

# Weekly 3

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WHAT YOU NEED TO KNOW  
ABOUT THE MARKETS

November 16, 2020



# Week in Review

**Rusty Vanneman, CFA, CMT** – Chief Investment Officer: [rusty@orion.com](mailto:rusty@orion.com); 402-896-7641

**Marc Pfeffer:** [marc.pfeffer@clsinvest.com](mailto:marc.pfeffer@clsinvest.com); 402-896-7225

**Case Eichenberger, CIMA:** [case.eichenberger@clsinvest.com](mailto:case.eichenberger@clsinvest.com); 402-896-7004

## Market Performance

as of 11/16/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Cash Equivalent <sup>1</sup>	0.58	1.13	1.54	0.69	0.47	0.01	0.00
U.S. Investment Grade Bonds <sup>2</sup>	3.64	4.28	5.27	7.29	6.68	-0.10	-0.14
EQUITIES	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Global Equity Market <sup>3</sup>	8.88	10.82	8.85	13.49	8.59	7.39	2.30
Total U.S. Market <sup>4</sup>	13.82	14.34	13.69	18.93	13.63	7.35	2.07
Domestic Large-Cap Equity <sup>5</sup>	14.33	15.23	15.04	21.15	15.55	5.75	1.65
Domestic Small-Cap Equity <sup>6</sup>	10.61	9.46	6.30	7.98	3.43	14.88	5.08
International Equity <sup>7</sup>	4.64	7.31	3.72	7.15	2.62	8.22	2.91
Developed International Equity <sup>8</sup>	4.92	6.34	3.15	4.06	0.49	7.34	3.52
Emerging Market Equity <sup>9</sup>	3.51	10.42	5.17	15.88	8.28	10.41	1.47
DIVERSIFIERS	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Diversified Alternatives <sup>10</sup>	1.58	0.71	-0.26	-3.21	-5.11	2.71	1.25
Commodity <sup>11</sup>	-6.15	-1.07	-3.97	-6.08	-8.51	4.07	1.24
Global Real Estate <sup>12</sup>	5.74	5.30	2.14	-4.66	-8.23	7.37	4.93

Source: Morningstar

<sup>1</sup>Morningstar Cash Index <sup>2</sup>Bloomberg Barclay's Capital U.S. Aggregate Bond Index <sup>3</sup>Morningstar Global Market Large-Mid

Index <sup>4</sup>Morningstar U.S. Market Index <sup>5</sup>Morningstar U.S. Large Cap Index <sup>6</sup>Morningstar U.S. Small Cap Index

<sup>7</sup>Morningstar Global ex U.S. Large-Mid Index <sup>8</sup>Morningstar Developed Markets ex U.S. Large-Mid Index <sup>9</sup>Morningstar

Emerging Markets Large-Mid Index <sup>10</sup>Morningstar Diversified Alternatives Index <sup>11</sup>Bloomberg Commodity Index

<sup>12</sup>Morningstar Global Real Estate.

**1** CIO Weekly  
Viewpoint

**2** Value and  
a Vaccine

**3** Estimates are  
Just Estimates



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

- U.S. stocks enjoyed another great week after Pfizer and BioNTech announced Monday that their COVID-19 vaccine was found to be more than 90% effective in clinical trials. Moderna also showed promising results this morning, reporting their vaccine is 94.5% effective according to preliminary data.
- For the week the S&P 500 rose more than 2% hitting a new record high, the Dow Jones Industrial Index rose by 4% and Russell 2000 surged by 6% hitting its highest level since 2018.
- Technology<sup>1</sup> was actually down slightly! Value<sup>2</sup> significantly outperformed growth<sup>3</sup>.
- European stocks<sup>4</sup> rose more than 4% while emerging market<sup>5</sup> stocks lagged, rising only 1%.
- Third quarter earnings announcements and corporate profits came in largely ahead of expectations according to Morningstar<sup>6</sup>, with more than 80% of companies beating estimates by an average of 17% (so far).
- Equity funds saw nearly \$45 billion in net inflows last week, an all-time record according to Bank of America<sup>7</sup>.
- In a huge move, REITs climbed approximately 8.5% — a massive rotation week.
- Fed Chair Jerome Powell reiterated the need for fiscal stimulus and spoke to short-term risks in response to rising COVID-19 cases.
- Important economic data being released this week include Retail Sales & Industrial Production, Residential Building Permits, and the Conference Board Leading Economic Index (LEI).

