Clark Capital Management Group

# Market Outlook 2019

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Thursday, January 3, 2019

# 2018 Review

| Domestic Equity | | Q4 2018 | 2nd Half 2018 | 2018 |
|---|---|---|---|---|
| | S&P 500 | -13.52% | -6.85% | -4.39% |
| | Russell 1000 | -13.83% | -7.42% | -4.79% |
| | Russell 2000 | -20.21% | -17.35% | -11.03% |
| | Russell 3000 | -14.31% | -8.20% | -5.25% |
| | Russell 1000 Value | -11.73% | -6.69% | -8.28% |
| | Russell 1000 Growth | -15.89% | -8.17% | -1.52% |
| **International Equity** | | | | |
| | MSCI Emerging Market | -7.47% | -8.49% | -14.49% |
| | MSCI All Country World (ex US) | -11.49% | -10.84% | -14.20% |
| **Fixed Income** | | | | |
| | BBgBarc U.S. Aggregate Bond | 1.64% | 1.65% | 0.01% |
| | BBgBarc U.S. Treasury | 2.57% | 1.96% | 0.86% |
| | BBgBarc U.S. Corporate | -0.18% | 0.79% | -2.51% |
| | BBgBarc U.S. Corporate High Yield | -4.53% | -2.24% | -2.08% |
| | BBgBarc Municipal | 1.69% | 1.53% | 1.28% |



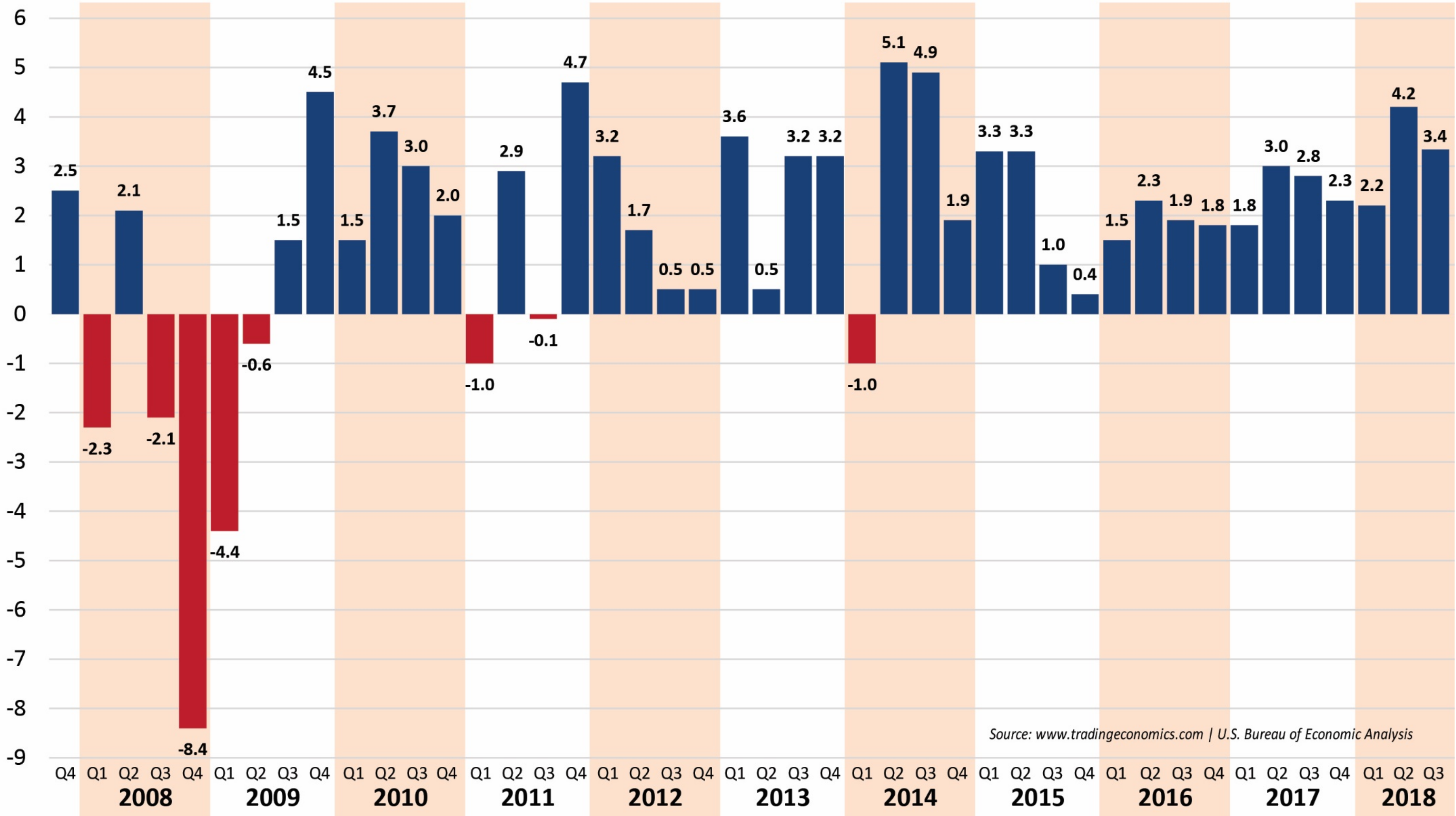
Source: Morningstar Direct.

# 2019 Outlook – Executive Summary

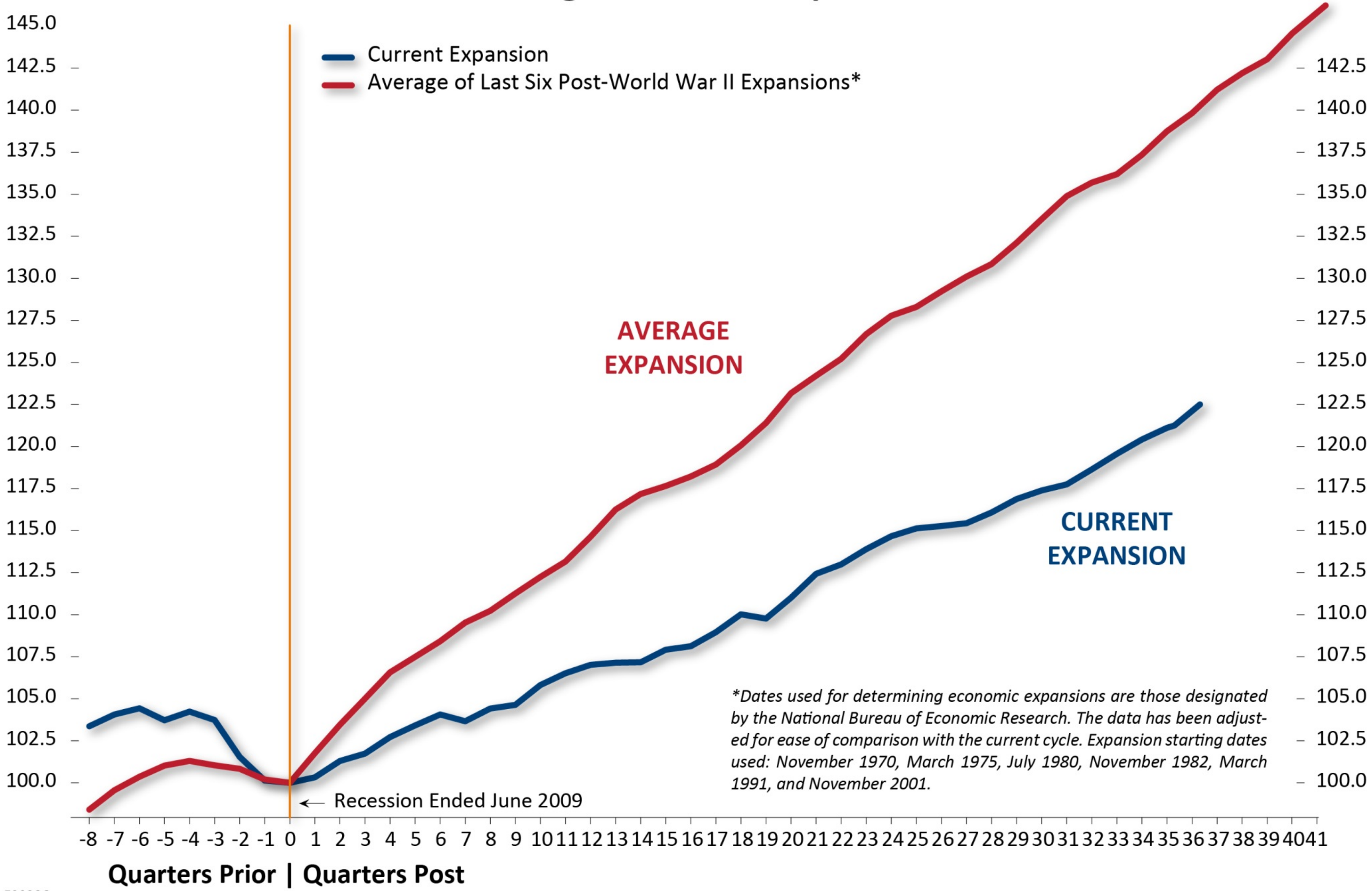
- Cyclical bear ending within context of Secular bull. Expect global equity markets to rebound. 2019 S&P 500 target of 2900.
- International – emerging markets set to outperform.
- Expect to see volatility remain elevated given correction and late cycle economic expansion.
- Economy — about to become longest U.S. economic expansion on record. Strong economic momentum, leading indicators, labor market, yield curve suggest continued economic growth. For U.S. economy, we expect growth to moderate to 2.3%. Global economy to grow 3.5%.
- Risks to the outlook — Peak in earnings growth, risk of policy mistake by Federal Reserve, budget deficit, China trade war, geopolitical risks in Europe (Brexit, political turmoil on continent), politics in U.S..
- Federal Reserve —Expect one additional rate hike. Market beginning to price in potential for rate cut late 2019 / 2020. May slow balance sheet reduction.
- Fixed Income — 3.00% target for 10-year yields. Favor risk off coming into year. Credit conditions and strength of economy still supportive of credit after correction.

