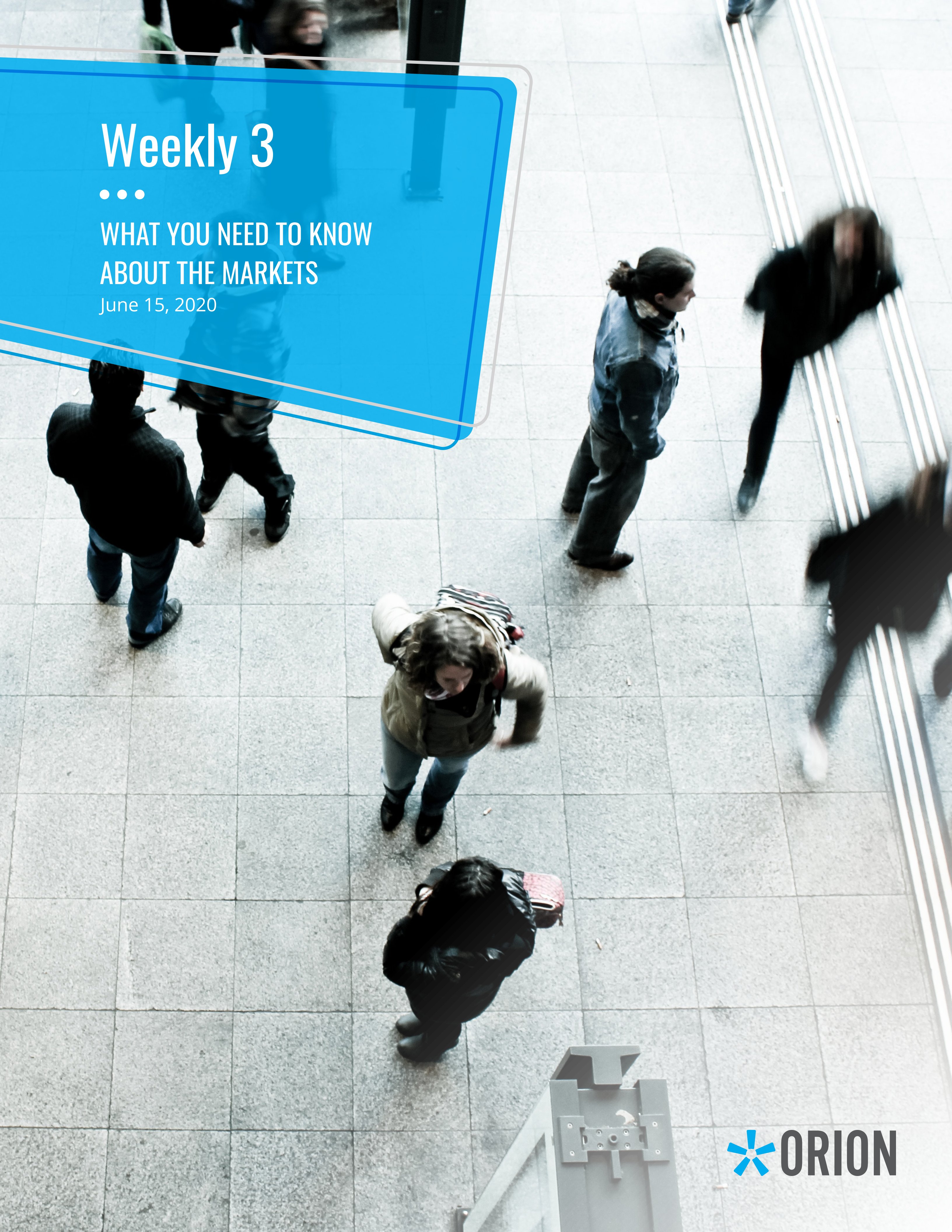

Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

June 15, 2020

ORION

Week in Review

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Market Performance

as of 06/06/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	0.58	1.12	1.67	1.49	0.42	0.02	0.00
U.S. Investment Grade Bonds[2]	3.90	4.27	5.16	9.42	5.71	2.48	0.72
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	8.75	5.75	5.51	2.55	-7.91	17.52	-4.21
Total U.S. Market[4]	12.96	9.47	9.50	7.00	-5.18	19.37	-4.88
Domestic Large-Cap Equity[5]	13.54	10.80	11.27	10.72	-2.92	18.19	-4.27
Domestic Small-Cap Equity[6]	9.56	3.10	0.55	-7.85	-15.98	22.84	-7.67
International Equity[7]	5.08	1.96	1.16	-3.03	-11.67	15.74	-3.59
Developed International Equity[8]	5.46	1.65	0.82	-3.68	-12.00	14.86	-4.27
Emerging Market Equity[9]	3.76	2.96	2.28	-1.12	-10.73	18.28	-1.62
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	2.09	-0.76	-1.40	-4.88	-8.57	6.09	-1.64
Commodity[11]	-5.95	-7.67	-6.35	-16.22	-20.98	3.02	-1.52