Source: Bloomberg as of 11/16/2020

<sup>1</sup> Morningstar U.S. Technology Index

<sup>2</sup> Morningstar U.S. Growth Index

<sup>3</sup> Morningstar U.S. Value Index

<sup>4</sup> Morningstar DM xU.S. Large-Mid NR USD

<sup>5</sup> Morningstar EM Large-Mid NR USD

<sup>6</sup> Morningstar Direct as of 11/16/20

<sup>7</sup> CNBC/Bank of America as of 11/14/20



**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.

# Value and a Vaccine

## 2

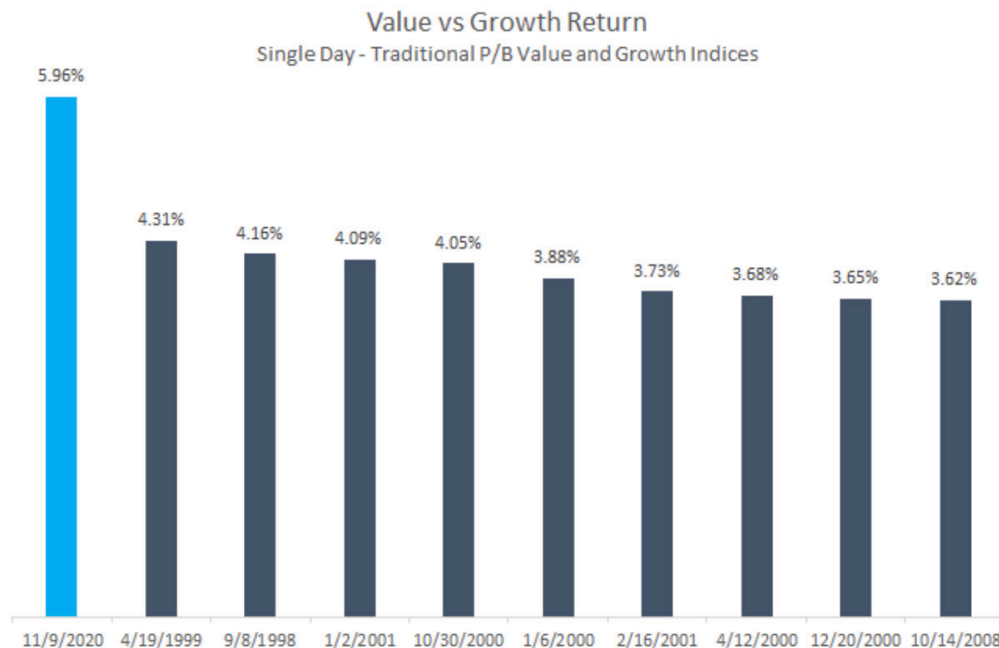
In some ways, last Monday's stock market felt like the opposite of the dark days of March. Following the announcement that Pfizer and BioNTech's vaccine candidate was 90% effective in preventing COVID-19 infection, stocks ripped higher Monday morning. There is a similar feel to the start of this week, with Moderna announcing more promising early results.

Small-caps, value and cyclical stocks, and particularly "reopening" stocks (hotels, airlines, casinos, cruise lines) soared. On the other side of things, many technology stocks — particularly "work from home" stocks — fell. Some fell hard, like work from home darling Zoom (ZM), which dropped 17%. Markets were clearly repricing for the prospects of a very effective vaccine. Stocks were also adjusting for valuation differences between several of the aforementioned areas of the market, where prices were out of line in an extreme way.

One way to classify several stocks that "popped" on Monday is by calling them, you guessed it, value stocks! Through the week we saw the "deep value" rally in reopening names morph into a broader rally, as interest rates and oil rose, spurring financials and energy companies to lead for the week. For us in the value camp this is all very positive. To put Monday's rally in perspective, it was actually the largest single-day outperformance of value versus growth over the last 30+ years<sup>1</sup>. As you can see in the chart below, the other major days of outperformance all came during the tech bubble.



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



Sources: Bloomberg, Russell 11/13/2020

Comparisons with the tech bubble are increasingly occurring. Value is the cheapest it has been relative to growth since then, companies with negative earnings are at the highest level since then, and the long-term relative performance of growth versus value is at very similar levels. As value investors know all too well, head fakes of value outperformance are common — as they were in the late 90s and early 00s — but long-term we continue to believe value will reassert itself and take back its claim of outperformance versus growth.

<sup>1</sup> Bloomberg 11/13/2020

# Estimates are Just Estimates

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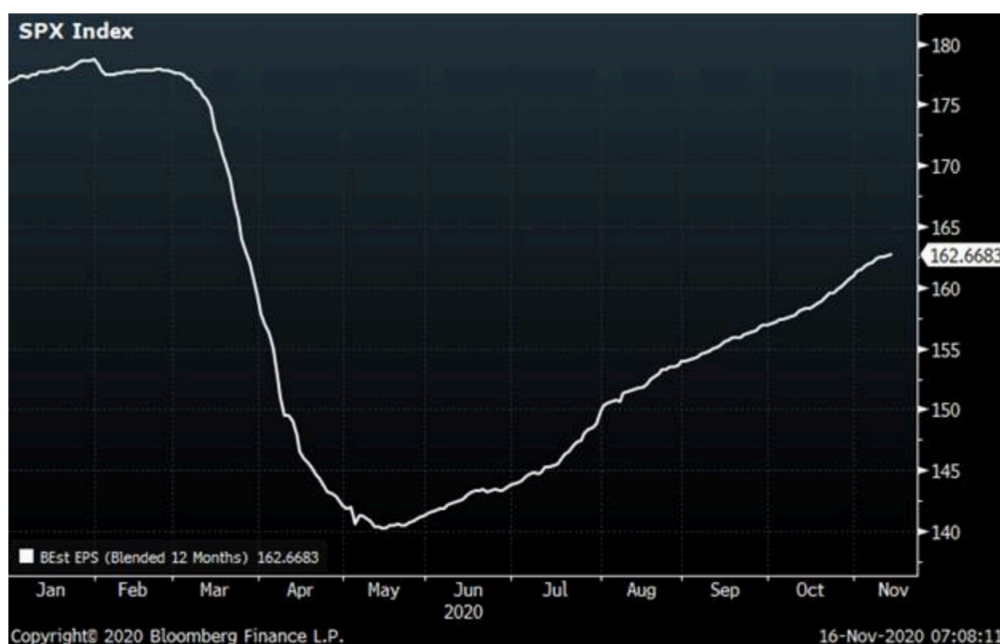
Similar to my love for football season, I'm a big fan of earnings season (yes, I said it), and this year has been quite the show. As of this writing, about 92% of S&P 500 companies have reported third quarter earnings. A fantastic 84% of companies have beat earnings estimates, and 78% have beat sales estimates (fingers crossed for the remaining 8% who have yet to report). Both will be records if the data holds, although the database for this information only goes back to 2008.<sup>1</sup>