# United States GDP Growth Rate

*Percent Change in Gross Domestic Product*



# Performance of Real GDP vs. Average of Last Six Expansions




**Dates used for determining economic expansions are those designated by the National Bureau of Economic Research. The data has been adjusted for ease of comparison with the current cycle. Expansion starting dates used: November 1970, March 1975, July 1980, November 1982, March 1991, and November 2001.*

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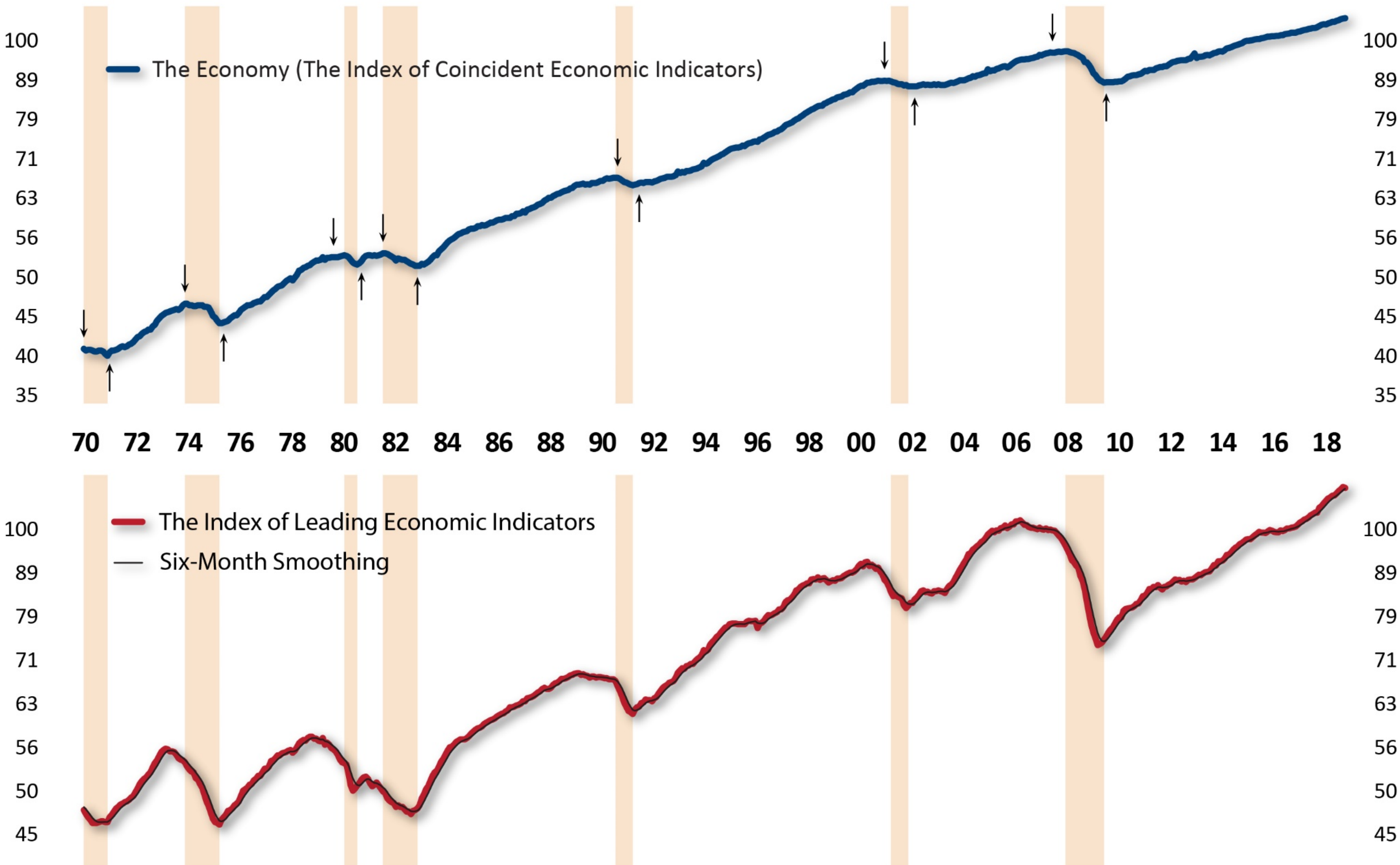
Source: Ned Davis Research

# The Index of Leading Economic Indicators

*Monthly Data 1969-12-31 to 2018-10-31*

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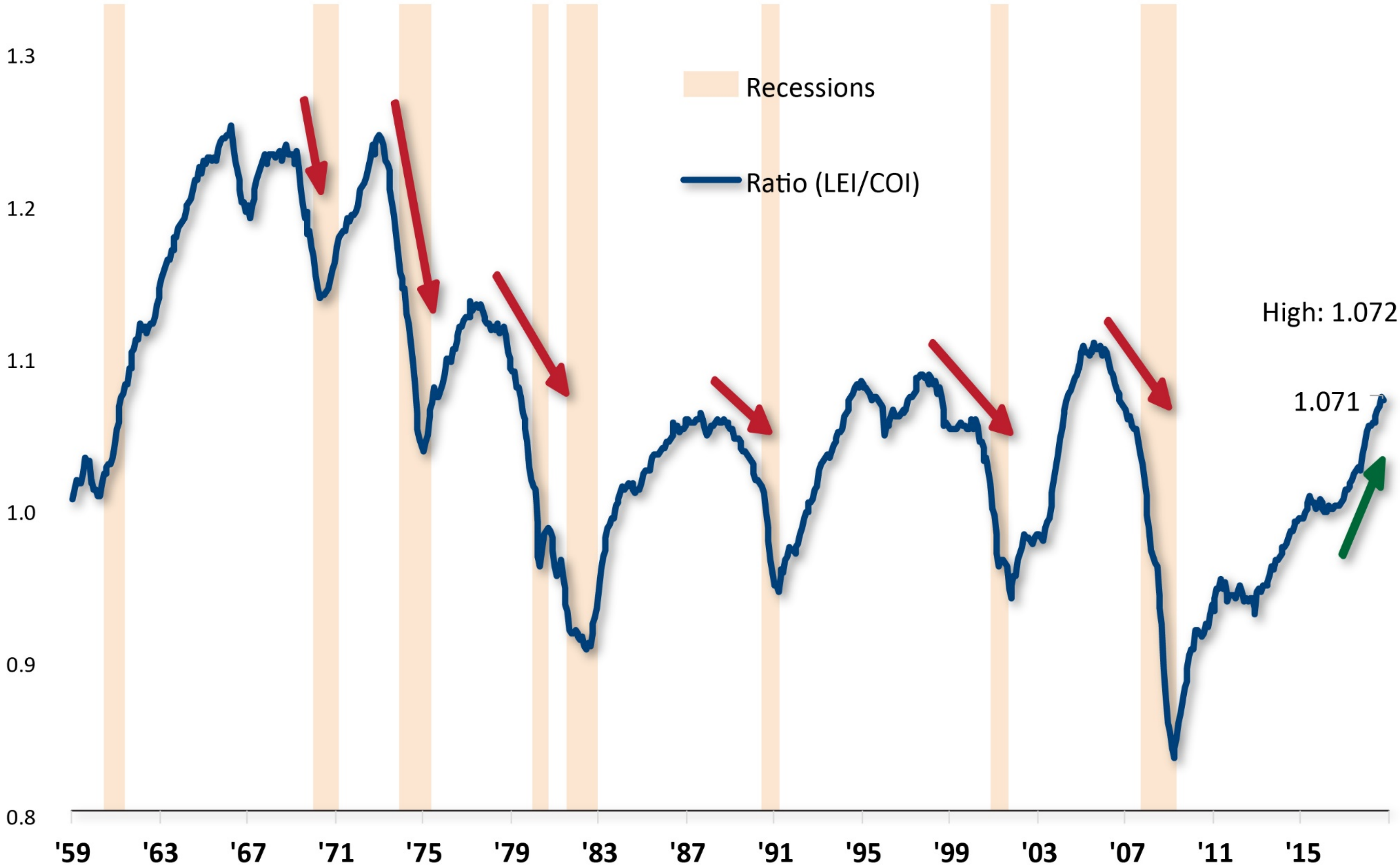
# LEI Recession Lead Times

| LEI Peak | Recession Start | Months from Peak to Start |
|---|---|---|
| 12/31/1959 | 4/30/1960 | 4 |
| 4/30/1969 | 12/31/1969 | 8 |
| 2/28/1973 | 11/30/1973 | 9 |
| 10/31/1978 | 1/31/1980 | 15 |
| 10/31/1980 | 7/31/1981 | 9 |
| 1/31/1989 | 7/31/1990 | 18 |
| 4/30/2000 | 3/31/2001 | 11 |
| 3/31/2006 | 12/31/2007 | 21 |

