

Weekly 3

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WHAT YOU NEED TO KNOW
ABOUT THE MARKETS

November 9, 2020

Week in Review

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Market Performance

as of 11/6/2020

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Cash Equivalent ¹	0.58	1.13	1.55	0.71	0.47	0.01	0.00
U.S. Investment Grade Bonds ²	3.57	4.35	5.14	7.24	6.83	0.04	0.49
EQUITIES	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Global Equity Market ³	8.38	9.67	7.82	10.99	6.14	4.97	7.56
Total U.S. Market ⁴	13.35	13.04	12.81	17.29	11.33	5.18	7.56
Domestic Large-Cap Equity ⁵	13.90	14.03	14.34	20.09	13.67	4.03	7.69
Domestic Small-Cap Equity ⁶	9.81	7.45	4.16	2.72	-1.57	9.33	6.33
International Equity ⁷	4.09	6.23	2.42	3.39	-0.29	5.16	7.45
Developed International Equity ⁸	4.32	5.23	1.63	0.35	-2.93	3.69	7.93
Emerging Market Equity ⁹	3.06	9.30	4.41	11.62	6.71	8.81	6.33
DIVERSIFIERS	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	THIS WEEK
Diversified Alternatives ¹⁰	1.34	0.29	-0.87	-4.61	-6.29	1.44	0.79
Commodity ¹¹	-6.60	-1.97	-4.70	-8.59	-9.63	2.79	1.36
Global Real Estate ¹²	4.81	3.84	0.86	-10.89	-12.55	2.32	5.72

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 Global ex U.S. Large-Mid Index ⁸Morningstar Developed Markets ex U.S. Large-Mid Index ⁹Morningstar

Emerging Markets Large-Mid Index ¹⁰Morningstar Diversified Alternatives Index ¹¹Bloomberg Commodity Index

¹²Morningstar Global Real Estate.

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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

- **Breaking News this Week (on 11/9) is positive vaccine trials:**

- On Monday, 11/9/20, the American multinational pharmaceutical company, Pfizer, came out and announced that their Covid-19 vaccine is more than 90% effective.
 - This is great news for humanity, the economy and the stock market.
 - We are seeing a rotation out of growth names and meaningful jumps in value and small-cap names.
 - This will be important to watch, as growth has been the clear leader during the pandemic, but now with some optimism around a vaccine, value and small-caps may add value above growth.
- Last week was a historic week in many ways. Global stocks had their best weekly gain since early April as investors reacted to the increased possibility of a divided U.S. government, including a potential Biden win (as of Saturday) and continued Republican control in the Senate.
 - For the week the S&P 500, the Dow Jones, and the Russell 2000 all rose approximately 7%.
 - Tech¹ was up over 9%.
 - Growth² significantly outperformed value³ as financial⁴ and energy⁵ stocks lagged.
 - Developed international⁶ stocks rose more than 8% on additional monetary stimulus and emerging market⁷ stocks were higher by 6.5%.
 - The Nikkei in Japan reached its highest level since 1991.
 - Friday's jobs report showed the U.S. economy added 638,000 new jobs in October, pushing the unemployment rate down to 6.9%.
 - Though this is an improvement for sure, and better than expected, unemployment is still double where it was before the pandemic.
 - Treasury yields dropped on the apparent Biden victory, coupled with the continued Republican Senate.
 - General prevailing expectations are now for a smaller stimulus package.
 - By the way there was also a Fed meeting last week. Honestly, nothing new there and rates have remained unchanged.
 - Important economic data being released this week include both the Consumer Price Index (CPI) and Producer Price Index (PPI) reports, as well as the University of Michigan Consumer Sentiment Survey.

Source: Bloomberg 11/9/2020

¹ Morningstar U.S. Technology Index

² Morningstar U.S. Growth Index

³ Morningstar U.S. Value Index

⁴ Morningstar U.S. Financial Services Index

⁵ Morningstar U.S. Energy Index

⁶ Morningstar DM xU.S. Large-Mid NR USD

⁷ Morningstar EM Large-Mid NR USD



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.

