Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

The rebound in stocks continued in June after solid gains in May, but it was more narrowly focused on large-cap growth companies. The S&P 500 and Nasdaq both hit new all-time highs in June, but the Dow was not able to surpass the 40,000 mark it had achieved in May.

Bonds enjoyed more (and much needed) gains in June following gains for most bond sectors in May. The 10-year U.S. Treasury yield closed May at 4.51% and yields slid lower to 4.36% to close June helping bonds advance. We continue to believe the trend will be lower for rates as we move through the year.

The U.S. economy continued to show some signs of slowing activity. The unemployment rate hit 4% in May, the first reading at the 4% level in more than two years and the final Q1 GDP reading showed growth at only 1.4% – breaking the streak of six consecutive quarters with GDP above 2%.

No change was made to rates at the June FOMC meeting. However, better inflation data and moderating economic activity have pushed market expectations back to two expected rate cuts before the end of 2024.

Stocks and Bonds End Q2 Making Further Gains in June

Equity Markets

After the pause in April, stocks have advanced over the last two months, but the rally became narrower in June. Market sentiment, which had been sending a warning signal moving into the second quarter, has become more balanced after the modest weakness in stocks in April. New all-time highs were achieved for the S&P 500 and Nasdaq Composite in June. However, stocks did not gain across the board as small-cap and value stocks struggled in June. See Table 1 for equity results for June 2024, year to date, and calendar year 2023.

Halfway through 2024, some clear trends are emerging. Large-cap growth, and specifically some of the mega-cap Technology companies have been the leaders so far this year. The NASDAQ has had the strongest performance among the major indices with a gain of over 18% in the last six months. The broadening in the market that we saw last month faded as small caps went from one of the strongest performers for May to the worst performer in June, down just shy of -1%. For the year so far, small-caps are up less than 2%. This has become a similar pattern with some broadening of the market developing (improved breadth), only to have large-cap growth snap back to a leadership position. That was the case in June.

Table 1.

Index	June 2024	YTD	2023
S&P 500	3.59%	15.29%	26.29%
S&P 500 Equal Weight	-0.45%	5.08%	13.87%
DJIA	1.23%	4.79%	16.18%
Russell 3000	3.10%	13.56%	25.96%
NASDAQ Comp.	6.03%	18.57%	44.64%
Russell 2000	-0.93%	1.73%	16.93%
MSCI ACWI ex U.S.	-0.10%	5.69%	15.62%
MSCI Emerging Mkts Net	3.94%	7.49%	9.83%

Source: Bloomberg. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

The disparity between large and small caps can also be seen when comparing the S&P 500 market cap versus equal-weighted indices. The headline, market-cap-weighted S&P 500 Index enjoyed solid gains in June, which capped the first half of 2024 with better than a 15% return. By over 1000 basis points (10%), the equal-weighed version of this index has underperformed its headline counterpart. This reflects that large-caps are driving performance, while the "average" stock (a way to think of the equal-weighted index) has done less than a third (5.08% versus 15.29%) as well as the market-cap weighted index. Returns have

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been narrowly focused and not widely shared. International stocks are still underperforming when looking at the headline S&P 500, but compared to the equal-weighted version, foreign stocks have been slightly ahead of that index. Developed markets paused in June with modestly negative returns, but emerging markets had solid results for the month, which pushed them ahead of developed markets so far this year.

Fixed Income

After hitting the highest level of the year in April, the 10-year U.S. Treasury yield has declined for the last two months. This move lower in rates has helped set up generally positive returns for bonds during this period. Most bond sectors (outside of high yield) remain in negative territory through the first six months of 2024, but the recent trend has been more positive. The 10-year U.S. Treasury closed last year at 3.88%. Over the course of the first half of the year, it has risen as high as 4.7%, before settling lower the last two months. The yield ended April at 4.69% before closing at 4.51% and 4.36% in May and June, respectively. See Table 2 for fixed income index returns for June 2024, year to date, and calendar year 2023.

Table 2.