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

- Stocks suffered their worst weekly decline in almost three months as fears of a second wave of infections and doubts about a quick economic recovery dampened sentiment. Federal Reserve Chair Jay Powell's outlook may have been one factor in Thursday's sell-off—the worst daily decline for the S&P 500 since March 16.
- Last week the S&P declined by nearly 5%, reversing most of the prior week's gains. Small cap stocks, which have led the market for about a month and a half, were particularly weaker with the Russell 2000 declining roughly 8%. Growth outperformed value by a wide margin.
- The NASDAQ hit 10k for the first time ever. Many of the stay at home/"underground" stocks were higher on the week.
- Commodities were down nearly 2% as oil prices declined nearly 8%. REITS lost 5%.
- Emerging Market stocks outperformed by "only" dropping 1.5%. The iShares MSCI EAFE Index Fund, (EFA) declined 4%.
- Longer-dated Treasury yields dropped on the somber outlook by Chairman Powell. He also had the line of the week as he stated the FOMC isn't even thinking about thinking of raising interest rates.
- Important economic data being released this week include retail sales on Tuesday, housing starts and building permits on Wednesday, and the leading index on Thursday.

MARC PFEFFER
CLS Chief Investment Officer

Source: Bloomberg 6/15/2020

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My Letter to Value (and Income-Focused) Investors

2

We feel your pain. This has been a dreadful few years for a value approach to investing.

CASE EICHENBERGER
CIMA, CLS Senior Client Portfolio Manager

International and value stock tilts have not 'worked' for the last five to 10 years. While being diversified has 'worked' by lowering risk to a singular asset class, total returns have been eclipsed by those generated by large-cap U.S. stocks.

In hindsight, everything is crystal clear. Value calls can be seen as wrong when we look back on them. If the future were known before allocations were made, we could have made them differently. It's more than frustrating to us as managers that expensive assets keep running up at a record pace. Even when **we know that a value approach has historically worked over time, recent history has not been that time.**

We still believe the markets will go up over time, albeit in cycles, and we need to diversify and not buy expensive assets. Our philosophy to tilt toward securities that are **trading lower than their fair value averages** has been out of favor; there's no denying that. But we must retain a steady hand.

We've been here before. As market historians, practitioners, and advisors, we understand that certain historical drivers of alpha (such as small-caps and value stocks) have to go through varying periods of underperformance in order to reap the rewards of that alpha. This makes sense as an outsider looking in, but for investors and managers living and experiencing it every day, it can be difficult to remain patient and not chase returns elsewhere. Consider that value investing has had large drawdowns compared to growth before — in the 1930s (twice), in the 1990s, and during the dot-com boom. It's nothing new, but it's just as painful.

We believe that value works over time, and it is starting to work now. We've written before about how large shocks to the market can serve as a catalyst for new leadership to take hold. Could the forced shutdown and recession be a reason to favor value going forward? Since May 14, we have seen a rotation begin to form for small-caps, value stocks, and small-cap value stocks, which are starting to outperform. This could be the beginning of the next cycle.

As usual, time will tell if buying assets on sale becomes in favor again. It can happen very quickly, and we are prepared to capture the potential rewards.

Alpha: also called the risk-adjusted return, is the difference between an asset's expected return and its actual return.

The Time is Now for International Investing

3

Renowned investors routinely recommend that we invest in what we know, but that hardly covers the full list of easily investable companies across this vast globe. When an investor routinely invests in just their home country, a bias is exhibited and an unknown 'bet' is being made on future performance.

Another bias investors often demonstrate is recency bias. The fact that international stocks have lagged U.S. stocks in the last 10 years will cause more investors to place their bets on the areas in the market that have gone up, which is typically not a good strategy for future returns.

There are at least four reasons to invest with a global mindset.

1. **Increased exposure: to higher GDP production, more listed stocks, and faster-growing populations.**

Vast Opportunities Exist Outside U.S. Borders

Share of Global Market Capitalization	
U.S.	Countries Outside the U.S.
53%	47%

Share of Global GDP	
U.S.	Countries Outside the U.S.
24%	76%

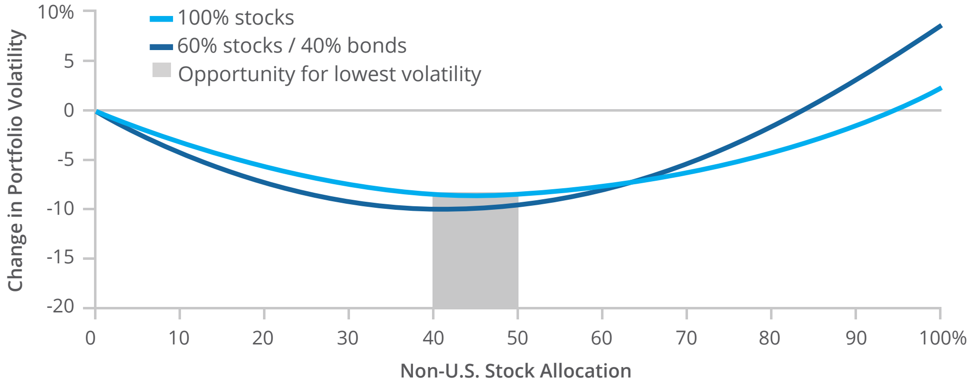
Share of Listed Stocks	
U.S.	Countries Outside the U.S.
10%	90%

