

Weekly 3

...

WHAT YOU NEED TO KNOW
ABOUT THE MARKETS

July 13, 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, CIMA case.eichenberger@clsinvest.com; 402-896-7004

Market Performance

as of 07/11/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent ¹	0.58	1.12	1.65	1.34	0.44	0.01	0.00
U.S. Investment Grade Bonds ²	3.89	4.48	5.59	9.51	6.71	0.54	0.42
EQUITIES	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Global Equity Market ³	9.11	7.11	7.15	4.23	-3.49	3.18	1.65
Total U.S. Market ⁴	13.68	10.74	11.31	8.08	-0.39	2.81	1.82
Domestic Large-Cap Equity ⁵	14.32	12.25	13.40	12.57	2.92	3.63	2.41
Domestic Small-Cap Equity ⁶	9.99	3.66	1.23	-9.49	-15.00	-0.97	-0.58
International Equity ⁷	5.13	3.35	2.51	-1.00	-7.99	3.32	1.23
Developed International Equity ⁸	5.36	2.63	1.69	-2.97	-9.74	1.75	0.47
Emerging Market Equity ⁹	4.16	5.53	4.87	4.35	-3.29	7.45	3.20
DIVERSIFIERS	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Diversified Alternatives ¹⁰	2.01	-0.61	-1.27	-5.73	-8.45	-0.24	-0.31
Commodity ¹¹	-5.67	-6.60	-5.26	-16.26	-17.34	2.56	1.53
Global Real Estate ¹²	6.60	2.65	1.08	-12.51	-16.43	0.88	-1.71

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 ¹²Morningstar Global Real Estate.

1 CIO Weekly Viewpoint

2 The Worst is Behind China

3 Judging the Recovery



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 were higher again last week led by growth and technology. The nonmanufacturing Purchasing Managers' Index, a measure of business conditions, posted a strong monthly gain and moved back into expansion, adding to the string of positive economic surprises. However, as new COVID-19 cases rise and several states slow down or roll back reopening measures, the economic recovery may start to lose some momentum.
- The S&P 500 rose by nearly 2%. Small caps struggled and declined modestly. REIT's got slammed falling over 3%. Growth outperformed value by a wide margin for the fourth consecutive week.
- Emerging Market stocks (a CLS overweight) had a great week, rising nearly 3.5%. China has been on a tear. European stocks rose by roughly .5%.
- Feels like a broken record, but the NASDAQ hit another new all-time time for the fourth straight week.
- Commodities had their second strong week in a row rising another 1.5%. Lumber prices were up sharply as well.
- Bond yields were a big story last week, as some treasury auctions produced their lowest yields ever.
- The second-quarter earnings season kicks off on Monday, with 8% of S&P 500 companies reporting earnings throughout the week. Important economic data being released include inflation on Tuesday, retail sales on Thursday, and housing starts on Friday.



MARC PFEFFER
*CLS Chief
Investment Officer*

The Worst is Behind China

2

July has been a great month so far for Chinese investors. After China's CSI 300 index hit a five-year high earlier this month, it gained another 7.6%, putting the index's month-to-date return at more than 15%.¹

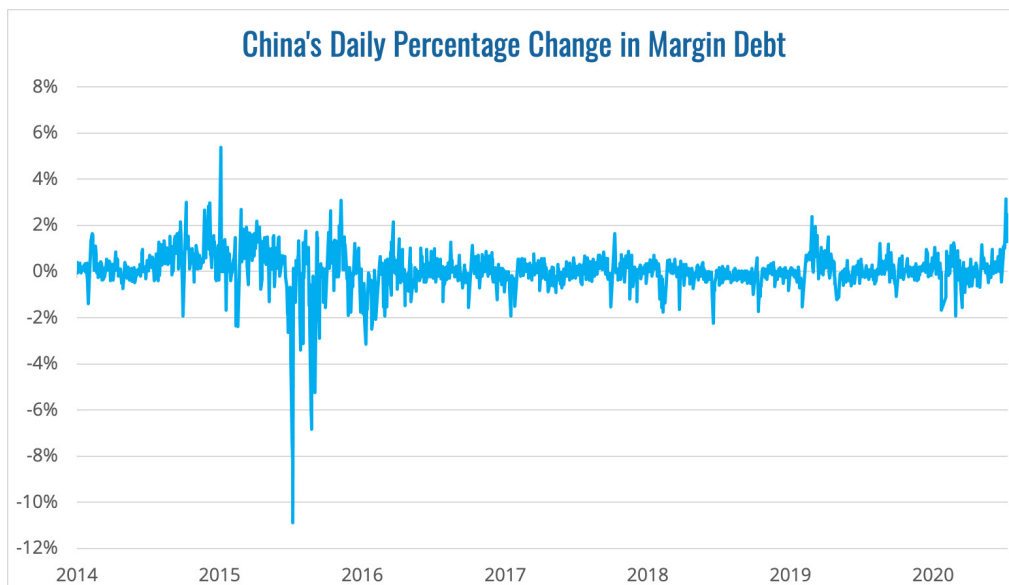
As the rally has accelerated, many investors have been reminded of the pain endured during the last Chinese stock market bubble in 2015, during which the market fell nearly 50% from its high. While there are many similarities between now and 2015, there are a few key differences.

