Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

July 27, 2020

ORION

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 7/24/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	0.58	1.12	1.64	1.26	0.44	0.01	0.00
U.S. Investment Grade Bonds[2]	3.89	4.47	5.55	9.91	7.40	1.19	0.41
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	8.97	7.39	6.76	4.75	-2.27	4.49	0.06
Total U.S. Market[4]	13.53	10.99	11.01	8.09	0.66	3.89	-0.28
Domestic Large-Cap Equity[5]	14.10	12.21	12.82	11.85	3.19	3.90	-0.43
Domestic Small-Cap Equity[6]	9.98	4.82	1.58	-7.94	-12.05	2.47	0.24
International Equity[7]	5.04	3.75	2.11	0.23	-6.37	5.14	0.53
Developed International Equity[8]	5.39	3.13	1.84	-0.76	-7.23	4.57	0.56
Emerging Market Equity[9]	3.77	5.82	2.84	2.90	-4.03	6.63	0.45
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	2.03	-0.28	-1.16	-4.50	-7.55	0.74	0.01
Commodity[11]	-5.67	-5.00	-4.67	-13.11	-15.45	4.90	2.49
Global Real Estate[12]	6.17	2.45	-0.02	-11.49	-16.45	0.85	-0.16

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 [12]Morningstar Global Real Estate.

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

- Last week, stocks ended modestly lower and for the second week in a row tech stocks were the underperformer. On the economic front, U.S. initial jobless claims increased for the first time since March, raising concerns that the economic recovery is beginning to stall. On a positive note, existing home sales increased 20.7%, and new home sales rose by 13.8% in June versus the previous month.
- European Union leaders agreed on a stimulus package to help member states mitigate the economic downturn. This helped European equities rise slightly for the week.
- The Dow Jones Industrial Average declined by 0.8%. The S&P 500 fell 0.3% after turning positive for the year earlier in the week. Value handily beat growth for the second straight week.
- Emerging Market stocks rebounded and were higher by roughly 0.5%.
- Commodities were the star performer rising nearly 2.5% as precious metals broke out.
- Bond yields continued their march lower, approaching all-time low yields on the long end of the curve.
- Important economic data being released this week include consumer confidence on Tuesday, the Federal Reserve's interest rate decision on Wednesday, and the preliminary second-quarter GDP on Thursday. About 40% of the S&P 500 will report earnings as well.

MARC PFEFFER
CLS Chief Investment Officer

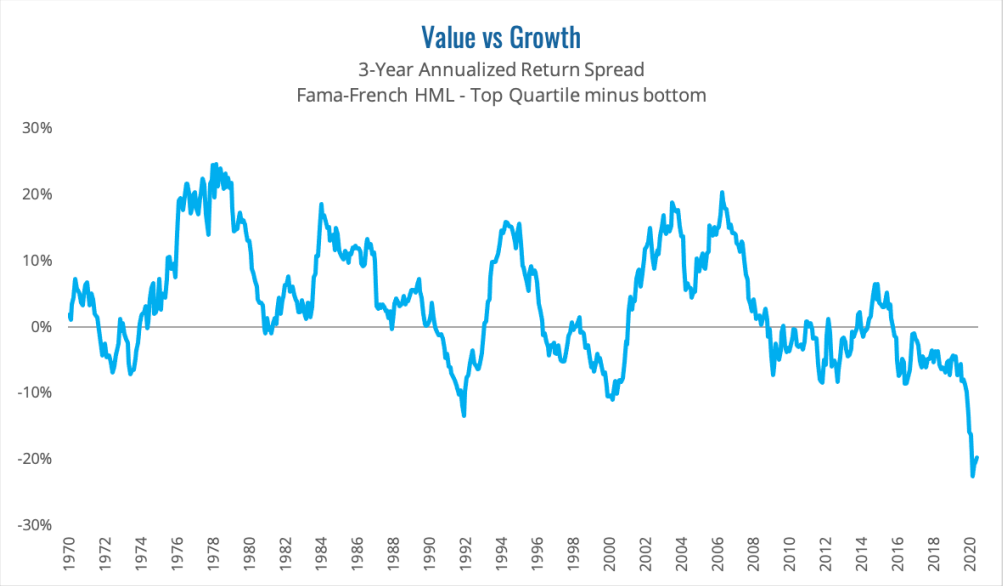
1 *Source: Bloomberg, 7/24/2020*

Is Value Investing Dead?

