

Monthly Moves

Charting Our Strategies

Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Economic growth and inflation continued to slow in the 2nd quarter as high interest rates exert pressure, although not outright negative GDP growth. New home sales plunged 11.3% in May and the unemployment rate reached 4%. June saw continued progress on the inflation front with core PCE ex-housing at 2.6%, the lowest level since March 2021, and Core PCE ex-housing reached near 2%.

Interest rates continued the trend lower that began in May. The 10-year Treasury rate slipped 10 basis points (bps) to 4.40% at the end of the month. While the Fed held rates steady, the expectations for cuts moved upward with the likelihood of a cut by September now sitting at 68%. The market is now pricing in almost 2 cuts this year.

Quality, size, and momentum remain the dominant market factors driven by profitability primarily in the Information Technology and Communications sectors. While security selection is concentrated in the large-cap growth area this year, we believe a Federal Reserve rate cut would benefit mid-cap and small-cap stocks.

Below are strategy updates from June:

Navigator® All Cap Core U.S. Equity

- Navigator® All Cap is positioned with approximately ~77% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, the three most recent additions to the portfolio were an energy company and a residential construction company. The three most recent exits were a beauty products retailer, an energy company, and a kitchen equipment manufacturer.

High Dividend Equity

- Navigator® High Dividend Equity is positioned with approximately 98.3% in developed countries with the remainder in cash. The United States is the largest country weight at 90.8%, followed by Britain at 3.2% and Ireland at 1.6%. Large-cap represents 91.4% of the portfolio, mid-cap represents 6.8%, and the remainder is positioned in cash.
- Financials remain our largest sector weight at 23.4% and above the benchmark weight. The next three largest portfolio weights are Industrials, Healthcare, and Information Technology at 15.1%, 13.2%, and 10.2%, respectively.
- After a strong quarter, we reduced our position in a leading semiconductor company and a prominent technology firm, and increased existing positions in a major transportation company, a defense contractor, and an energy company.

Navigator® International Equity ADR

- Navigator® International Equity/ADR is positioned with ~16% in emerging markets with the balance in developed economies and cash. Britain, Canada, China, Ireland, Japan, and Switzerland are the strategy's largest country weights, all ranging between 6% and 19%.
- ADR's exposure to China is now ~7% and slightly above its weighting in the All-Country World less US benchmark.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



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- Financials, Industrials, and Information Technology are our largest sector weights.
- During the month, to benefit from improving business fundamentals, the two most recent additions to the portfolio were an electricity company based in Hong Kong and a Canadian multinational athletic apparel retailer. The three most recent exits an Indonesian bank, an American-Irish medical device company, and a German multinational technology conglomerate.

Taxable Fixed Income

- Within the portfolio, the focus was on adding bonds in the 5-7 year portion of the curve. With the expected continued steepening of the yield curve, we believe this portion may outperform over the next few months. As bonds have matured, the proceeds have been reinvested in this part of the market.
- A few bank names were added with yields over 5.3% and discount prices below 85. We believe this combination should result in positive returns as prices move toward par closer to maturity.
- On the other end of the yield curve, short-term bonds (1 year and less to maturity) were added due to the inverted yield curve, reflecting the highest yields in this segment. We believe this strategy combines the highest yield with the potential for the highest total return.

Tax-Free Fixed Income

- June's new issue pipeline was wide open, eclipsing May's robust deal flow and coming in at \$47.6B, versus \$39.7B in June 2023 (BAML data).
- Through 6/18, ICI reported net outflows from long-term muni funds of \$321m. While we await the month's closing weeks data, other sources indicated marginal inflows during the period.
- Municipal sellers slightly eased off this month, with average daily bids wanted at \$1.216B compared to a trailing 1-year average of \$1.231B.
- The butterfly trade implemented since Q1 appears to be maturing, with curve spreads becoming "crowded out" in the 15-to-20-year maturities, driven by increased demand for yield and favorable roll down dynamics.
- We will explore opportunities in this trade and consider swaps into the pollution control revenue (PCR) and industrial development revenue (IDR) sectors, due to their higher yields.

