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 Board of Directors, the Investment Committee and the Management Committee. 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 has been featured in a number of articles in nationally distributed business journals and newspapers.

PERSPECTIVE ON YESTERDAY'S SELLOFF

The U.S. stock market has taken on some water over the past week as risk assets have succumbed to higher interest rates and mid-term election uncertainty. Those concerns have resulted in the market's first real correction since the first quarter drawdown. Since its peak the S&P 500 has declined 4.86%, the NASDAQ Composite lost 8.38%, and the Russell 2000 has declined 9.36%. Most of those declines however have occurred just this week. Those declines in the U.S. pale in comparison to how weak the international markets have been. Major European indices are trading at their lowest levels in over 20 months and most emerging markets are trading well into bear market territory.

The selling pressure during yesterday's rout was particularly noticeable. For example, after months without a 1% move, the S&P 500 ended by tripling that to the downside. The Russell 2000 and NASDAQ Composite both closed below their respective 200-day moving averages. There were few places to hide with indiscriminate selling and a spike in volatility. In addition, more than 90% of volume on the NYSE was focused on declining issues. As a result of the declines over the past week, the market is technically oversold, investor sentiment has soured to a pessimistic extreme and put-call ratios have spiked to levels seen near the end of market corrections.

What does all of this mean? Is it the beginning of a major correction or just a "buy the dip" kind of pullback? Large equity market corrections in the U.S. have almost exclusively occurred in and around economic slowdowns. That is not the case today. In our opinion, the declines are still within the context of a normal correction and we have highlighted on several occasions that we expected to see an increase in volatility ahead of the mid-term elections, which are now less than one month away.

History has repeatedly shown that weakness ahead of mid-term elections is a buying opportunity for those investors with a reasonable time horizon. The worst two quarters of the four-year Presidential Cycle are the second and third quarters of the mid-term year. We are now in the part of the calendar where the presidential cycle's seasonal trends have historically transitioned from its two worst quarters to its two best. Dating back to 1946, the S&P 500 has advanced by an average of 7.51% and 6.61% respectively during the fourth quarter of the mid-term year and the first quarter of the following year.

The 10-Year Treasury Yield has risen above 3.25% and is trading at its highest level since 2011. In fact, yields across the Treasury curve have broken out to the upside. Much of the rise in rates can be attributed to a rise in real yields, and less inflation expectations, as economic news continues to come in better than expected. The rising yields have been a short-term negative for stocks, and growth stocks in particular have been especially hard hit recently. The last time the 10-Year Treasury yield was near current levels (the spring of 2011), the forward multiple on the S&P 500 was at 13.1x versus 16.5x currently. Therefore, the market is trading at a 26% premium to the valuation levels that prevailed the last time long rates were here. However, in 2011 economic growth (-1.0%, 2.9%, -0.1%, 4.7%) was more fragile and not as strong as it is currently, and corporate earnings growth was not growing at the current 20% clip. So the higher valuations currently seem to be justified given the economic landscape.

What we have seen in this year's market performance through the first three quarters is a low quality, growth-at-any-price rally. Only three sectors, Technology, Consumer Discretionary, and Health Care, contributed over 90% of the price return of the S&P 500. In addition, just four stocks, Apple, Microsoft, Amazon and Google, account for over half of the S&P 500 returns. Statistically, the higher growth, lower quality, lower dividend yield, and more overvalued companies performed better through September 30, 2018, as shown in the table below from Ford Equity Research. Those companies have suffered the sharpest losses recently and that is likely a healthy development for the overall market. Our focus on more value-oriented stocks has served us well in this recent pullback.

Equity Factor Performance Across Best (1) and Worst (5) Quintiles

	QUINTILES				
Through September 30, 2018	1	2	3	4	5
Projected Growth Rate	20.3	8.1	6.6	5.6	7.4
Quality Rating	8.7	5.2	6.3	10.3	12.3
Operating Earnings Yield	5.2	5.8	6.7	12.8	17.5
Dividend Yield	5.1	5.8	6.2	16.4	14.3
P/E Ratio Using Normal EPS	5.1	6.8	6.3	8.2	21.9
Price/Value Ratio	5.0	6.0	8.4	9.3	19.5

*Source: Ford Equity Research.

In the midst of recent volatility, it's important for investors to remain focused on their long-term goals and objectives, and not short-term fluctuations in the market.

If you have any questions or would like to discuss a client case, please don't hesitate to call or email your Investment Consultant Team.