Source: Ned Davis Research

## Ratio of Leading to Coincident Indicators: 1959 - 2018

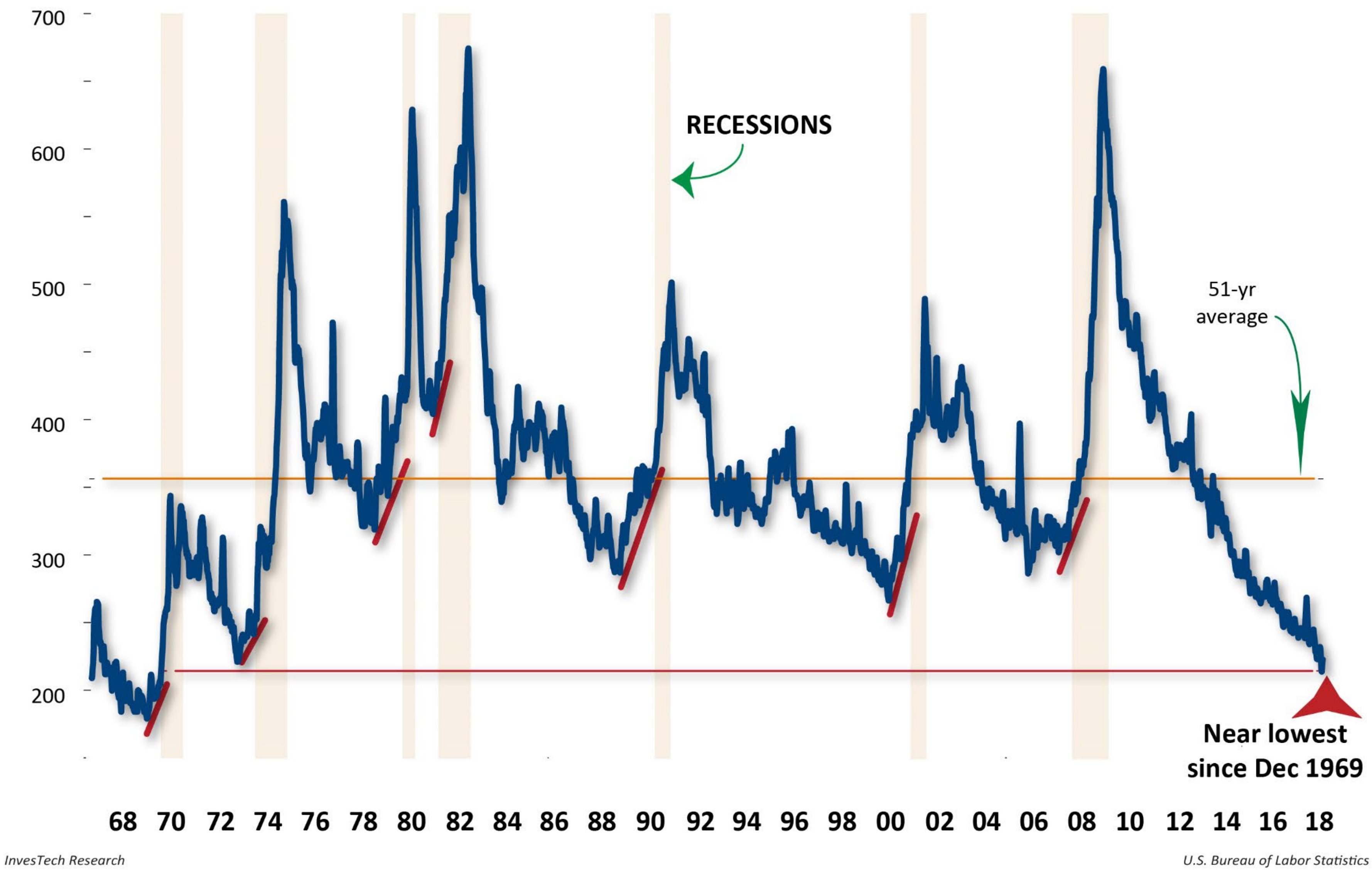



Source: Bespoke

## Housing Starts (12 Month Average, mln): 1967 - 2018

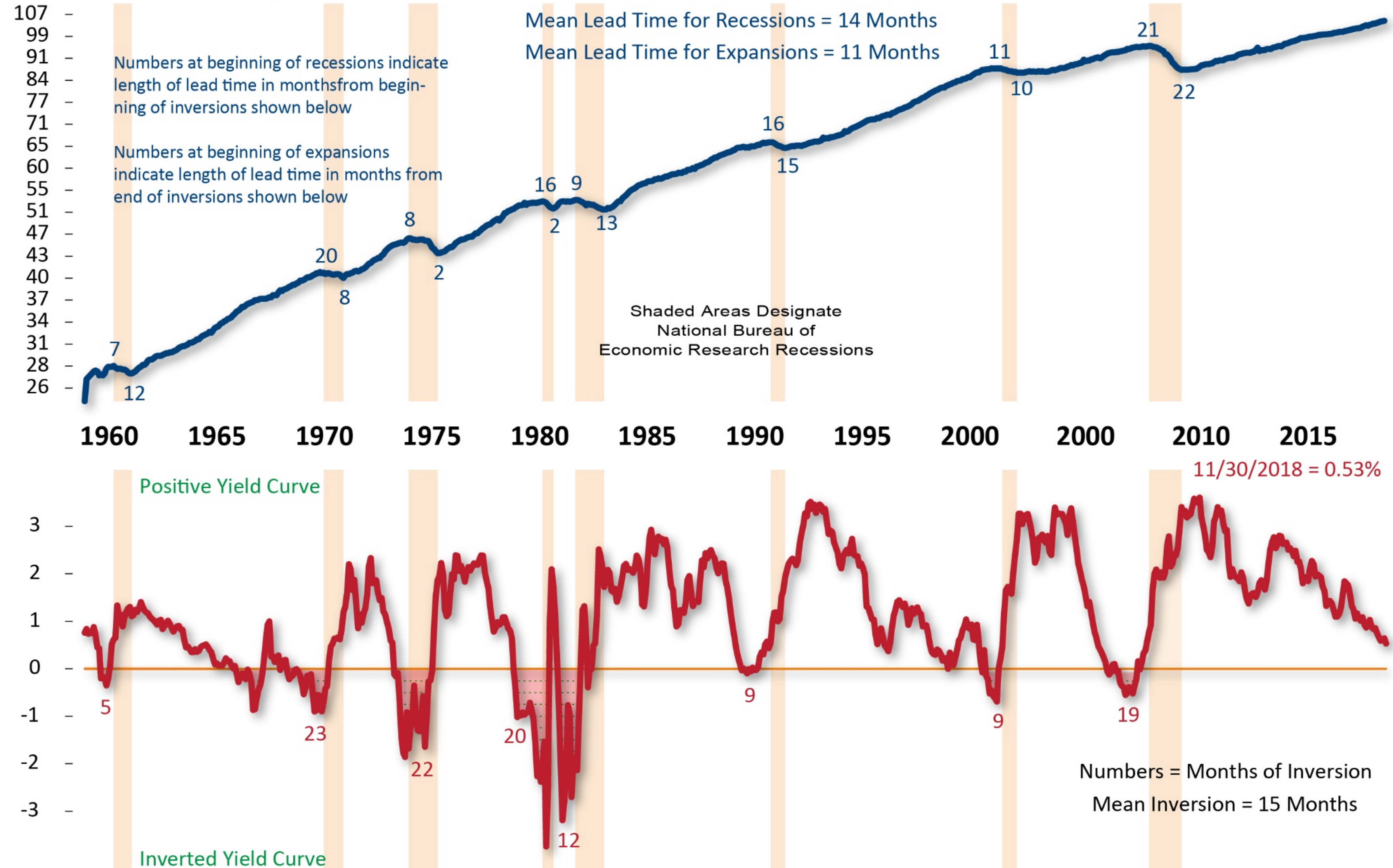

Source: Bespoke

# Unemployment Claims (4-wk moving avg)



*Monthly 12/31/1958 - 11/30/2018 (Log Scale)*

## The Economy (The Index of Coincident Economic Indicators)




## Treasury Yield Curve - 10-Year Treasury Yield minus 6-Month T-Bill Bond-Equivalent Yield

(E641)

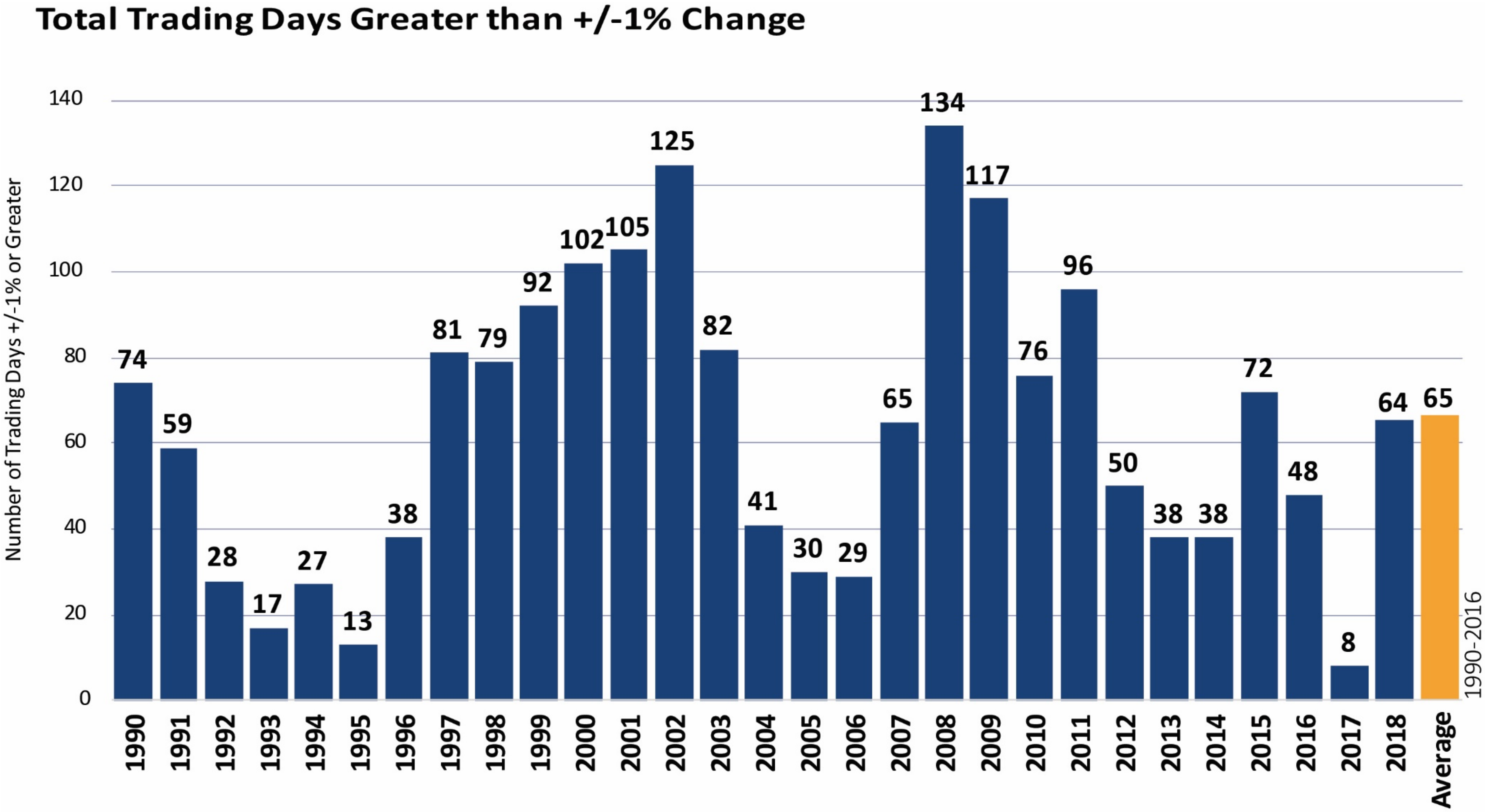
Source: Ned Davis Research

# Yield Curve Leading Up to Recessions

| | Yield Curve (bps) | |
|---|---|---|
| Start of Recession | At Start of Recession | 52-Week Low |
| 12/31/1969 | -13 | -45 |
| 11/30/1973 | -61 | -187 |
| 01/31/1980 | -87 | -208 |
| 07/31/1981 | -20 | -373 |
| 07/31/1990 | 61 | -16 |
| 04/02/2001 | 72 | -99 |
| 12/31/2007 | 79 | -60 |
| Current | 31 | 31 |

Source: InvesTech Research

# Volatility – A Tale of Two Cities



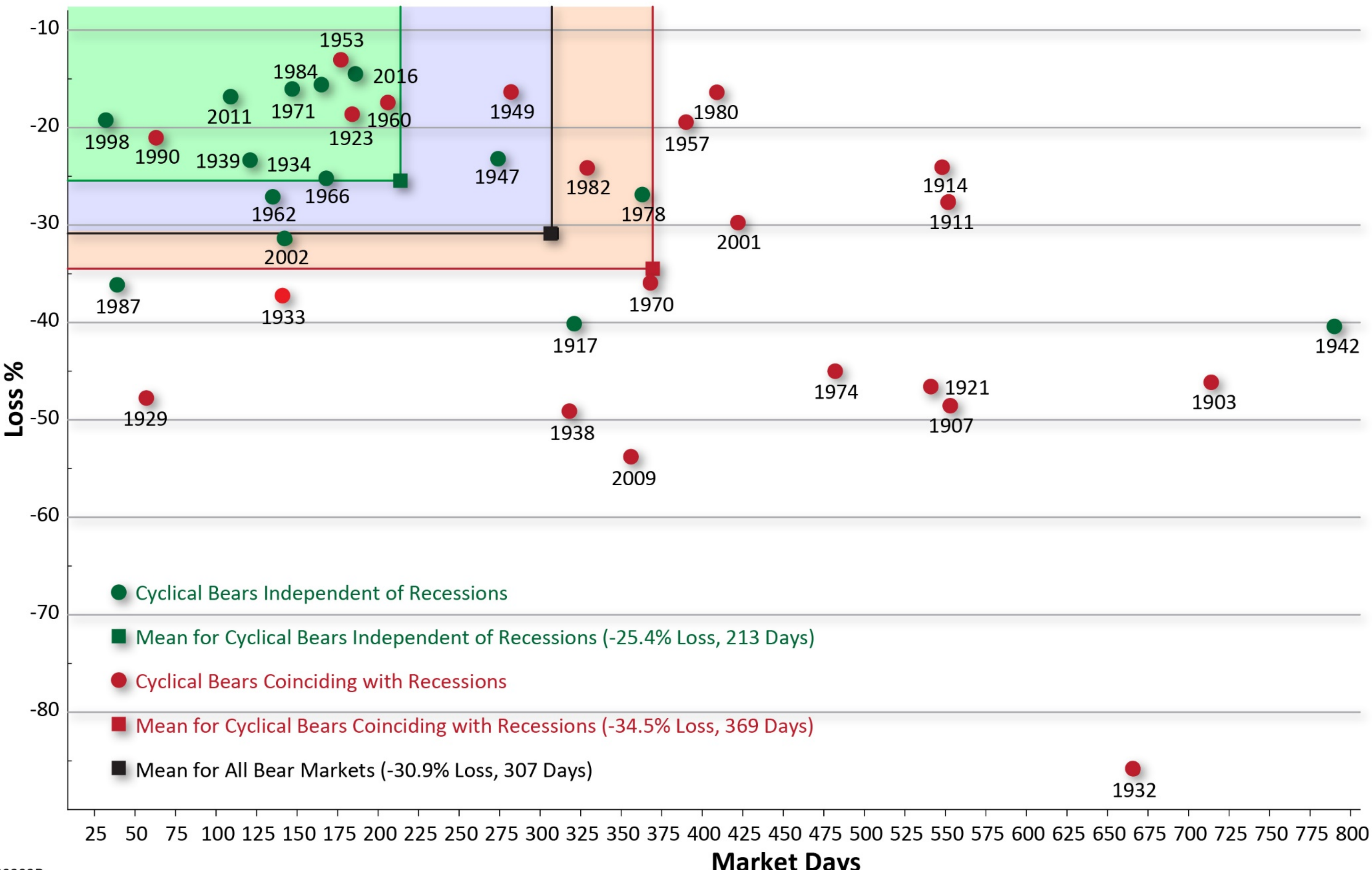

Source: Bloomberg as of 9/30/18. S&P 500 Index.