Clark Capital's Top-Down, Quantitative Strategies

Equity markets have enjoyed strong, but very mixed gains year to date, led by large-cap U.S. indices with the S&P 500 gaining 15.29%, the Russell 2000 Index of small cap stocks up only 1.79%, and the international stocks up 5.69%. Large-cap growth has led all styles with a sharp focus on technology and high cash flow margin companies outpacing all others. Fixed Income returns were mixed with credit enjoying gains and duration largely flat after suffering losses early in the year as rates advanced and the curve shifted higher. The Bloomberg Barclays U.S. Corporate High Yield Index gained 2.58%, while the Aggregate Bond Index was down 0.71%, and the 7-10 Year Treasury Index declined by 0.86%.

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The gains have not all come in a straight line higher, and there are pretty significant differences between stocks of different markets capitalizations.

While the S&P 500 index is trading in new high territory, the same index on an equal weighted basis has lagged. Small-cap stocks peaked on 11/8/2021 and are still 12.90% below that high. Meanwhile, the cumulative advance-decline line is also lagging. These divergences deserve to be monitored and indicate that risks may be elevated of a correction if they persist.

Below are strategy updates from June:

Alternative

- Alternative credit, options-based, and long-short equity led the mutual fund core, while managed futures lagged as interest rates turned down.
- The portfolio recently purchased a green technology ETF, a Chinese technology ETF, and a biotechnology ETF.
- In addition, we added more to metals and miners after a substantial early June decline. Fixed income generally remains the least favored in our rankings.

Fixed Income Total Return (MultiStrategy Fixed Income)

- The 10-year Treasury yield fell from above 4.6% to about 4.3% at the end of June. While this has reduced the stresses of higher interest rates, spreads counterintuitively have risen slightly, moving our models away from fresh highs.
- However, broad high yield has maintained its price strength, and there are very few signs of fundamental credit weakness.
- Treasuries are on the rise and could replace cash as our defensive vehicle of choice.

Global Risk Management

- Our models remain risk-on based on strong credit fundamentals, which have shown little signs of faltering.
- While markets have been quite narrow and driven by Technology, we do not consider that problematic as long as broader credit conditions indicate a healthy economic backdrop.
- Treasuries have not quite exceeded cash as our preferred vehicle of choice, but we expect this may happen by the end of the year.

Global Tactical

- Our credit-based models continue to show a healthy backdrop for risk assets. Treasury yields have declined, as markets assess that Fed rate cuts are more likely to come by the end of the year.
- While economic growth has slowed slightly, signs of recessionary trouble are not on the horizon, and declining interest rates should keep our models risk facing over the intermediate term.

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Sector Opportunity

- The portfolio only allocates to the Technology and Telecommunications sectors, and to the S&P 500 Index. All other sectors have not been able to keep up with the index, particularly as breadth has faded.
- Given the increasing concentration in both the market and our portfolio, we have also increased our allocation to the S&P 500 itself. This adjustment aims to mitigate risk in case of a significant downturn in the Technology sector.

Style Opportunity (MultiStrategy Equity)

- At the end of May, markets narrowed dramatically, and more and more, only members of the AI ecosphere enjoyed investor favor.
- Broad mid-caps and small-caps as well as value stocks all broke to new relative lows, and our models followed to favor large-cap growth and the S&P 500 Index (which has three times as much weight in large-cap growth as large-cap value).
- Thus, our portfolio allocates 60% to large-cap growth and the other 40% to the S&P 500, with a sizeable gap between large-cap growth and everything else.

U.S. Strategic Beta

- The portfolio recently increased growth stocks at the expense of low volatility.
- We maintain an overweight to mid-cap and small-cap stocks, particularly given the large and growing valuation gap between mega-cap growth and mid-cap and small-cap value, as the NASDAQ 100's forward P/E ratio is 1.8 times higher than that of small-caps.

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value of an investment), credit, payment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries.

The "Economic Gauges" represent the firm's expectations for the market, and how changes in the market will affect the strategy, but are only projections which assume certain economic conditions and industry developments and are subject to change without notice. For educational use only.

The Nasdaq-100 is a stock market index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange

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.

Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations. Looked at another way, the Treasury yield is the effective interest rate that the U.S. government pays to borrow money for different lengths of time.

The MSCI All Country World Index (ACWI) ex US is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 22 of 23 developed countries and 24 emerging markets.

The Bloomberg Barclays US Treasury: 7-10 Year Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

The Russell 2000 index measures the performance of the 2,000 smaller companies that are included in the Russell 3000 Index, which itself is made up of nearly all U.S. stocks. The Russell 2000 is widely regarded as a bellwether of the U.S. economy because of its focus on smaller companies that focus on the U.S. market

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

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