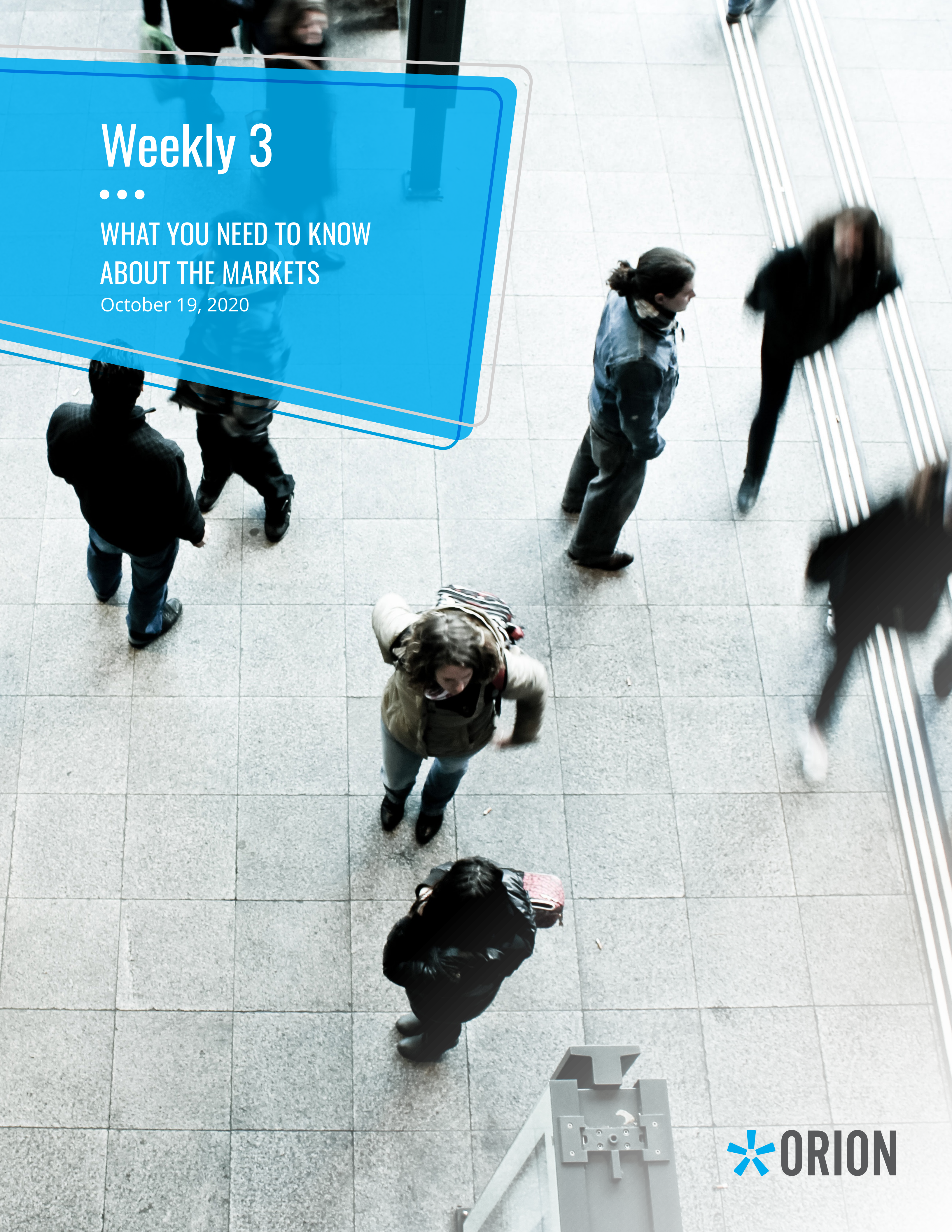
Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

October 19, 2020



ORION

Week in Review

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Market Performance

as of 10/16/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Cash Equivalent[1]	0.58	1.12	1.57	0.82	0.47	0.00	0.00
U.S. Investment Grade Bonds[2]	3.63	4.09	5.18	7.20	6.81	0.01	0.24
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**THIS WEEK**
Global Equity Market[3]	8.56	9.51	7.47	12.55	4.32	3.17	-0.32
Total U.S. Market[4]	13.74	13.53	12.94	19.65	10.28	4.19	0.23
Domestic Large-Cap Equity[5]	14.31	14.67	14.61	22.83	12.84	3.27	0.23
Domestic Small-Cap Equity[6]	10.28	7.85	3.88	5.72	-2.46	8.34	0.20
International Equity[7]	4.09	5.39	1.53	4.11	-3.01	2.28	-1.01
Developed International Equity[8]	4.38	4.55	1.00	1.45	-4.90	1.58	-1.47
Emerging Market Equity[9]	2.91	8.04	2.87	11.55	2.02	4.02	0.14
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**THIS WEEK**
Diversified Alternatives[10]	1.51	0.33	-1.00	-4.06	-6.51	1.20	-0.24
Commodity[11]	-6.06	-2.84	-3.64	-5.66	-8.94	3.58	0.18
Global Real Estate[12]	5.06	3.23	0.09	-11.53	-13.39	1.34	-2.28