# Frequency of Declines

| S&P 500 Declines | Occurrences Per Year | Frequency Average | Probability of Decline Moving to Next Stage | Mean Decline |
|---|---|---|---|---|
| -5% or more | 3.4 | Every 14 weeks | 32% | -10.9% |
| -10% or more | 1.1 | Every Year | 45% | -19.5% |
| -15% or more | 0.5 | Every 2 years | 58% | -28.2% |
| -20% or more | 0.3 | Every 3 years | N/A | -35.7% |

Source: Ned Davis Research

# A History of Bear Markets II: Dow Jones Industrial Average (1900-Present)

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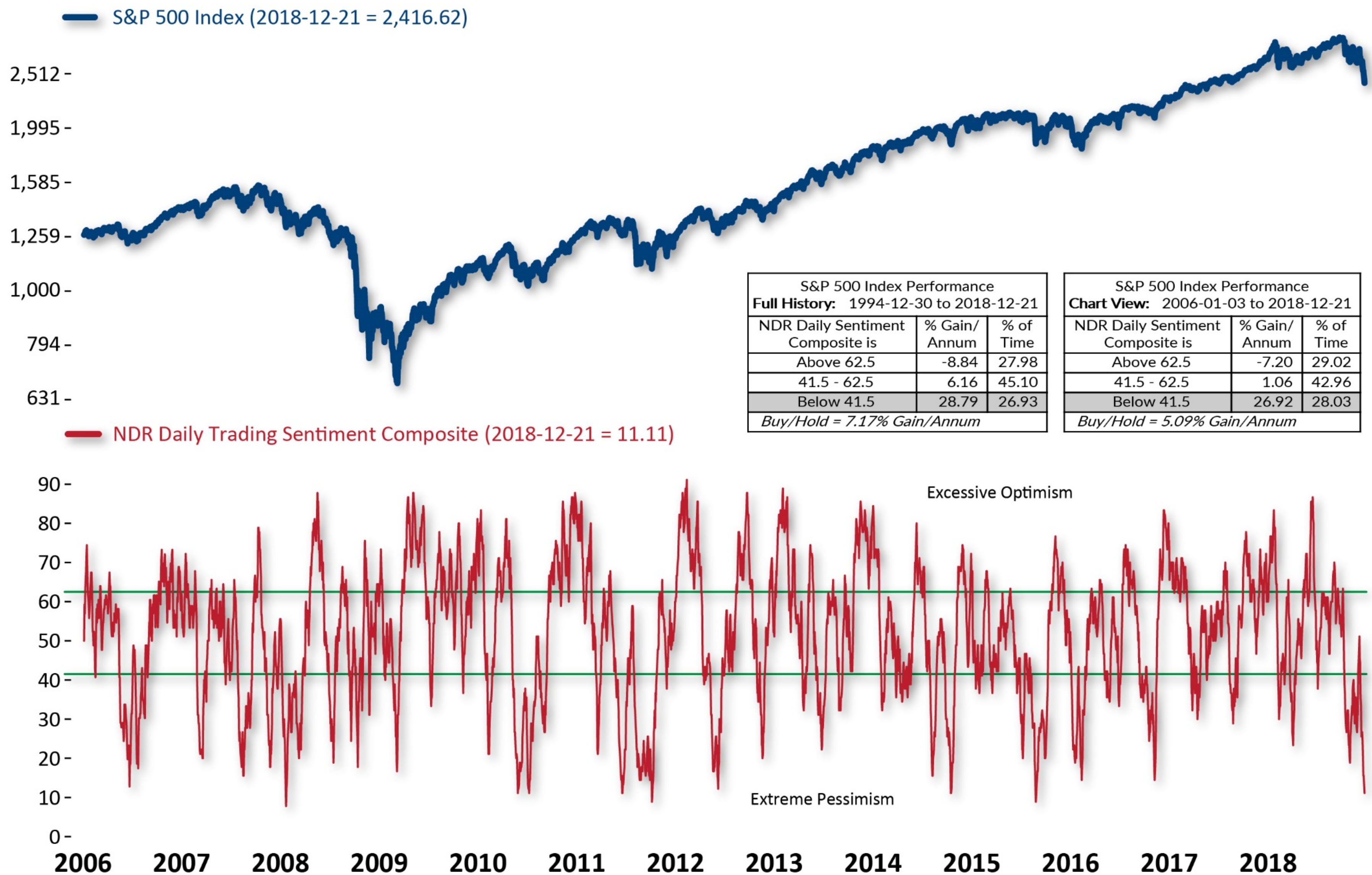
# S&P 500 vs. NDR Daily Trading Sentiment Composite

*Daily Data 2006-01-03 to 2018-12-21*




| S&P 500 Index Performance **Full History:** 1994-12-30 to 2018-12-21 | | |
|---|---|---|
| NDR Daily Sentiment Composite is | % Gain/ Annum | % of Time |
| Above 62.5 | -8.84 | 27.98 |
| 41.5 - 62.5 | 6.16 | 45.10 |
| Below 41.5 | 28.79 | 26.93 |
| *Buy/Hold = 7.17% Gain/Annum* | | |

| S&P 500 Index Performance **Chart View:** 2006-01-03 to 2018-12-21 | | |
|---|---|---|
| NDR Daily Sentiment Composite is | % Gain/ Annum | % of Time |
| Above 62.5 | -7.20 | 29.02 |
| 41.5 - 62.5 | 1.06 | 42.96 |
| Below 41.5 | 26.92 | 28.03 |
| *Buy/Hold = 5.09% Gain/Annum* | | |

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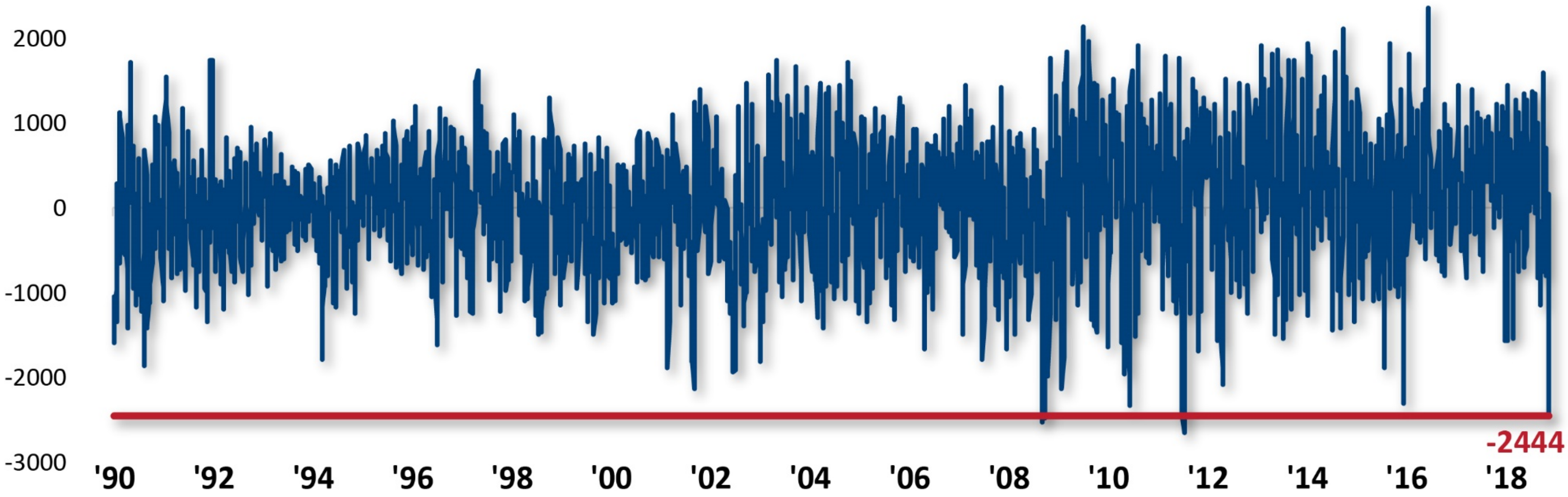
## S&P 500 10-Day A/D Line: 1990 - 2018

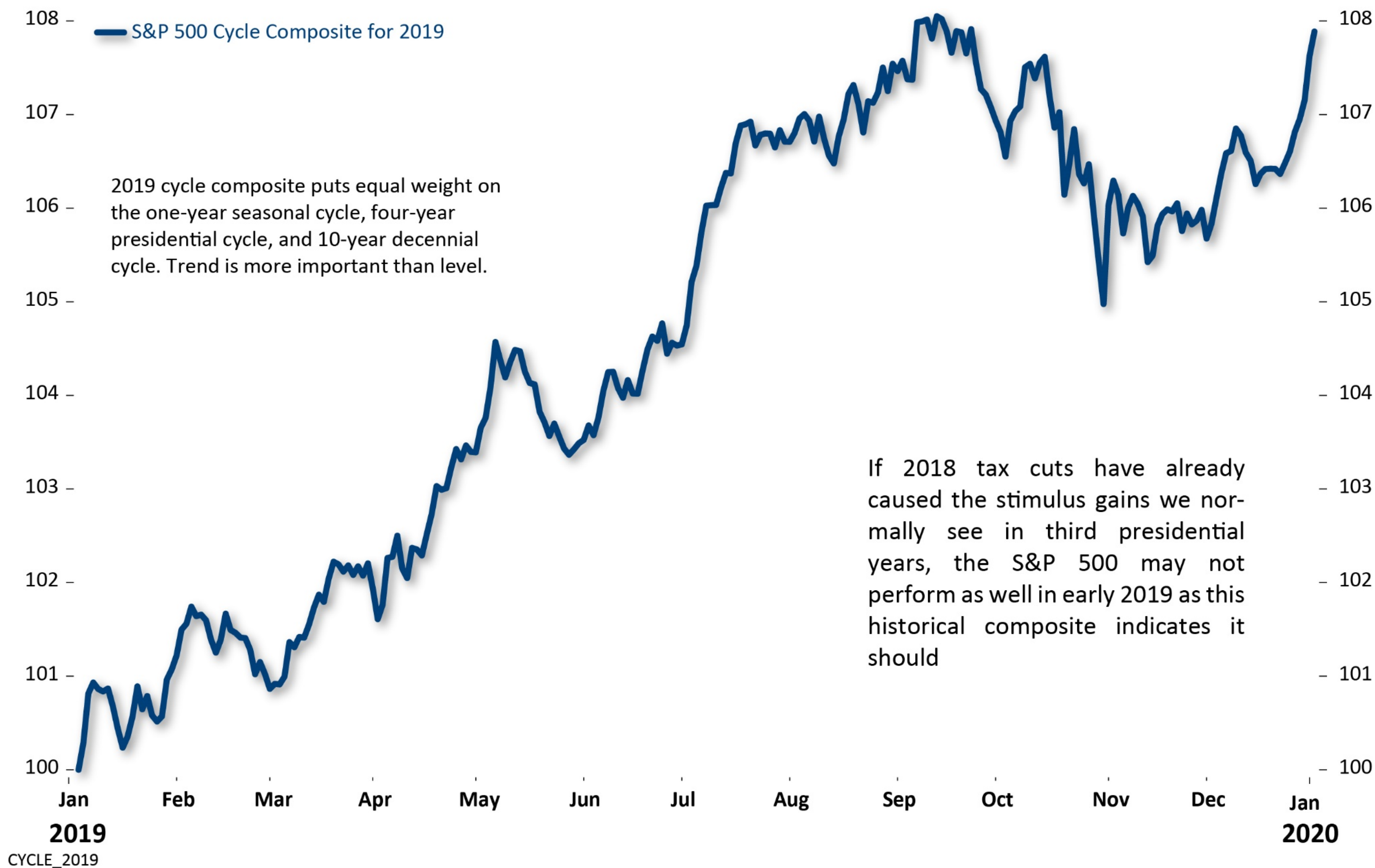



## S&P 500 After Extreme Readings in 10-Day A/D Line: 1990 -2018

| Date | Most Negative Reading | S&P 500 Performance (%) One Week | One Month | Three Months | Six Month | One Year |
|---|---|---|---|---|---|---|
| 10/9/08 | -2525 | 4.01 | 2.32 | -2.15 | -5.86 | 17.76 |
| 7/2/10 | -2334 | 5.42 | 10.10 | 12.09 | 22.99 | 31.01 |
| 8/4/11 | -2644 | -2.29 | -2.17 | 4.43 | 12.07 | 15.91 |
| 1/13/16 | -2296 | -1.64 | -1.35 | 10.16 | 13.87 | 20.33 |
| 12/24/18 | -2444 | | | | | |
| **Average** | | **1.38** | **2.22** | **6.13** | **10.76** | **21.25** |
| **Median** | | **1.19** | **0.48** | **7.30** | **12.97** | **19.05** |