After a bullish statement released in a state-owned publication last Monday encouraged investors to buy stocks, Chinese stock indexes jumped close to 6%. It was the best single-day gain since July 2015 and was followed by a multi day rally. State media published similarly bullish statements in 2014 and 2015, and many believe they contributed to the bubble that eventually burst. The difference this time, however, is officials quickly warned investors about the risk of another bubble in hopes of steadying the bull market. After that caution was published on Friday, the Chinese market snapped its eight-day winning streak and lost nearly 2% to end the week.

Another factor that fueled the rally was the rapid surge in leverage over the past few weeks, which was also a key driver behind 2015's bubble. According to Bloomberg, leverage in Chinese stocks rose at the fastest pace since 2015 with margin debt nearing 1.3 trillion yuan, which is barely half of 2015's peak.² China's securities regulator also published a list of illegal margin lending platforms on Wednesday in an effort to suppress the debt level as illegal margin lending was also blamed for the 2015 bust.



JACKSON LEE, CFA
*Quantitative Portfolio
Manager*



Source: Bloomberg, 07/13/2020

Perhaps the biggest difference this time is that China's fundamentals may likely sustain the rally if kept under control. From an equity valuation standpoint, the drawdown from the pandemic earlier this year has compressed price multiples to attractive levels across the world. As for China, recent economic data, including China's Caixin Services PMI coming in at 58.4 in June and reaching a 10-year high,³ show signs of economic recovery. Furthermore, the ability of Chinese officials to quickly contain what could have been a second wave of COVID-19 after Beijing reported its first new case in nearly two months boosted confidence that the worst is behind China.

¹ Morningstar, 07/10/2020

² Bloomberg, <https://www.bloomberg.com/news/articles/2020-07-07/china-traders-borrow-most-cash-since-2015-to-bet-on-stock-gains>, 07/7/2020

³ Caixin, <https://www.caixinglobal.com/index/>, 07/10/2020

Judging the Recovery

3

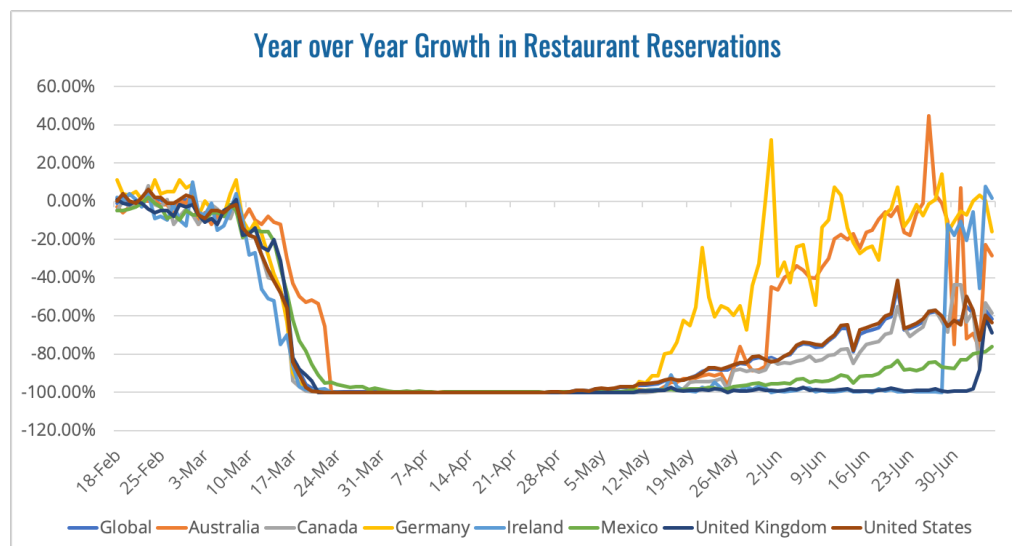
With COVID-19 continuing to surge across the globe, its impact on the economy remains the No. 1 factor affecting markets. What shape will the recovery be? How deep will the recession be? And how long will it last? These are all questions we have asked countless times since the pandemic broke out during the first quarter.