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 Global ex U.S. Large-Mid Index [8]Morningstar Developed Markets ex U.S. Large-Mid Index [9]Morningstar Emerging Markets Large-Mid Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index [12]Morningstar Global Real Estate.

The Weighing Machine podcast is available on 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, U.S. stocks, as measured by the Morningstar U.S. Market Index, ended slightly positive after oscillating back and forth most of the week. Market moves were driven on stimulus uncertainty, increasing COVID-19 cases, and a pause in two of the more hopeful vaccination trials.
- Retail sales continue to be a bright spot for the economy, showing unexpected gains in September, even while jobless claims came in higher than expected and job growth showed signs of slowing.
- The S&P 500 gained just 0.2% for the week. Technology stocks, as measured by the Morningstar U.S. Technology Index, climbed 0.8% while small caps, as measured by the Morningstar U.S Small Cap Index, gave back 0.2%. Growth stocks, as measured by the Morningstar U.S. Growth Index, outperformed value stocks in spite of better than expected bank earnings.
- Overseas, European stocks declined 1.5% on COVID-19 shutdowns. Emerging Market stocks were essentially flat.
- Commodities rose slightly as oil gained 1%. REITs fell more than 3%.
- Treasury yields remained close to unchanged in what appears to be a slightly higher range.
- Important economic news coming out this week include housing data and the preliminary October Purchasing Managers' Index.

Bloomberg 10/16/20

MARC PFEFFER
Chief Investment Officer

Marc Pfeffer serves as CLS's Chief Investment Officer. In his role, Marc is responsible for leading CLS's Portfolio Management Team and overseeing all investment operations at CLS, including investment philosophy, process, positioning, and performance.

Prior to taking on the role of CIO, Marc was CLS's Chief Investment Strategist. He was also previously a Portfolio Manager on the CLS Flexible Income Fund team, and managed the CLS Active Income X Strategy and CLS's ETF strategies. He also managed individual municipal bond portfolios for the CLS Master Manager Strategy and continues to serve as a senior member of the CLS Investment Committee.

Marc has more than 30 years of investment management experience, including time spent as the Chief Investment Officer at Milestone Treasury Obligations Fund. He also worked previously at Goldman Sachs and Bear Stearns.

Marc graduated from the State University of New York at Buffalo with a Bachelor of Science degree in finance. He received his Master of Business Administration degree, with a focus on finance, from Fordham University. Mr. Pfeffer holds the Series 65 license.

More Reasons to Go Global, Now

2

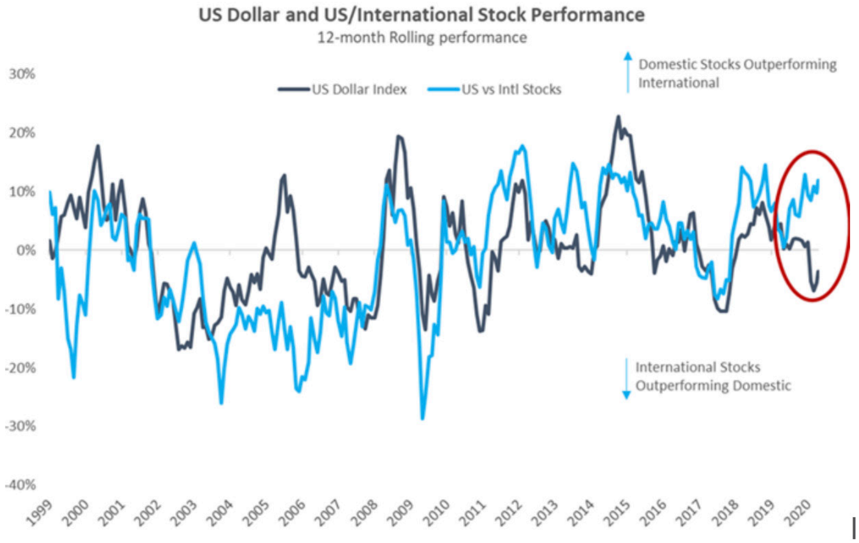
We have long been advocates of global investing. While the case for international stocks hasn't been very clear in recent years due to the surge in U.S. growth stocks, there is always a strong argument to be made for a global portfolio. Though there are a number of long-term reasons, I want to highlight a few of the intermediate-term reasons to consider a more global approach.