Index	June 2024	YTD	2023
Bloomberg U.S. Agg	0.95%	-0.71%	5.53%
Bloomberg U.S. Credit	0.67%	-0.46%	8.18%
Bloomberg U.S. High Yld	0.94%	2.58%	13.44%
Bloomberg Muni	1.53%	-0.40%	6.40%
Bloomberg 30-year U.S. TSY	1.91%	-6.20%	1.93%
Bloomberg U.S. TSY	1.01%	-0.86%	4.05%

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Munis, which did not participate in gains in May, bounced back with some of the best results in June. Supply/demand imbalances particularly impacted munis in May, but there was a reprieve from this imbalance in June and performance responded accordingly. The other areas of the bond market responded as well to lower rates with the more rate-sensitive sectors (like U.S. Treasuries) showing the strongest results. At the same time, those sectors are still under the most pressure year to date as rates have still moved higher from their 2023 close. High-yield bonds often follow what is happening with stocks, so they have been able to buck the trend experienced by most areas of the bond market so far in 2024 and post positive year-to-date results.

We expect the 10-year U.S. Treasury yield will be in a range between 3.25% and 4.5% during the year (acknowledging that we got above that level in April), and we believe the trend will be lower as we continue to move through 2024. We believe rates at the front end of the yield curve, which have not moved too dramatically yet, will decline as the Fed begins to cut rates later in 2024 and into 2025.

We maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment and that has served us well so far in 2024. We also believe the role bonds play in a portfolio, to provide stable cash flow and to help offset the volatility of stocks in the long run, has not changed. Furthermore, we believe that bond yields remain attractive, and we are seeing some of the best bond yields in years. In our opinion, having an active bond management approach makes sense in these volatile times.

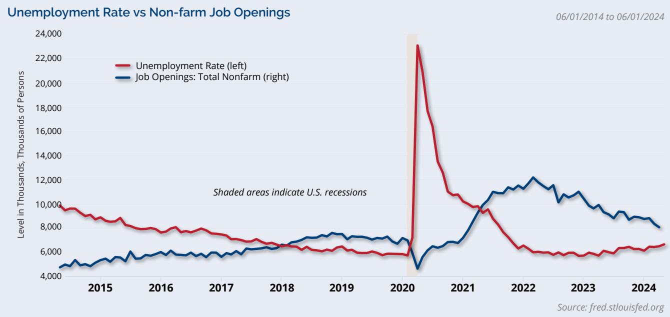
Economic Data Highlights and Outlook

Data released in June (largely covering May), continued to point to a weakening period for the economy. The third and final reading of Q1 2024 GDP was in-line with estimates at a 1.4% annualized growth rate, a modest increase from the prior reading of 1.3%. The streak of 6 straight quarters with GDP above 2% was broken in Q1 2024 but it still falls in line with the theme of slower growth, but growth nonetheless in the U.S. economy. The Atlanta Fed GDPNow estimate for economic growth (as of July 1) shows the economy running at an estimated 1.7% growth rate for the second quarter of 2024. That is just below our GDP growth expectation for 2024 at 2.25%. We do expect growth to slow in 2024, but we also think the odds favor a soft landing and not a recession at this point.

The job market has recently shown mixed signals. Nonfarm payrolls grew by 272,000 in May, easily surpassing expectations of 180,000. However, the unemployment rate rose unexpectedly to 4.0%, when it was expected to remain at the prior month's level of 3.9%. This was the first 4%+ unemployment reading in over 2 years, but to be clear, a 4% unemployment rate is still historically low. Average hourly earnings grew by 4.1% on an annual basis in May, which was higher than expectations of 3.9% and the prior month of 4.0%.

That might keep some pressure on inflation, but it also helps aid consumer spending, the key driver of the U.S. economy. Some moderation in the job market is not unexpected and could allow the Fed to cut rates more comfortably sooner rather than later. Job openings still outnumber the unemployed, but that gap has narrowed considerably over the last couple of years. Chart 1 shows the number of unemployed people in the U.S. compared to job openings.

Chart 1



For illustrative purposes only

Clearly, the imbalance between job openings and job seekers has improved, but at the same time, that means the strength of the job seeker has diminished over the last few years. Some expected weakness in the job market with more unemployed and fewer job openings should be expected after the rate tightening cycle. However, at this stage, the shift in the job market is more aptly described as bringing the labor market into better balance versus a true weakening of the employment market. With the continued strength of the job market, we maintain our opinion that it seems unlikely that the economy would slow too drastically.