Special Election Commentary

2

We finally made it through election week, along with all the twists and turns that took place and the market drama that ensued in the futures markets on election night. All in all, we just had the best election week gains ever in the stock market (and overseas stocks fared well also, with multiple markets up double digits!). If you happened to make a trade and chose to sit on the sidelines (as many did, according to the Wall Street Journal) you missed out on significant gains.

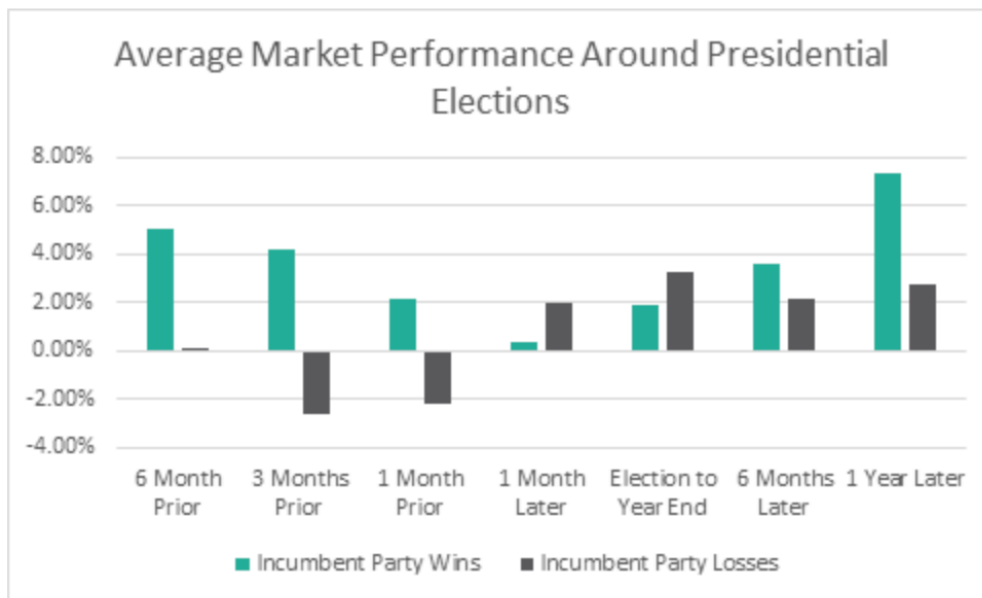
In the below we dive into several questions from investors over the last few weeks, and we provide our outlook going forward.

Do Markets Care Who is President?

Despite fears of disruption from the pandemic and foreign powers, more Americans showed up to vote in this election than any other in U.S. history. At the latest count, more than 160 million people cast their ballots. It was historic and significant for many reasons for the citizens of this nation. For investors, however, it was less so. Historically, market performance around elections follows the natural curve of the market — upward. The chart below, which plots data before and after elections, shows the market typically climbs post-election in all timeframes. This is good to note for investors concerned about how this election may impact their portfolios.



CASE EICHENBERGER
CIMA, CLS Senior Client
Portfolio Manager

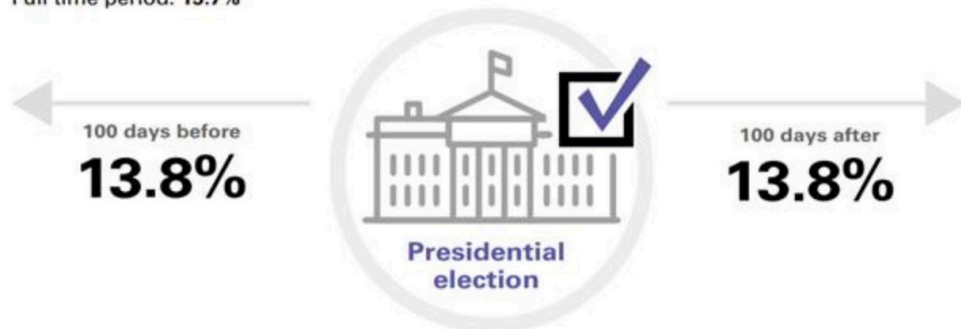


Source: Morningstar Direct. Based upon S&P 500 returns from 1/1/1936 to 12-31-2016

While the market is likely to move higher now that the election is behind us, there may be a lingering period of uncertainty if the transition of power does not go smoothly. The market generally hates uncertainty. However, as the graphic below from Vanguard shows, volatility is typically at similar levels before and after elections. Of course, this time could be different, but don't count on it. Investors should consider staying invested either way.