Source: Bespoke

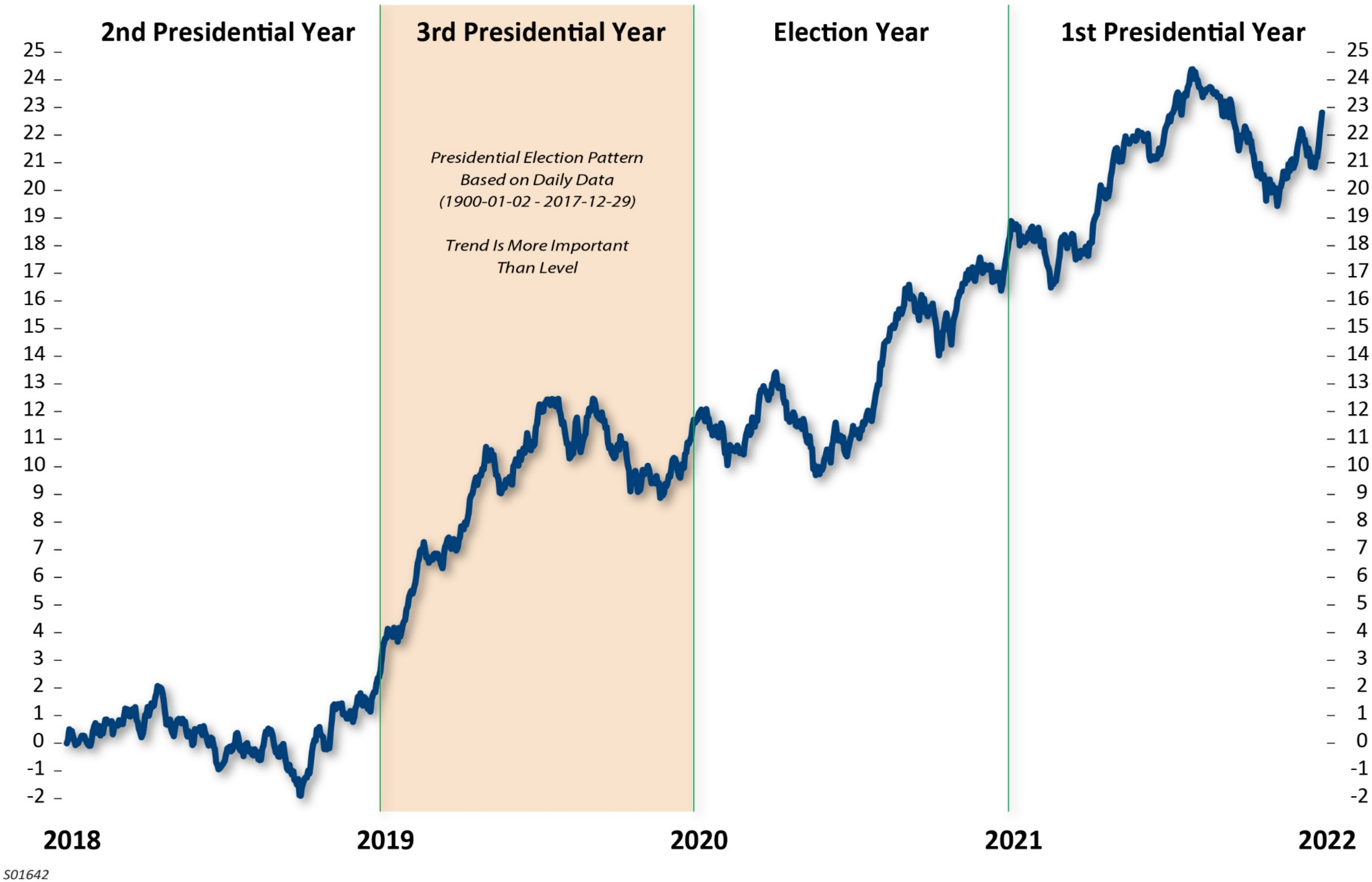
# What History Says 2019 Should Look Like




2019 cycle composite puts equal weight on the one-year seasonal cycle, four-year presidential cycle, and 10-year decennial cycle. Trend is more important than level.

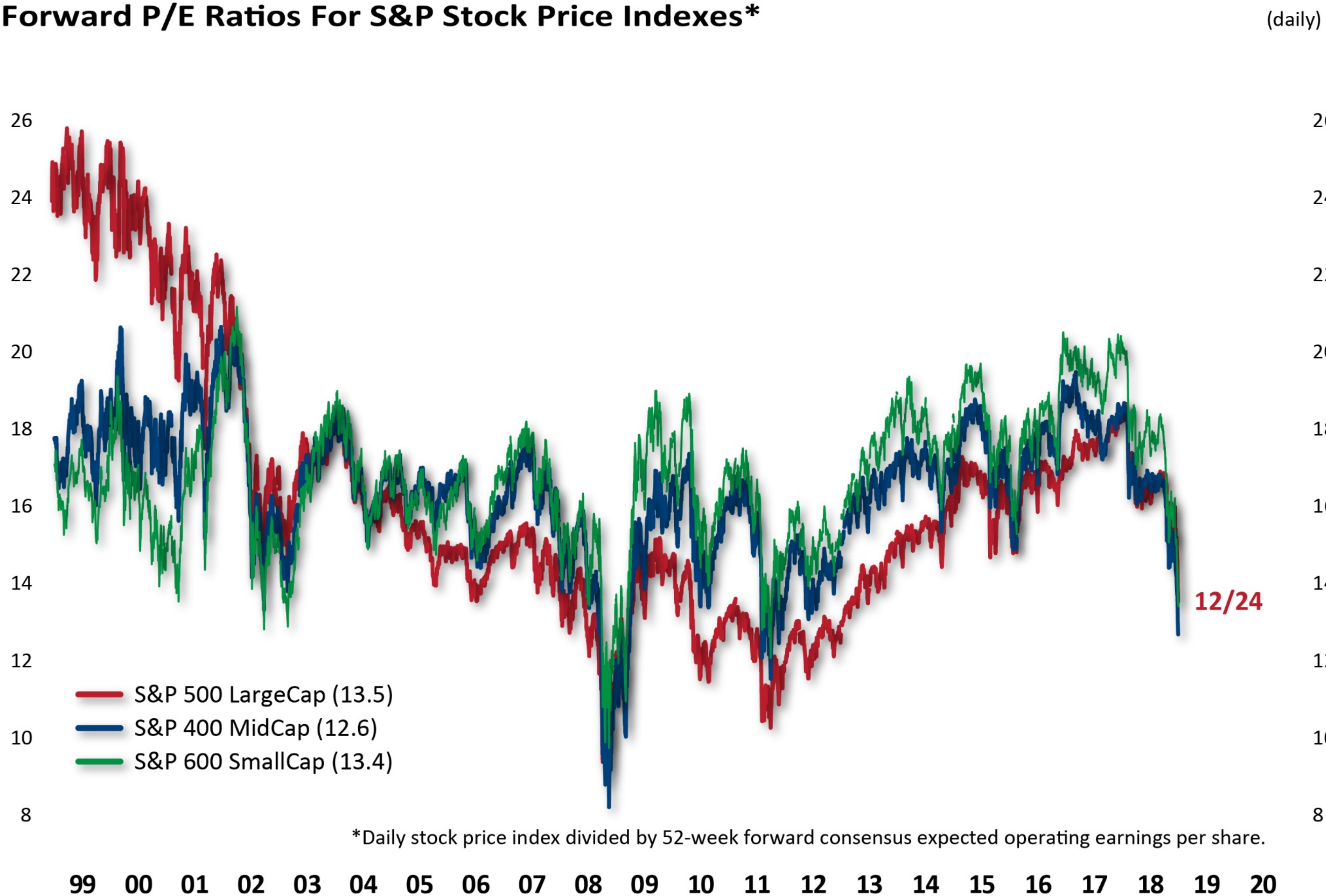
If 2018 tax cuts have already caused the stimulus gains we normally see in third presidential years, the S&P 500 may not perform as well in early 2019 as this historical composite indicates it should

## Dow Industrials Four-Year Presidential Cycle




Source: Ned Davis Research

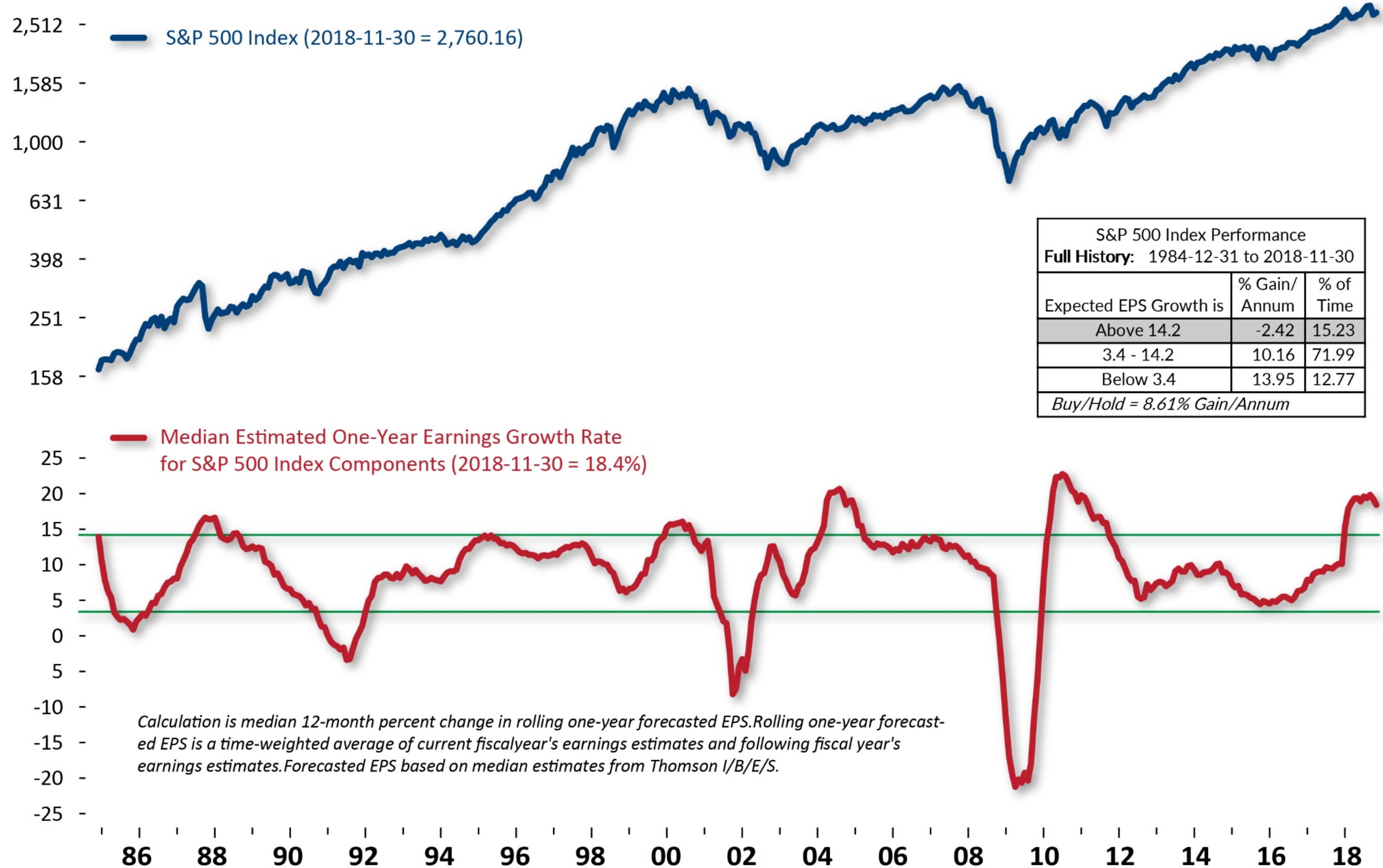
# Forward P/E Ratios For S&P Stock Price Indexes*




*Daily stock price index divided by 52-week forward consensus expected operating earnings per share.