Share of Global Population	
U.S.	Countries Outside the U.S.
41%	96%

Source: World Bank as of 12/31/2018

2. **Volatility reduction:** **By having a broader mix of assets within countries that do not move perfectly in line, a benefit of risk reduction may be created. Lowered risk or volatility is beneficial for portfolios when they are properly constructed.**

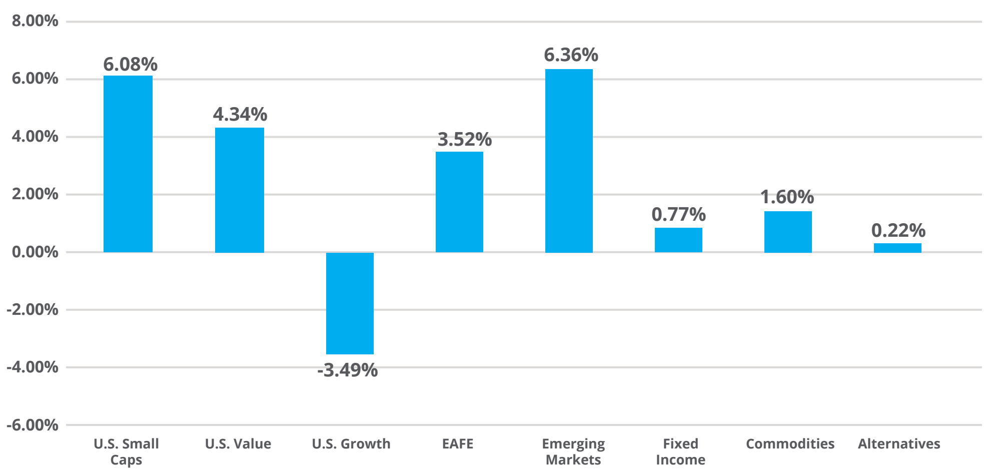
Average Annualized Change in Portfolio Volatility When Adding Non-U.S. Stocks to a U.S. Portfolio



Source: Vanguard and MSCI 3/31/2020

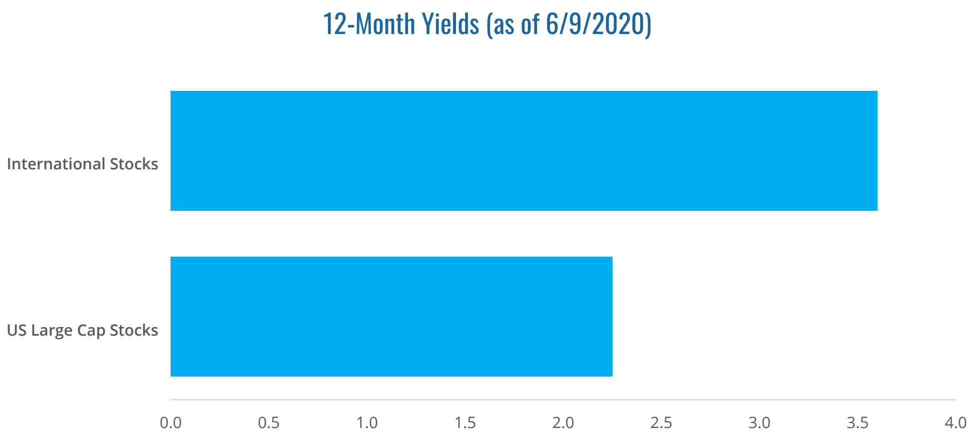
3. **Positive outlook:** **Below, we share our expectations for developed international (EAFE) and emerging market stocks. Based on valuations of current markets, we expect international stocks to start a new cycle of outperformance.**

Our 10 Year Expected Returns for Broad Asset Classes Relative to the U.S. Market



Source: Morningstar, Bloomberg, Ned Davis Research, Research Affiliates, and MSCI, as of 3/31/20. Past performance is not a guide to future results.

4. **Higher dividend yields:** **Owning overseas stocks may provide opportunities for increased yield.**



Source: Morningstar, 6/9/2020

We believe there is great value to be found in overseas markets, which may help to reduce risk when complementing a diversified portfolio, while helping to increase investors' shares of strong companies they may not even know about. The time is now for international investing.

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 MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East. 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. Morningstar Gbl Real Estate NR USA Index: measures the performance of mortgage companies, property management companies and REITs. The Russell 2000 is an index comprised of the 2,000 smallest companies on the Russell 3000 Index and offers investors a benchmark for small-cap stocks. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. 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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