S&P 500 Index annualized volatility

Full time period: 15.7%



Source: Vanguard calculations of S&P 500 Index daily return volatility from January 1, 1964, through December 31, 2019, based on data from Thomson Reuters.

Note: Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Finally, it's important to remember that stocks tend to deliver strong returns no matter who is president or which political party is in office. The data below from Brinker Capital suggests investors should stay invested and enjoy the benefits of compounding. Note that the market typically does well under divided governments (like it appears we may have going forward), as well as in situations where one party has complete control. Don't try to outsmart the global marketplace for stocks.

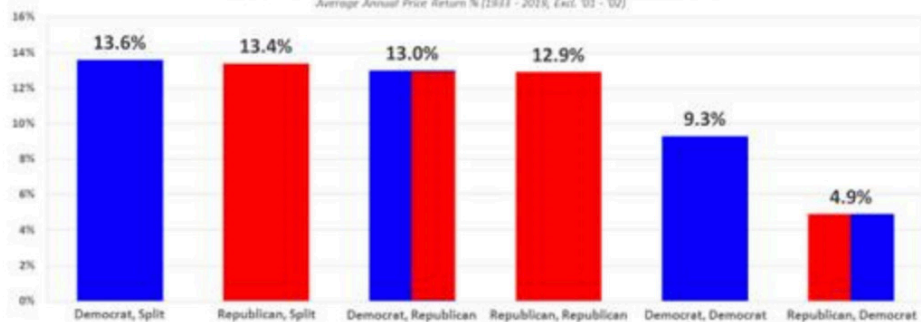
What to expect

Economic and market performance under different political scenarios

- The market has performed well under both parties

S&P 500 Index: White House and Congress composition

Average Annual Price Return % (1983 - 2018, Excl. '01 - '02)

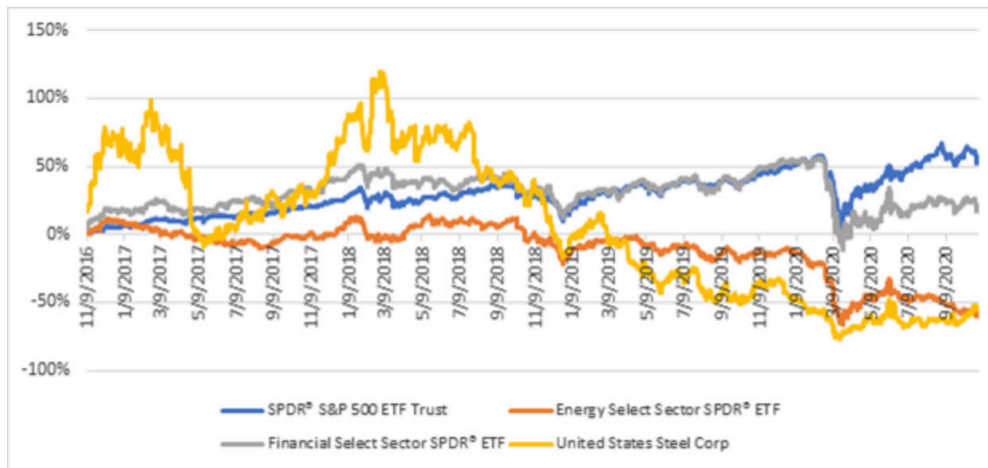


Source: Strategas, FactSet. For use with intended audience only.

Can Investors Predict Which Sectors/Industries Do Well Under a Certain Regime?

2

Congratulations if you have made it this far in 2020 without moving tactically to cash. It's been a tough year for many of us, and the next few months as President Trump transitions out of office may be just as difficult. But despite the potential volatility, there will be a new president on Jan. 20, and it's important that you don't change your portfolio based on whether you voted for him or not. We cannot predict the market impact of President-elect Joe Biden's tenure. Remember in 2016 when Trump came into office and strategists agreed the deregulation path would benefit energy and financial stocks? That did not work out so well. Both have lagged the broader market substantially since. Financial stocks have seen only about one-third of the S&P 500's gains, and energy stocks are actually negative. Here's another example: Remember the tariffs imposed by Trump to protect U.S. steel producers? Those didn't work out that well for United States Steel Corp.