Why is this important? Earnings drive stock prices over time, and earnings estimates — although often futile — drive stock reactions to said earnings. It is all about expectations, and this year expectations have been lowered to basement-window levels for many companies. You can see this in the chart below, which shows changes in earnings estimates over time (looks an awful lot like stock prices!).



**GRANT ENGELBART**  
CFA, CAIA, CLS Director  
of Research and Senior  
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## How it Started (Forward 12-Month Estimated Earnings Forecast):

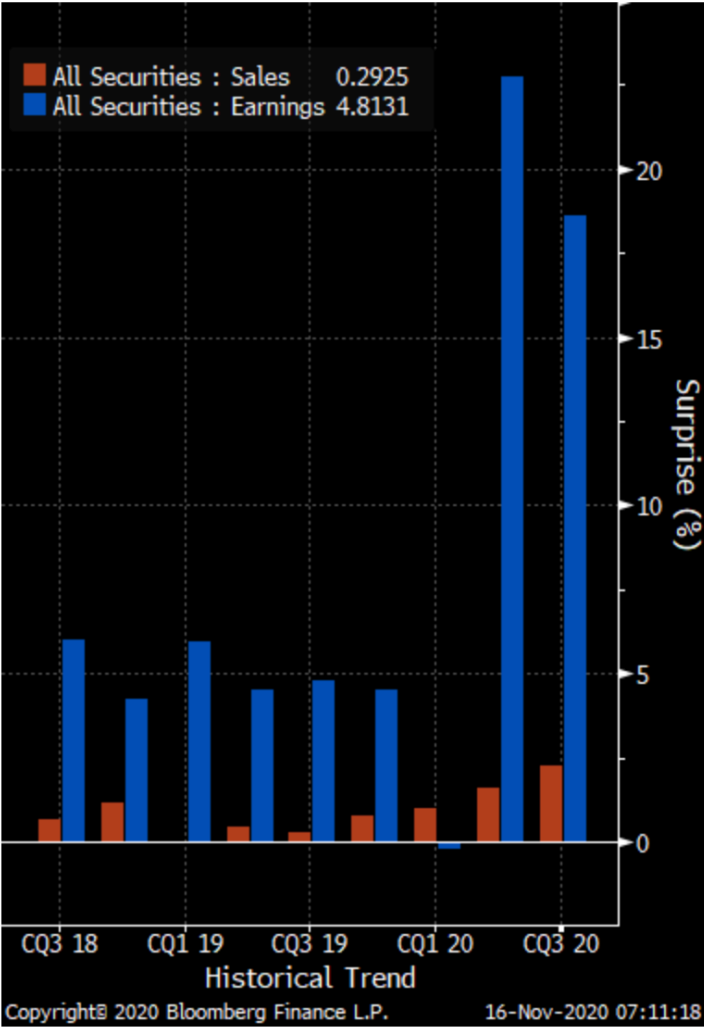


Source: Bloomberg 11/16/2020

Because of the lowered expectations and uncertainty about the pace of recovery in economic conditions, many companies — 84% so far — were able to exceed these analyst estimates. Not only did they exceed estimates, they did so in dramatic fashion. The chart below shows the percent surprise in reported earnings versus estimates. As you can see, companies have beat earnings estimates by an average of 15-20% for the last two quarters, and less-manipulatable sales estimates by several percentage points. Both will be records.<sup>2</sup>

<sup>1</sup> Bloomberg (charts) 11/16/2020  
<sup>2</sup> Factset (earnings data) 11/13/2020

How It's Going (Earnings and Sales Estimates Smashing Expectations):



Source: Bloomberg 11/16/2020

As we look forward, estimates are important for many reasons. It's very likely they are too low for (here we go again) value stocks, especially those tied to re-opening, and too high for work-from-home and other growth stocks. Time will, of course, tell. Who's excited for fourth quarter earnings?!

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 significance 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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Contact Us Today



17605 Wright Street | Omaha, NE 68130

402.895.1600 | [orion.com](http://orion.com)