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.

DOES ANYBODY REMEMBER WHAT A CORRECTION FEELS LIKE?

In case anybody forgot, the past week is a reminder that the markets don't always go straight up. With the S&P 500 now down over 7% from its recent highs reached on January 26th, the record 454-day streak without a 3% decline and 587 days without a 5% correction have both come to an end. The decline has been sharp and swift, with a surge in volatility and sharply lower global equity markets. It seems as if investors had been lulled into a false sense of complacency with the record stretch of low volatility and persistent gains. However, in our *2018 Market Outlook* we said: "following last year's unprecedented streak without any meaningful corrections and the lack of volatility, we expect to see an upturn in volatility and a return of more normal market corrections. Since we don't see a recession on the horizon, any correction should be shorter and shallower and set the market up for additional gains."

The fundamental backdrop for the market is solid, with the economy strengthening, leading indicators at new highs, the unemployment rate flirting with 4.0%, and credit holding firm in the face of equity price weakness. On the earnings front, earnings season is half over with reports in from 50% of the S&P 500 companies. Of companies reporting, 75% have beaten earnings estimates and 80% have beaten revenue estimates, both above average. All 11 sectors are producing earnings growth, with ten of the sectors beating estimates. Forward earnings expectations remain strong, and now that tax reform is getting factored into growth, estimates are rising. Estimates for the first, second and third quarters have been revised higher to 16.9%, 18.3%, and 19.8% respectively.

As new Fed Chairman Powell gets his feet wet, there are a number of issues that need attention, including a jump in employee wages, a massive fiscal stimulus, and overnight rates that are set to continue rising. We presume the Chairman would prefer to maintain the status quo set by Yellen in his early days, but building inflationary pressures in the pipeline have the market pushing interest rates higher with the 10-year Treasury note rising to 2.85%.

Up until now, the market has responded positively to strong economic news, and good news has been good for the market, even as interest rates have risen. There is a debate as to when good news will be bad news for the market (because it leads to higher interest rates). We believe we are some way away from the good news equals bad news for the market environment. It likely will take a range of 3.25 to 3.5% on 10-year Treasury yields before rates begin to bite at stocks. This correction has been different from many others that occurred over the course of the bull run. Others were primarily driven by concerns over the health of the economy; that is not a concern today. Instead, the current correction has been technically driven and centered in a massive overcrowded short volatility trade. As mentioned above, the fundamental underpinnings of the economy and the market have not changed. We would expect to

see a change of tenor with a deterioration in credit condition if the overall environment were shifting to a negative tone. So far there is no evidence of that.

This correction might not be over yet and investor sentiment is still a little optimistic, but a lot of that has been relieved over the past couple of days. History suggests that a first break of meaningful technical support after a long advance is more of a buying opportunity than a time to sell. For example, according to Bespoke Investment Group, the S&P 500 had closed above its 50-day moving average for 108 trading days. That is the longest streak of remaining above the 50-day moving average since the 130 trading-day streak that ended on March 10th, 2011. While many view the 50-day moving average as a dividing line between a market that is trending up and one that is trending down, the impact of a key break below that level is not as negative as one might expect. In fact, it has historically been a very good buying opportunity for those willing to be patient and wait a few months.

Historically, when the S&P has closed below its 50-day moving average after a streak of 100-plus trading days above it, the forward returns have been pretty positive. Below is a list of all 100-plus trading day streaks above the 50-day moving average for the S&P 500 going back to 1928. The date shown is the day the streak was broken. Subsequent columns show how the S&P 500 performed over the following day, week, month, and three-month periods. As shown, the S&P has averaged a gain of 0.24% on the day after these streaks have been broken, while the index has averaged a gain of 0.52% over the next week. The forward one month and three-month returns are extremely bullish. In the month after these streaks have been broken, the S&P 500 has averaged a 2.57% gain. Over the next three months, the S&P 500 has averaged an even bigger gain of 4.75%, with positive returns on all but two occasions.

While corrections are never pleasant, they have been and will always be, a normal occurrence for the equity markets. We characterize this pullback as a typical correction exacerbated by the sharp move up stocks had at the beginning of the year and the unusually long period we experienced without a correction. Fundamentals remain solid (strong economy and earnings) and the recent pullback has not changed our belief that we remain in a secular bull market.

S&P 500 100+ Trading Day Streaks Above 50-DMA

Date	Streak	Next Day %	Next Week %	Next Month %	Next 3 Months %
9/20/1935	116	1.24	2.66	8.79	16.25
3/13/1936	108	2.32	5.62	7.16	2.46
7/27/1943	158	-0.34	-1.68	-1.43	0.59
2/19/1946	119	-1.86	-3.11	0.00	6.21
6/26/1950	151	-1.10	-2.60	-3.37	5.69
6/9/1954	111	0.67	3.16	7.00	9.17
11/25/1958	159	1.72	2.96	7.66	9.23
6/12/1961	148	-0.53	-2.37	-1.95	2.74
6/1/1964	126	-0.51	-1.83	2.70	2.15
5/17/1971	120	0.14	-0.56	-0.19	-0.70
4/25/1972	101	-0.21	-0.97	3.12	0.38

Date	Streak	Next Day %	Next Week %	Next Month %	Next 3 Months %
9/29/1980	106	1.55	6.63	3.54	9.89
7/12/1983	116	-0.04	-0.42	-2.40	2.91
9/25/1989	123	0.03	1.93	-0.50	0.75
1/10/1996	257	0.70	1.32	9.67	5.46
2/27/2007	149	0.56	-0.26	1.68	9.38
3/10/2011	130	0.71	-1.65	2.27	-1.86
4/12/2017	105	-0.68	0.47	2.45	4.88
2/5/2018	109	?	?	?	?
	Average	**0.24**	**0.52**	**2.57**	**4.75**
	Median	**0.08**	**-0.34**	**2.36**	**3.89**
	Average All Periods	**0.03**	**0.15**	**0.65**	**1.89**

Source: Bespoke Investment Group

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