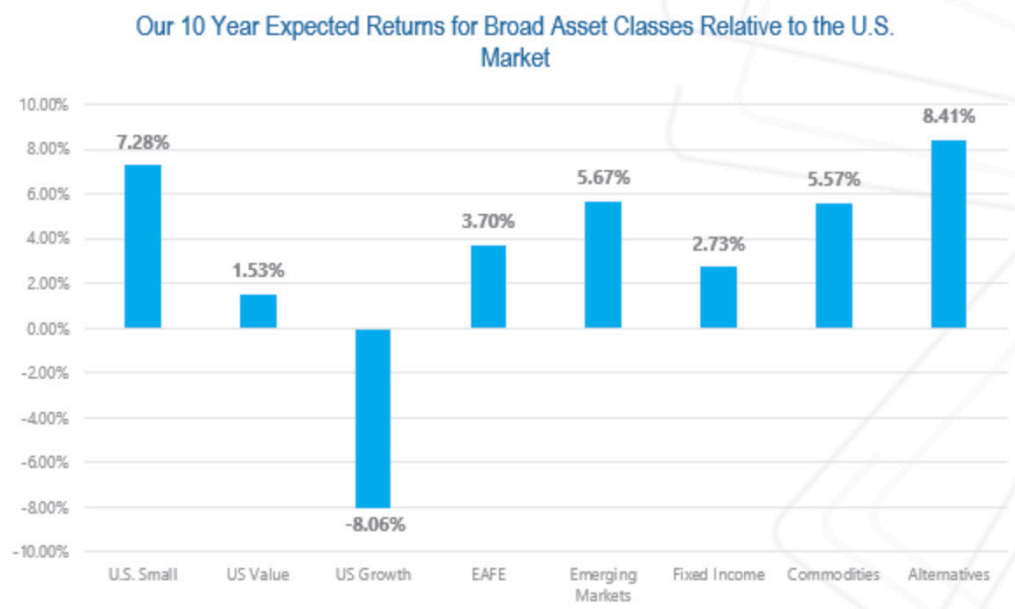
Source: Morningstar Direct as of 10/30/2020

The market is much, much larger than any one person or party. It ebbs and flows on more data than who governs the United States, and companies continue to make money in the long term, regardless.

Outlook

The market Biden will inherit on Jan. 20 **includes high U.S. valuations and historically low interest rates and bond yields**. That translates into low expected returns for U.S. stocks and U.S. bonds going forward .

2



Source: Morningstar, Bloomberg, Ned Davis Research, Research Affiliates, and MSCI, as of 9/30/20. Past performance is not a guide to future results.

CLS Score: A proprietary expected return measurement CLS calculates as a complement to our Risk Budgeting Methodology. It is constructed by first building a capital market assumption (CMA) for a broad asset class, then adding a valuation overlay, a technical overlay, and a cost adjustment for each ETF. The end result is an expected annualized return (the "CLS Score") for every ETF we track.

The good news is that interconnected global markets allow investors to invest in many asset classes across the world. International and emerging market¹ stocks are relatively cost-effective, may provide diversification, and are arguably on sale. Even within our borders, U.S. value and U.S. small-cap stocks appear to be attractive.

My advice: Consider stepping outside your comfort zone and invest in other countries, cheap stocks, small stocks you may not know, and alternatives to help diversify bonds and protect against inflation.

All in all, we always recommend a globally diversified, multi-asset class approach to investing, and this time is no different. Undoubtedly, the next few weeks may be volatile, but do your best to tune out the noise and focus on the long-term reason we invest in shares of companies in the first place: to compound wealth over time.

Thank you for reading and remember to keep compounding. No interruptions!

1 Emerging market investing refers to the practice of investing in a developing market of a foreign nation. The prerequisites of this practice include a market within the foreign nation along with some form of regulatory body. Emerging markets involve greater risk and potential reward than investing in more established markets. Diversifiable risks for emerging markets include, but are not limited to, political risk, currency risk, and liquidity risk.

