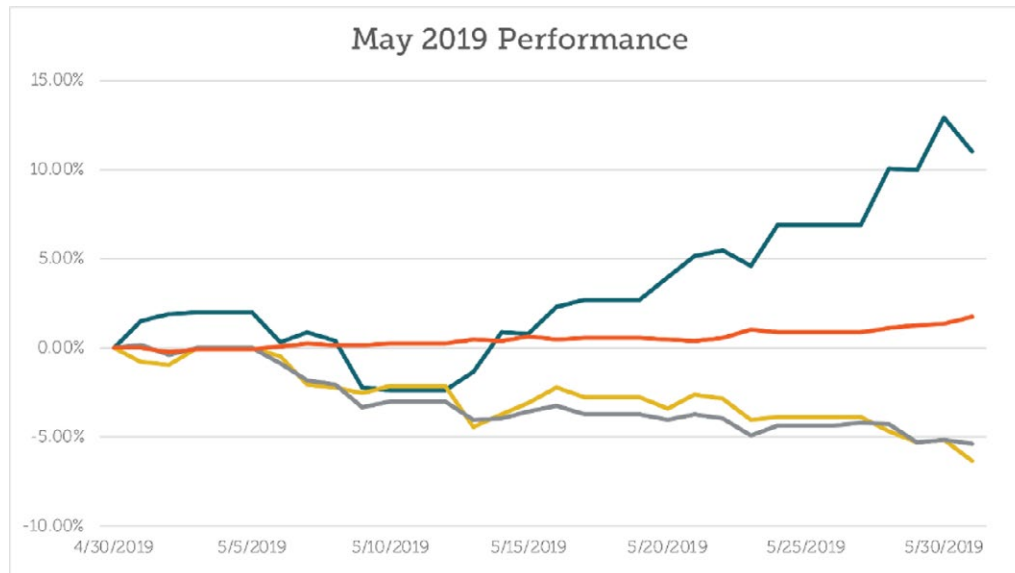


JACKSON LEE, CFA
*Quantitative Portfolio
Manager*

Checking in on Corn

3

This time last year, the portfolio management team at CLS Investments was writing a lot about corn and other agricultural commodities. An unusually wet spring left planting far behind historical standards and put the year's crop in jeopardy. In May 2019, corn prices increased more than 10%, while equity indices dropped more than 5%.

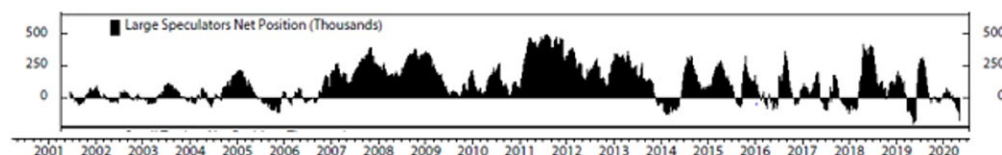


Source: Morningstar Direct



MICHAEL HADDEN
Investment Research
Analyst

Agricultural commodities have held up relatively well during the market volatility that occurred in the first quarter. Now is a crucial time of year for agricultural commodities in the northern hemisphere as it is planting season. The weather has cooperated this year. In fact, a USDA report released on May 12 projects the highest corn production in more than two decades. This may not bode well for corn prices, but not all hope is lost. The current positioning of speculators is extremely short (expecting the price to go lower). In fact, the positioning is approaching the extremes that we saw last year during planting season. As demonstrated in the chart below, when positioning gets this negative, it has historically led to strong returns moving forward.

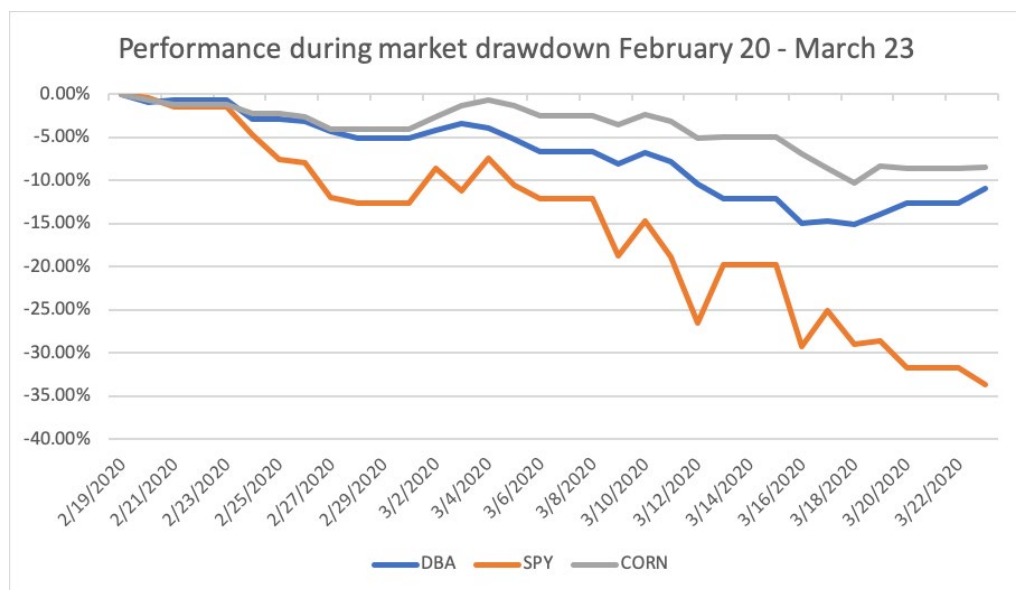


Corn's Performance When:	% Gain/ Annum	% of Time
Large Speculators Are Net Long	-7.78	75.58
* Large Speculators Are Net Short	20.76	24.42

Source: Ned Davis Research 5/12/2020

Very similarly to value stocks, when things become this out of favor it doesn't take much to see the price of corn increase. When the price does start to move higher, the extreme short positioning can lead to a furious rally due to the shorts covering their positions. This scenario sets up for attractive opportunities for investors willing to take the other side of this trade.

The price chart below shows how agricultural commodities as represented by the Invesco DB Agricultural Fund (DBA), and specifically CORN, held up during the most recent correction.



Source: Morningstar Direct

Although performance as a whole has been disappointing in commodities, they continue to provide a diversified return stream. There are now catalysts in the market, including planting season, the potential for unexpected inflation, and overall uncertainty and valuations of equity markets, which could help to turn that performance.

CLS considers commodities an important diversifier and maintains an allocation in many places to diversified commodities. The Focused Real Assets portfolio available on OPS is also dedicated to the space. Please reach out if you have any questions regarding that strategy or commodities in general.

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.

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 portfolios may contain one or more of the specific funds mentioned, Orion Advisor Solutions, LLC (OAS) 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 OAS, 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 OAS. 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.

The CMT Program demonstrates mastery of a core body of knowledge of investment risk in portfolio management. The Chartered Market Technician® (CMT) designation marks the highest education within the discipline and is the preeminent designation for practitioners of technical analysis worldwide. To learn more about the CMT, visit <https://cmtassociation.org/>.



Contact Us Today



17605 Wright Street | Omaha, NE 68130

402.895.1600 | orion.com