# S&P 500 Index vs. Median Expected Earnings Growth

*Monthly Data 1984-12-31 to 2018-11-30*




| S&P 500 Index Performance<br>**Full History:** 1984-12-31 to 2018-11-30 | | |
|---|---|---|
| Expected EPS Growth is | % Gain/ Annum | % of Time |
| Above 14.2 | -2.42 | 15.23 |
| 3.4 - 14.2 | 10.16 | 71.99 |
| Below 3.4 | 13.95 | 12.77 |
| *Buy/Hold = 8.61% Gain/Annum* | | |

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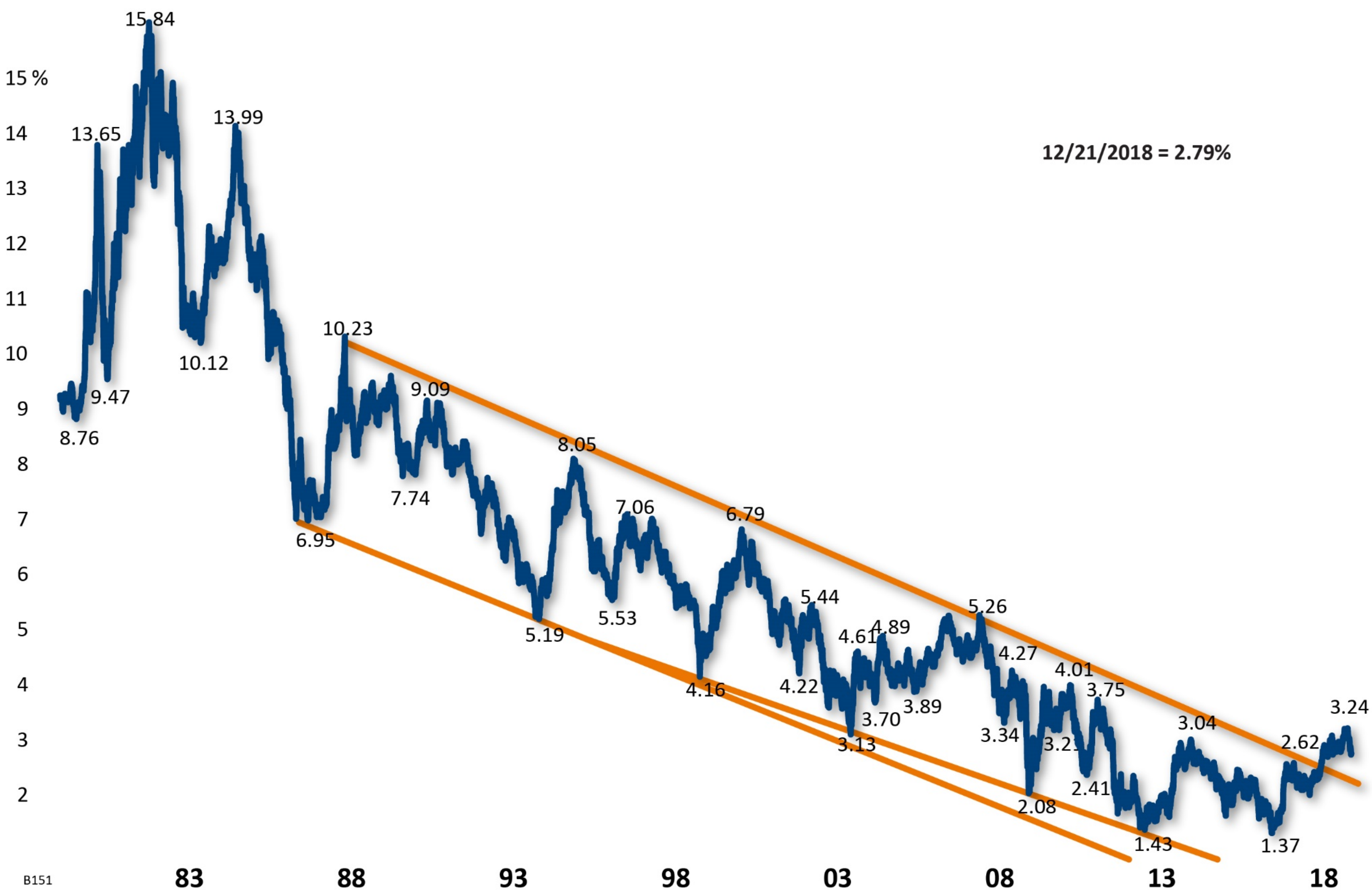
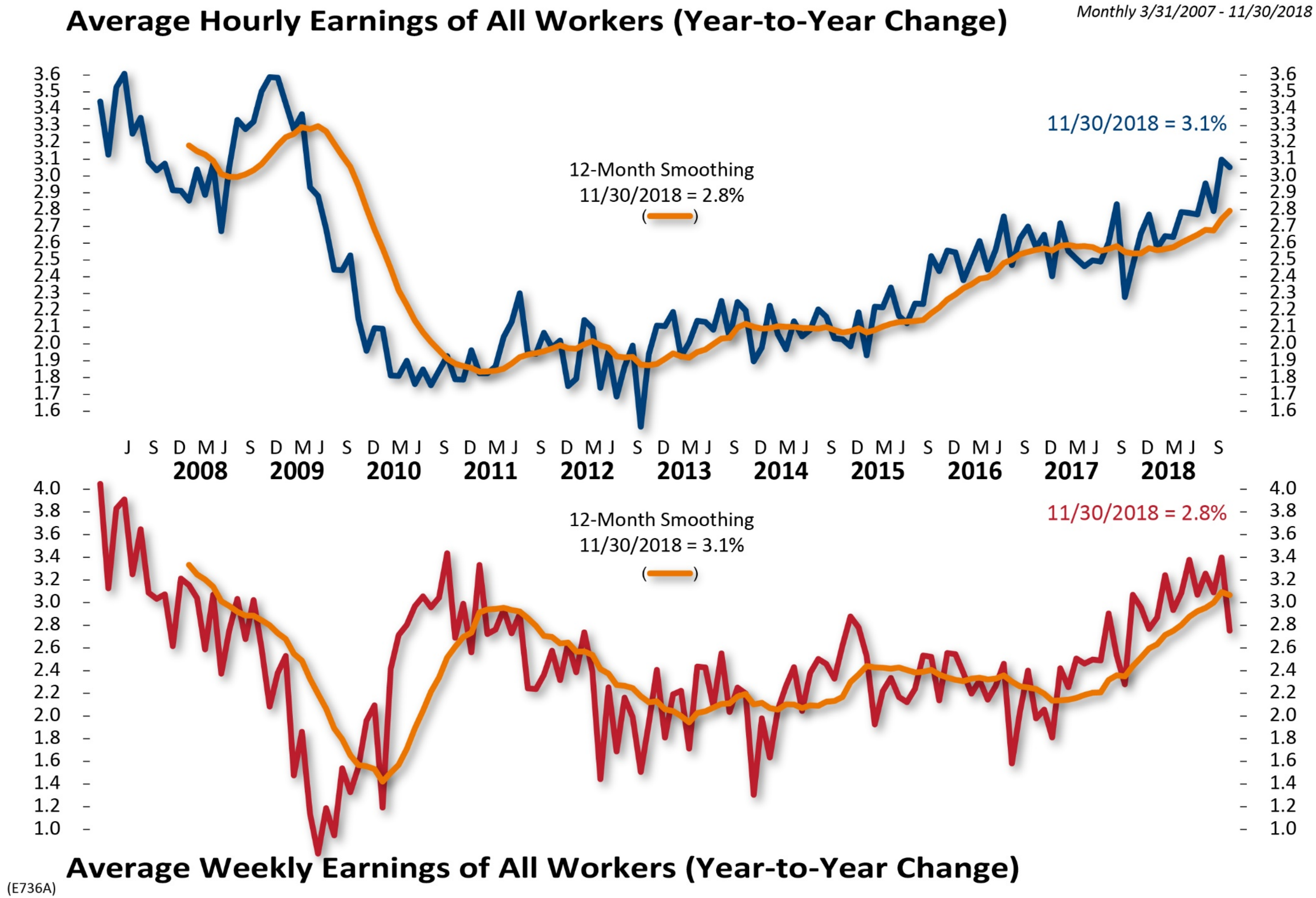
# 10-Year Constant Maturity Treasury Note Yields