As countries have started to reopen, new data points have emerged which help us to gauge the pace of the resumption of economic activity in various countries. One is year-over-year growth in restaurant reservations.

The chart below may appear a bit messy, but a few trends can be picked out from the data. First, the lockdowns sent restaurant bookings to zero for nearly two months across the globe. Second, Germany was the first to reopen out of the countries we are tracking. Finally, Germany, Ireland, and Australia have seen the biggest uptick in restaurant activity during the most recent time frame.

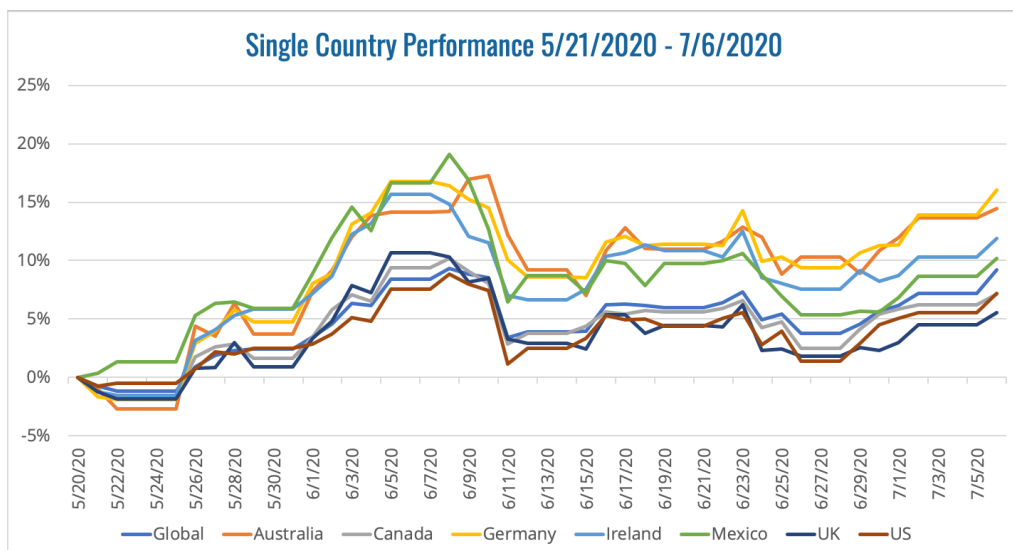


MICHAEL HADDEN
CLS Associate
Portfolio Manager



Source: OpenTable (<https://www.opentable.com/state-of-industry>)

Is restaurant activity a good indicator of broader economic activity, and will a return to normal levels lead to stronger stock market performance? There are many ways to look at this. On May 21, Germany was the first country to return to 50% of the previous year's bookings. Let's compare the performance of the corresponding single-country ETFs beginning on that date and see if anything stands out.



Source: Morningstar Direct 7/7/2020

Global stock market performance has indeed been positive since May 21. Although Germany didn't see a spike immediately after its restaurant activity picked up, it has been the best performing country from our selection since then. It's followed by Australia and Ireland, which happen to be the other two countries seeing a pickup in restaurant activity. The country that was slowest in seeing an uptick in restaurant reservations, the UK, has had the worst performance over the time frame.

None of this is surprising as we would expect the countries that bounce back quickest from the pandemic to see stronger stock market performance, but evaluating the reopenings will be very tricky. We will continue to monitor this data and much more as we attempt to be best positioned to take advantage of whatever move the market makes next.

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. 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.

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/>.

CIMA® professionals integrate a complex body of investment knowledge, ethically contributing to prudent investment decisions by providing objective advice and guidance to individual investors and institutional investors. To learn more about the CIMA, visit <https://www.imca.org/cima>.



Contact Us Today



17605 Wright Street | Omaha, NE 68130

402.895.1600 | orion.com