International investing is an investment strategy where investors chose global investment instruments. International investing can be accomplished utilizing a variety of investment vehicles including, but not limited to, ETFs, American Depositary Receipts, or a direct investment in a foreign stock exchange. Diversifiable risks include, but are not limited to, political risk and currency risk.

The Best Quarter Ever

3

Lost in the flurry of election and pandemic headlines recently was a remarkable stat — U.S. GDP grew 33% in the third quarter of 2020! There are a couple of “issues” with this stat (like most stats, let’s be honest). It comes after the largest decline in GDP in recorded history (the Great Depression likely had a bigger or comparable decline), and the number is annualized. However, it is still an important feat as we dig out of the economic hole from the first half of the year. Historically speaking, this past quarter sticks out like most 2020 economic statistics do. It is nearly double the second-largest quarterly growth recorded during the 1950s. Interestingly, only two other quarters shown below followed negative quarterly GDP growth, which shows just how strong some of these periods were and how much more economic volatility the economy used to show before heavy Federal Reserve involvement.

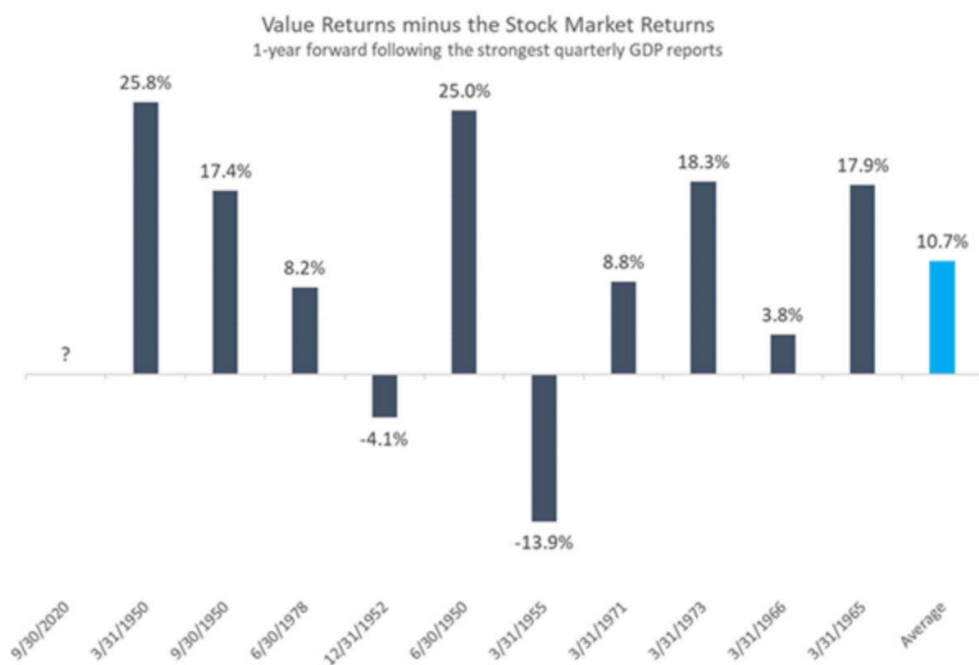


GRANT ENGELBART
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Source: Bloomberg, French Data Library 11/8/2020

As we’ve discussed before, economic growth is typically priced in by stocks, and this year is no exception. What will be interesting to watch going forward is how this will affect value stocks. Traditionally, value has benefited from stronger economic growth and sometimes accompanying inflation. Looking back at history, returns of value stocks versus the broader market as measured by the S&P 500 in the year after these double-digit quarters have been quite strong. Outperformance has averaged double-digits above and beyond that of the broader stock market and has been positive following each of the quarters mentioned, except two.



Source: Bloomberg, French Data Library 11/8/2020. Stock market returns based on the S&P 500 Price Index.

Though it may feel like history is being rewritten here in 2020, we of course can't ignore its lessons. The parallels and behavior of the market in the past still hold true today, although there are always little differences. We believe value will be back soon.

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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