2

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

Alternatives-based asset management firm, AQR, recently gave a talk titled "Is (Systematic) Value Investing Dead?" at our CLS Investment Committee meeting. It is a question that many investors are asking themselves nowadays. The gap between value versus growth — or cheap versus expensive — has reached levels not seen since the tech bubble in the late 1990s. To help illustrate this, the performance difference between cheap and expensive (or value vs growth) is shown in the chart below.



Source: French Data Library, CLS Investments, 6/30/2020

I think it has been fairly well covered that value is really cheap right now (heck, we've been writing about it for quite a while). However, the reasons it's so cheap are not explored as often. AQR shared some very interesting insights:

- **Low interest rates have destroyed value.** This is sort of true — low interest rates make growth stocks with long-term earnings outlooks more attractive mathematically. While this has had some impact, the historical evidence is messy, and some of the impact of interest rates fades when utilizing multiple metrics and adjusting for industry weights.[1]
- **Index funds destroy value.** Index funds have some momentum characteristics and currently tilt toward the large growth names. However, by design, investing $1 into an index fund goes proportionally to its holdings, making everything more expensive. I like the example of Berkshire Hathaway. The beloved stock is the eighth largest in the S&P 500. So, theoretically, it should be receiving more incremental dollars than all the stocks below it; yet, it has lagged the index by quite a bit in recent years.[1]
- **Monopolies are taking over.** The FAANG (or whatever acronym you want to use) stocks have driven the market this year to some degree, and it feels like these companies are eating everything, including value's lunch. However, if you cut tech out of the index, or remove the top 5% of stocks, or remove the 10 most expensive stocks, value is still as cheap as it's ever been![1]

- **Price-to-book just doesn't work.** The viability of book value has been under fire for some time, as companies, such as tech firms, grow their intangible assets. However, a variety of other valuation metrics (earnings, cash flows, sales) all point to the same story — value at an extreme.[1]

I like the way AQR simplifies this whole conundrum: "Investors are simply paying way more than usual for stocks they love versus the ones they hate."

With history as a guide, the outlook for value is overwhelmingly positive. "When" that outlook will materialize is, of course, the biggest question.

2

1 *Source: AQR, https://www.aqr.com/Insights/Perspectives/Is-Systematic-Value-Investing-Dead, 5/8/2020*

"History Doesn't Repeat Itself, but It Often Rhymes"

3

Wise words from Mr. Mark Twain.

NICK CODOLA
Investment Research Analyst

With half the year over, we thought now would be a good time to see if history has been any sort of guide for the present. The first chart below details recent market performance and the second displays market data from 1956-1960, capturing the period during the 1957 Flu pandemic and the ensuing recession in 1958-1959.

Name	Ticker	2019	YTD	Start of 2020 to Bottom	From Bottom to Present
iShares US Telecommunications ETF	IYZ	16.26	-5.30	-24.31	23.21
Consumer Discret Sel Sect SPDR® ETF	XLY	28.43	8.27	-29.83	53.18
Consumer Staples Select Sector SPDR® ETF	XLP	27.44	-1.63	-22.37	23.74
iShares US Energy ETF	IYE	9.93	-36.44	-60.43	46.73
iShares US Financials ETF	IYF	31.96	-16.85	-40.38	30.28
iShares US Healthcare ETF	IYH	20.82	5.37	-26.37	38.16
iShares US Industrials ETF	IYJ	32.23	-6.38	-37.78	45.26
iShares US Basic Materials ETF	IYM	19.25	-1.05	-39.23	57.22
iShares US Real Estate ETF	IYR	28.39	-13.90	-38.12	31.55
iShares US Technology ETF	IYW	46.92	20.34	-21.84	52.82
iShares US Utilities ETF	IDU	24.36	-9.74	-30.57	27.28
Russell 1000 TR USD		31.43	1.34	-31.07	42.75
Russell 2000 TR USD		25.52	-10.72	-39.73	45.98
Russell 3000 Value TR USD		25.85	-12.41	-35.98	33.44
Russell 3000 Growth TR USD		37.26	16.81	-24.49	50.67