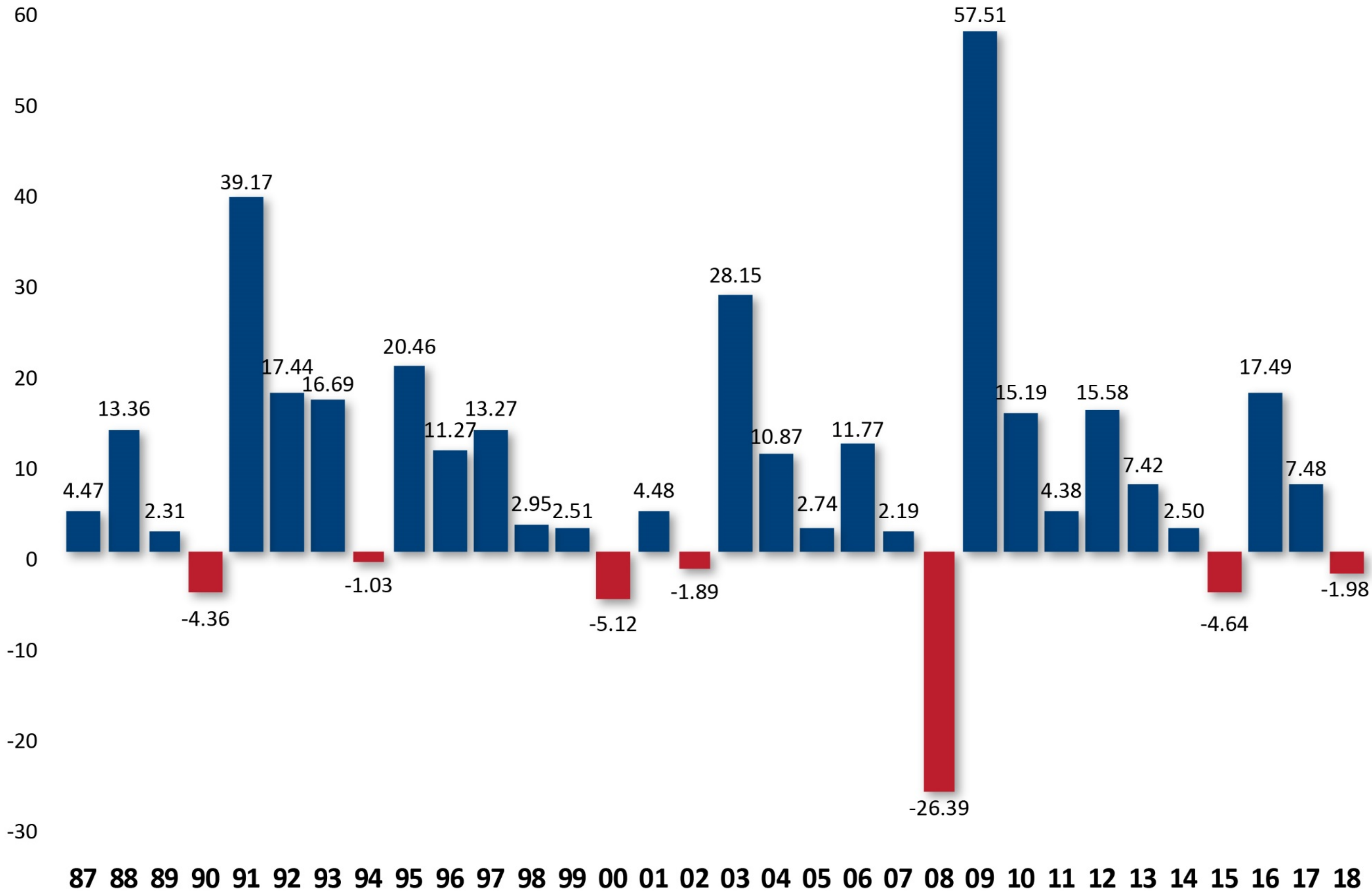
*Daily 1/02/1979 - 12/21/2018*




Source: Ned Davis Research


Average Hourly Earnings of All Workers (Year-to-Year Change)
Monthly 3/31/2007 - 11/30/2018
11/30/2018 = 3.1%
12-Month Smoothing
11/30/2018 = 2.8%
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
11/30/2018 = 2.8%
12-Month Smoothing
11/30/2018 = 3.1%
Average Weekly Earnings of All Workers (Year-to-Year Change)
(E736A)

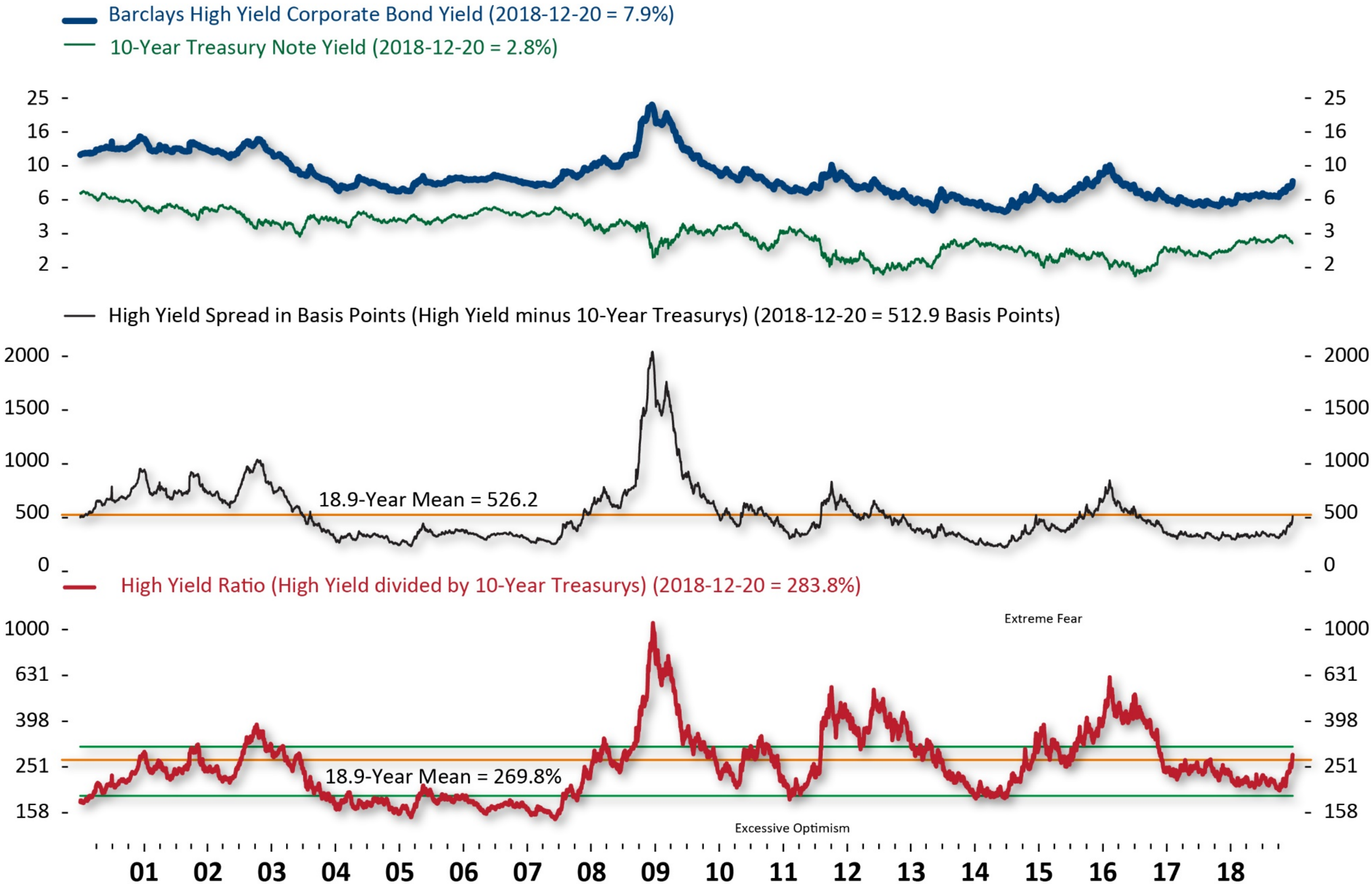
## BAML HY Master II Index Total Return By Year, 1987 - 2018 YTD




Source: Bespoke

# High Yield Corporate Spreads

*Daily Data 2000-01-03 to 2018-12-20*

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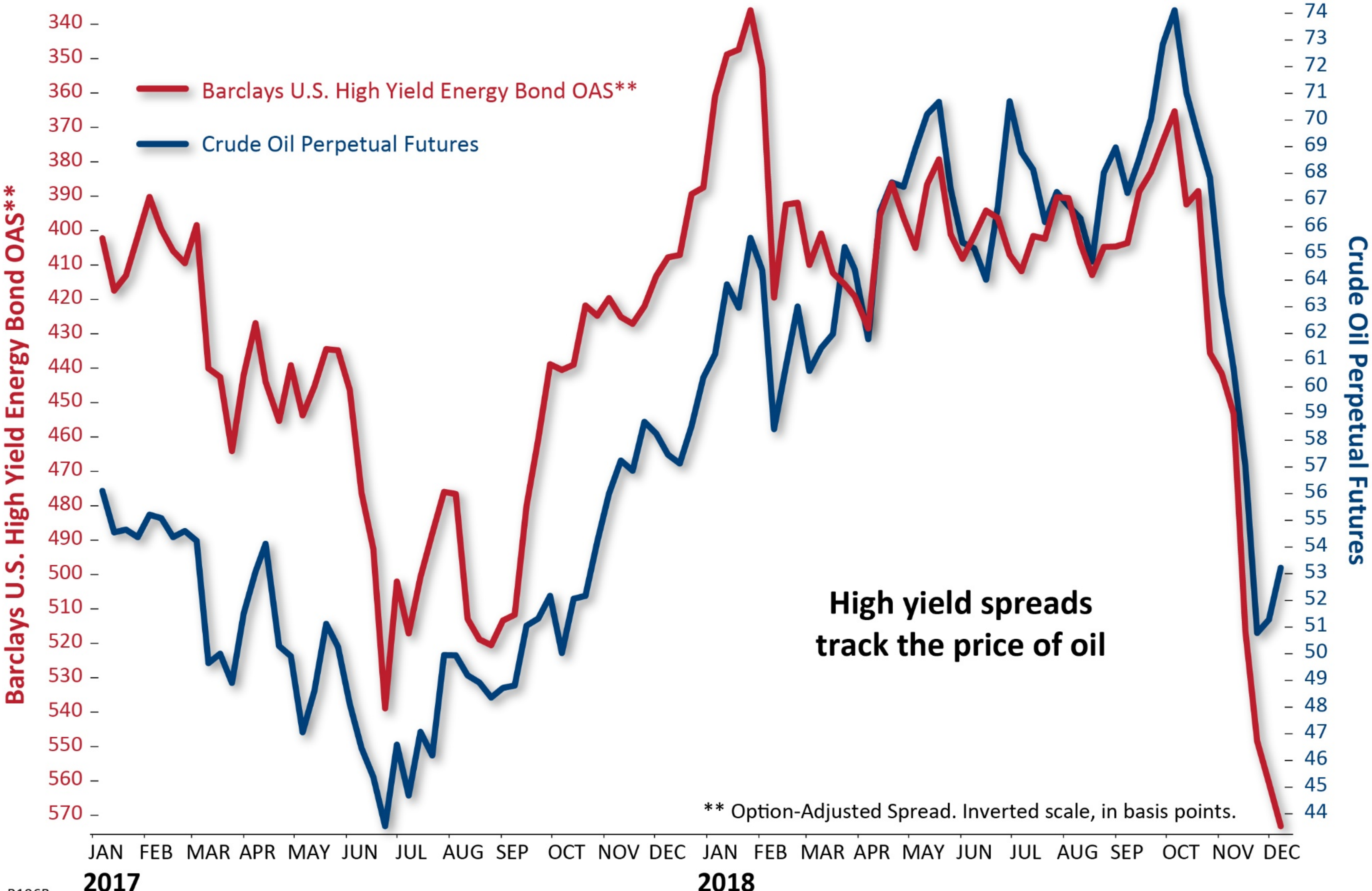
## Falling Oil Prices Have Caused Wider Spreads