GRANT ENGELBART

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

The Dollar

First, the U.S. dollar, which had been stubbornly strong since early 2018, has taken a breather from March highs. All else being equal, this should significantly benefit international stocks. For a U.S.-based investor, a weaker dollar typically causes foreign stocks priced in foreign currencies to increase in value. As you can see in the chart below, international stocks typically outperform during a weak dollar environment and vice versa (with a correlation of 0.6). So far this year there has been a disconnect; however, as the chart shows, these disconnects don't tend to last forever.



Sources: CLS Investments, Bloomberg, Morningstar Oct. 15, 2020

On top of this, as we've written and talked about before, the potential for inflationary pressure is high, which tends to weigh on the dollar. Interest rate differentials are also not favorable for the dollar going forward. If we continue to see dollar weakness, international stocks could be beneficiaries.

China

China's gross domestic product is the largest in the world, adjusted for purchasing power parity, and is not far behind the U.S.'s on a nominal basis. However, the market capitalization of Chinese stocks is less than one-third of ours. China's economy is rapidly recovering, and so is its stock market. China also has its own version of our FAANG (or any number of other acronyms) stocks, known as BAT, which stands for Baidu, Alibaba, and Tencent. I actually prefer JAT or TAJ, which includes JD.com, Alibaba, and Tencent, three Chinese internet companies that have soared by an average of 70% this year.[1] China is becoming a larger and larger part of international indices, particularly in those specific to emerging markets. China's massive demand affects the entire global economy, but arguably the best way to participate is to own international shares.

Sources: Morningstar, MSCI, October 16, 2020

Potential Tax Changes

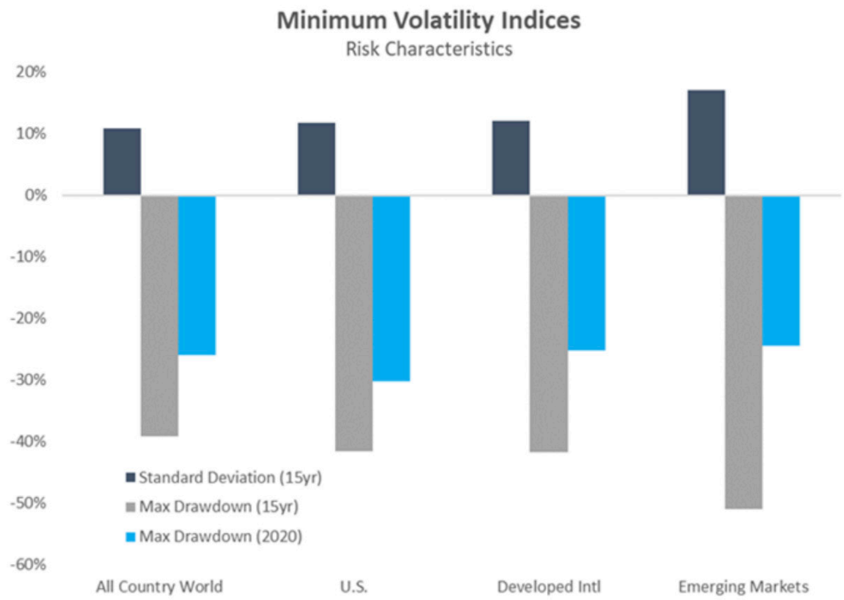
You may not know this, but there is an election coming up. I always caveat that I do not want to get political here or recommend stocks based on election potential (as I wrote about here). Presidential candidate Joe Biden has made it clear that he wants to raise corporate taxes, from roughly 20% to 28%. This may potentially be enough for some companies to move back overseas, at least for their headquarter locations. But, more importantly, it could also potentially cause overseas profits to be relatively more attractive. Even if tax rates are still higher overseas, an adjustment in after-tax U.S. profits, without a subsequent adjustment in overseas profits, may adjust the value proposition for international stocks.

1 Source: Bloomberg 10/16/2020, International Monetrary Fund 2019.

Opportunity Set

2

A broader opportunity set overseas is a potential long-term benefit of global investing; however, we also tend to see examples of this benefit play out in some fashion each year. Despite the aforementioned disconnect between a weak dollar and lagging international stocks, several global ETFs have outperformed the domestic market this year. In fact, more than 100 equity ETFs with more than 45% international stocks have outperformed the S&P 500 this year (excluding levered and inverse strategies).[2] On top of this, international stocks may provide risk reduction and diversification benefits that are often overlooked. One of the best ways to look at this is illustrated below. Minimum-volatility indices are designed to "optimize" for the lowest risk portfolio possible, within a certain set of parameters. Through almost every observed time frame, the global index, which includes U.S., developed international, and emerging market stocks, has demonstrated the lowest risk (shown here as standard deviation and max drawdown). This year, all of the indexes listed below fell less than the U.S. version.