Source: Morningstar, 7/20/2020

	1956		1957		1958		1959		1960	
Sector	Return	Weight	Return	Weight	Return	Weight	Return	Weight	Return	Weight
U.S. Large Cap	6.56%	100.00%	-10.78%	100.00%	43.36%	100.00%	11.96%	100.00%	0.47%	100.00%
Communications	3.81%	5.75%	2.07%	6.64%	44.23%	6.58%	16.26%	7.43%	32.09%	9.28%
Consumer Discretionary	-1.44%	15.77%	-13.35%	14.71%	55.01%	15.29%	25.31%	16.35%	-3.39%	15.39%
Consumer Staple	-1.10%	3.92%	7.29%	4.29%	47.49%	4.65%	18.57%	4.84%	30.39%	6.03%
Energy	21.53%	20.15%	-14.03%	20.27%	28.47%	17.82%	-7.28%	13.65%	-1.87%	13.02%
Financials	0.01%	1.76%	0.46%	1.82%	43.79%	1.94%	-1.11%	1.53%	12.28%	1.87%
Healthcare	15.81%	1.07%	28.60%	1.64%	74.56%	2.13%	29.79%	2.78%	5.90%	2.74%
Industrials	10.48%	13.85%	-12.43%	13.38%	50.74%	13.83%	22.74%	14.66%	-6.52%	14.15%
Materials	7.69%	27.03%	-15.78%	24.94%	47.71%	24.64%	18.08%	25.47%	-12.87%	21.49%
Real Estate	22.43%	0.02%	-16.53%	0.02%	68.23%	0.04%	14.19%	0.03%	-11.23%	0.03%
Technology	34.84%	1.98%	11.41%	2.62%	74.80%	3.01%	21.20%	3.81%	28.65%	4.74%
Utilities	6.85%	8.70%	6.07%	9.67%	40.80%	10.08%	3.74%	9.43%	20.90%	11.26%

Source: French Data Library, 6/30/2020

Just as when the Flu of 1957 swept across the globe, health care, technology, telecoms, and staples have recently performed the best (as seen in the "2020 to Bottom" column of the first chart above). That assertion, though less strong, is still present when viewing year-to-date performance. Other complementary areas between the two time periods shown are sectors that were hardest hit during the 1958 recession, but which outperformed during the following year's recovery, such as discretionary, materials, and industrials. We have yet to see real estate make any positive moves, but that's why the truism is true: History rhymes instead of repeats.

Other asset classes that tend to outperform during a recovery are small-caps and value. As demonstrated in the first table above, since the market bottom on March 23, small-caps have outperformed large-caps by more than 3%. Unfortunately, we have yet to see value similarly outperform. Perhaps value will be another example of history not quite repeating. However, I like to think value just needs some more time to get its legs under it. As seen in the data above, financials and energy were laggards coming out of the bottom in 1958, which has also been true this time around. Moreover, these two sectors currently have two of the largest weights in many Value indices.

There are admittedly a lot of differences between now and then, but a partial road map is better than no road map. In the meantime, it may be a good idea to hold conversations about making some allocations to value sectors, before value potentially starts to outperform. JP Morgan wrote an article showing that when valuations become this distorted, the value snap-back has historically been FAST and STRONG.[1]

I will end this article like I started it, by quoting a smarter person than myself:

"Better three hours too soon than a minute too late."

– Shakespeare (Merry Wives of Windsor Act II. Scene ii.)

3

1 *Source: JP Morgan, 7/27/2020*

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.

The CAIA® is the globally-recognized credential for professionals managing, analyzing, distributing, or regulating alternative investments. To learn more about the CAIA, visit https://caia.org/.

ORION

Contact Us Today

17605 Wright Street | Omaha, NE 68130

402.895.1600 | orion.com

1943-OAS-7/28/2020