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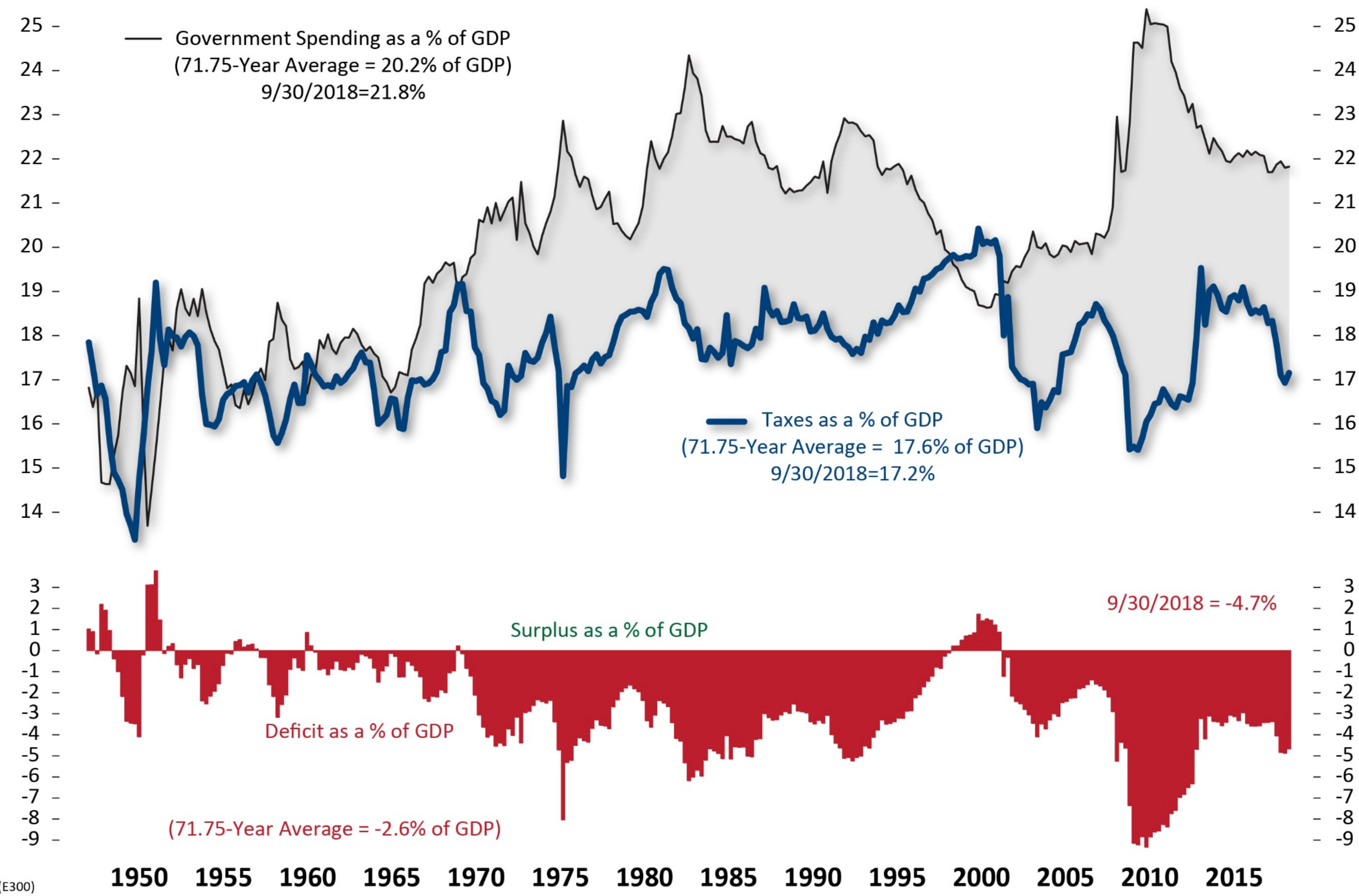
# Taxes and Government Spending

*Quarterly 3/31/1947 - 9/30/2018*

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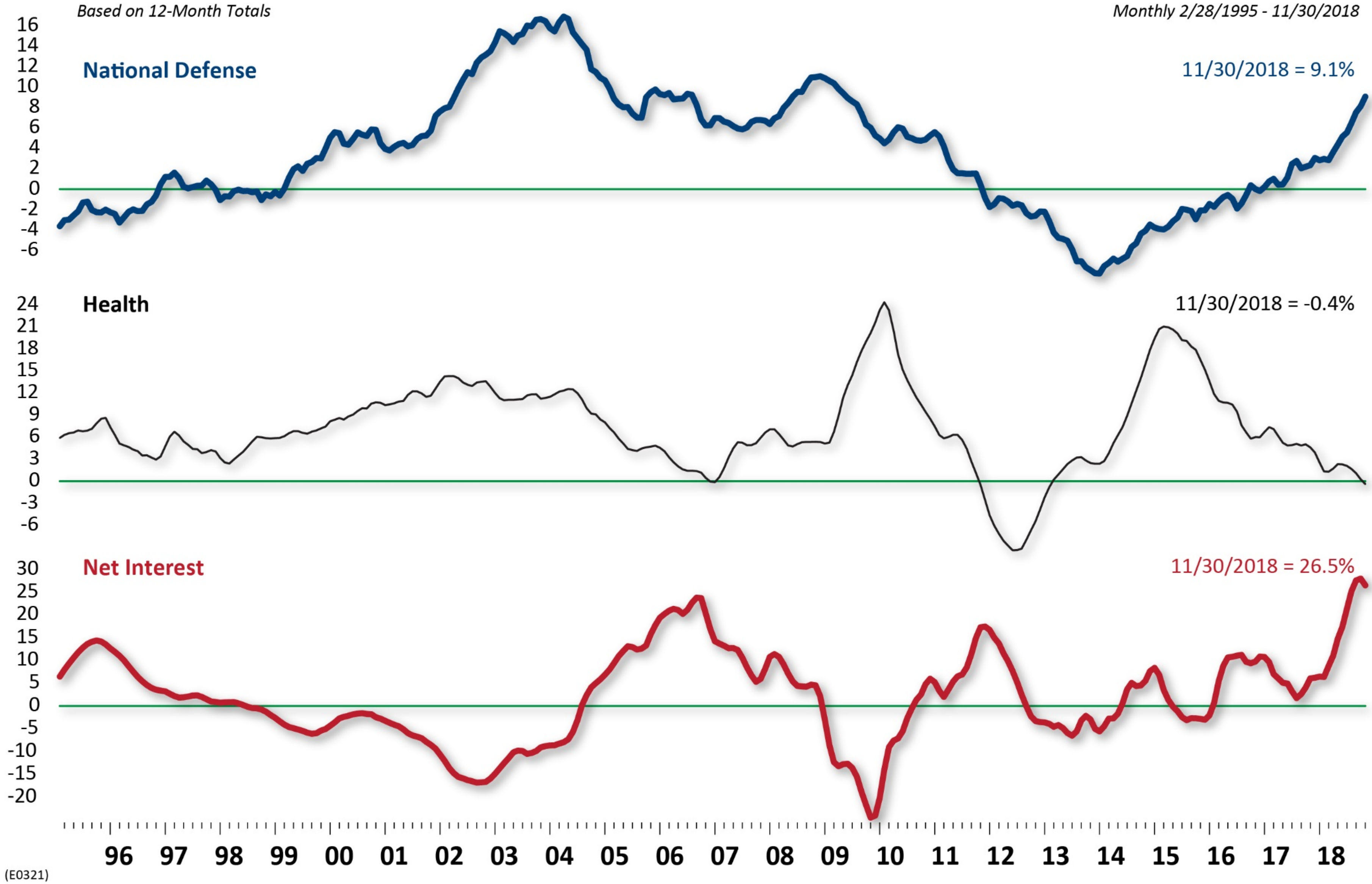
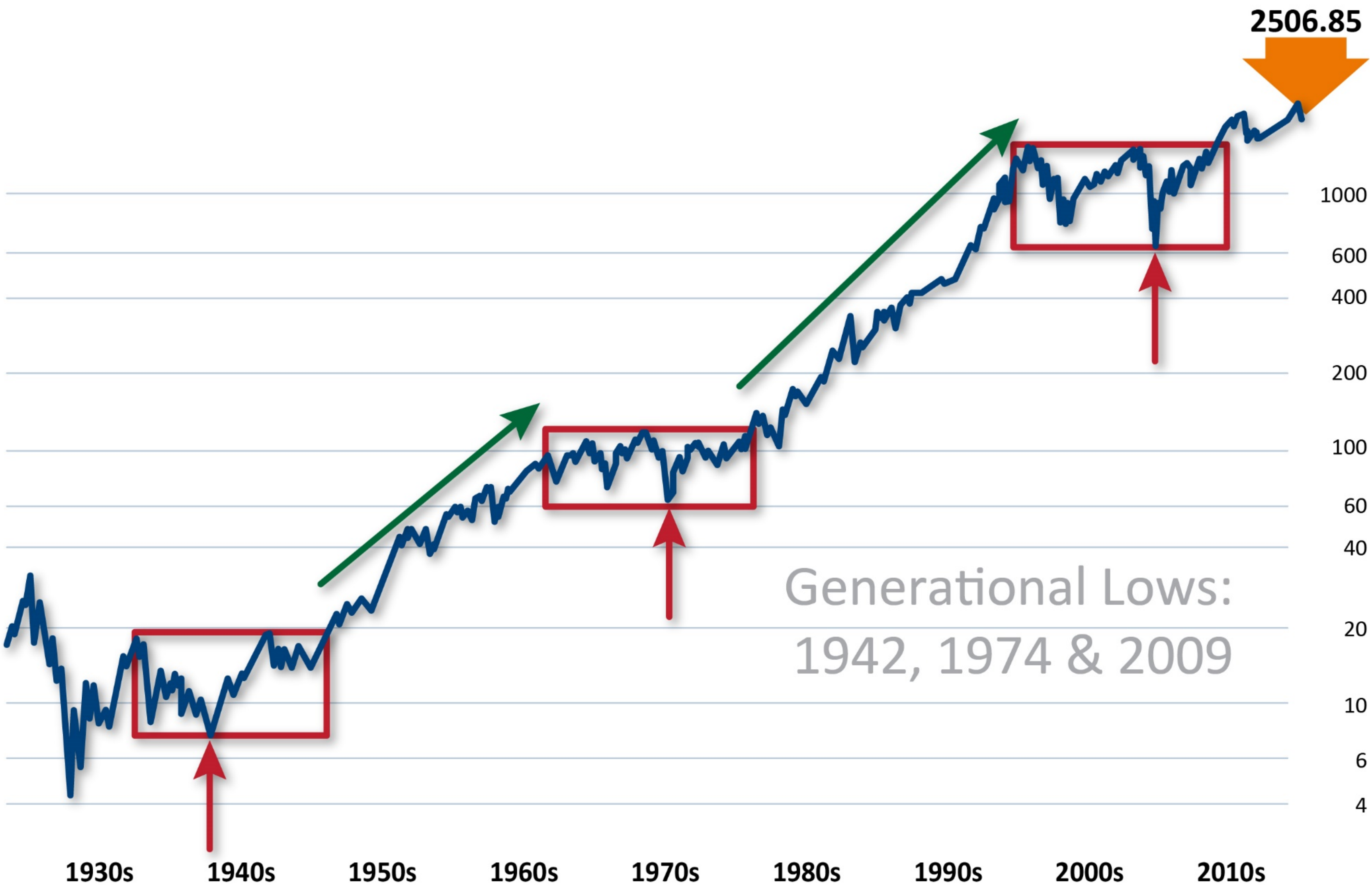
# Components of U.S. Government Outlays I (Smoothed Year-to-Year Changes)



## S&P 500 Monthly Closing Price




Source: Merrill Lynch Research

# 2019 Market Outlook

- Will be provided in pdf format

ClarkCapital MANAGEMENT GROUP

MarketOutlook 2019

Market Commentary by K. Sean Clark, CFA® Chief Investment Officer

January 2019

**K. Sean Clark, CFA**
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Executive Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean was featured in an article in Barron's and has been quoted in a number of articles in nationally distributed business journals and newspapers.

## Title

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# Q&A

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI World Index is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

The MSCI Asia ex. Japan is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The MSCI AC Asia ex Japan Index consists of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

The MSCI Emerging Markets Index is a freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The VIX Index is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries and government-related & investment grade U.S. Corporate securities that have a remaining maturity of greater than one year.

The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The iPath® S&P 500 Dynamic VIX ETN is designed to provide investors with exposure to the S&P 500® Dynamic VIX Futures™ Total Return Index.

The S&P 500® Dynamic VIX Futures™ Total Return Index (the "Index") is designed to dynamically allocate between the S&P 500® VIX Short-Term Futures™ Index Excess Return and the S&P 500® VIX Mid-Term Futures™ Index Excess Return by monitoring the steepness of the implied volatility curve. The Index seeks to react positively to overall increases in market volatility and aims to lower the roll cost of investments linked to future implied volatility.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.