Sources: Morningstar, MSCI 10/16/2020

We believe a global, flexible, risk-managed portfolio is well-suited to take advantage of opportunities abroad. U.S. stock market dominance is getting more stretched by the day. Diversifying overseas not only helps to reduce that risk but may also increase opportunities in more attractively valued markets suited for future outperformance.

2 Source: Morningstar Direct, 10/16/2020

Active Management Comeback

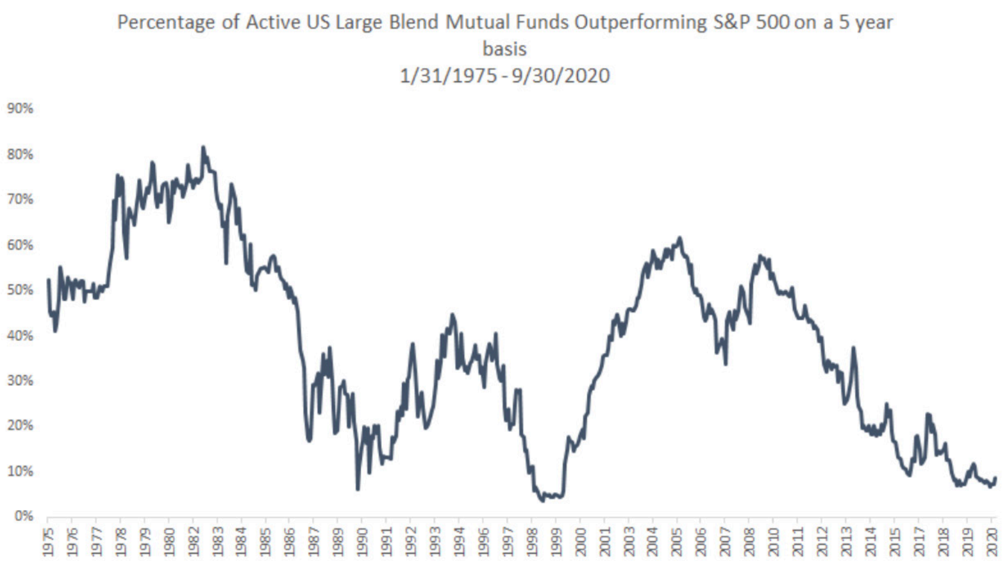
3

MICHAEL HADDEN

CFA, CLS Portfolio Manager

This year we have seen the market bounce back to all time highs, led mostly by some of the largest U.S. companies. As I previously wrote about last month, a large portion of the S&P 500 still remains well off their previous highs. This may lead to the conclusion that market cap weighted indices are proving as difficult as ever to outperform. In reality, active managers are having a good year. The dispersion in performance is opening opportunities for stock selection to play a key role in portfolio performance this year.

It is often noted that active management outperformance is cyclical, as shown in the graph below.



Source: Morningstar Direct 10/16/2020

It has been a tough decade for active managers, as passive products have led the market. But historically a period of passive outperformance has been followed by active outperformance. As illustrated above, we could potentially be poised to see a turn of the tide.

Within the actively managed ETF universe there are 332 funds for which Morningstar calculates excess return, as compared to their respective peer group. The average outperformance across all those funds so far this year is 77 bps, nothing to scoff at. Incredibly, the asset-weighted average excess return is nearly 9%! This number is heavily skewed by the third largest active fund, ARKK, which is outperforming its peer group average by 70% year to date.

Excess returns over peers		
	Equal Weight Average	**Asset Weight Average**
Active ETFs	0.77%	8.81%

Source: Morningstar Direct 10/16/2020

3

There are also several encouraging signs in the active ETF space. The number of offerings in the category has been expanding, given the release of non-transparent active ETFs this year. Because there has been a significant increase in the number of fixed-income ETFs, more managers are also now foraying into equity ETFs.

Year-to-date, fixed-income managers have been adding value over their benchmarks, but other managers, including ARK Funds and Davis Funds, have outperformed their benchmarks and passive peers by double digits. Both are potential encouraging signs for the active ETF market. As new managers come to market, we will continue to conduct thorough due diligence and utilize what we believe to be the best available products, to create globally diversified, multi-asset-class portfolios for clients.

1 Morningstar Direct 10-16/20

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.

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