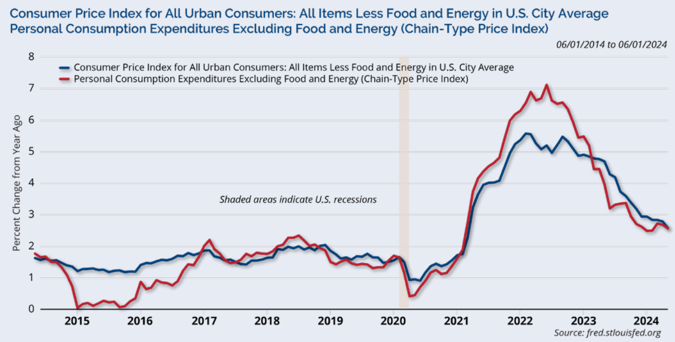
We continue to expect that the economy will slow from its pace in 2023, but that it will still grow in 2024 resulting in a soft landing. Even if a recession developed, we believe it would be mild due to the strength of the consumer. We believe opportunities exist in the stock and bond markets under either a slow growth or mild recession scenario, but we believe the odds favor a soft landing at this point.

Both the consumer and producer price indices (CPI and PPI, respectively) came in better (lower) than expected in May. The core CPI reading showed an annual gain of 3.4% compared to expectations of 3.5% and the prior month's level of 3.6%. Meanwhile, the headline CPI rose 3.3% for the year, which was lower than expectations and April's level of 3.4%. The core PPI reading rose by 2.3% for the year – lower than the prior month of 2.5% and estimates of 2.5%. Headline PPI was well below expectations (2.2% versus 2.5%) and improved from the 2.3% level from April. Generally, higher-than-expected inflation readings earlier in the year had been the primary driver in the delay in the Fed cutting interest rates. However, more recent inflation data has been more in-line with expectations and continues to reflect inflation trending lower.

Focusing on the preferred inflation measure of the Fed, the Personal Consumption Expenditures (PCE) Index for May matched expectations. The headline PCE Index had an annual increase of 2.6% in May and the core PCE reading (the reading the Fed targets) was 2.6% as well. Both matched estimates and were improved (lower) from the prior month.

Graph 2 shows the headline and core PCE Price Index. Both are clearly improved from the summer of 2022 and trending in the right direction.

Chart 2



For illustrative purposes only. Past performance is not indicative of future results.

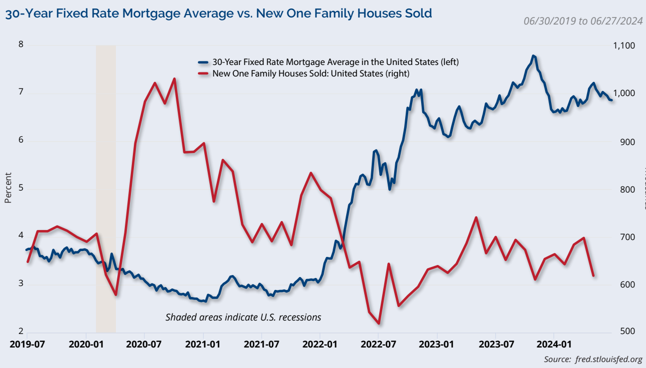
We believe progress has been made on inflation. The Fed has indicated it believes the rate hike cycle is over and rate cuts will occur in 2024. Halfway through the year, the CME FedWatch Tool shows two expected rate cuts in 2024 with additional cuts coming in 2025. That is a far cry from where the year began when the market was anticipating too many cuts (six or seven) compared to what the Fed was indicating through its "dot plot" projections.

The updated economic projections by the FOMC members released in June put the estimated number of rate cuts at approximately one for this calendar year. Considering the significant change in rate cut expectations from the beginning of the year, the stock market has been resilient and driven, in our opinion, more by solid earnings than by rate cut expectations.

The housing market continues to fight against higher mortgage rates and housing data was weaker once again in May. Building permits, housing starts, and new home sales all missed expectations in May and were at lower levels than in April – a continuation of the recent trend of generally weaker housing data. Existing home sales modestly beat expectations (4.10 million estimated versus 4.11 million actual), but this too was a drop from the prior month's activity.

The S&P CoreLogic 20-City Index of home prices rose by 7.20% on an annual basis in April, ahead of expectations of 7.00% but below the prior month's annual increase of 7.46%. Higher housing prices and higher mortgage rates are creating a headwind to housing activity. Despite the move lower in general interest rate levels over the last two months, mortgage rates have remained stubbornly high and moved very little. Graph 3 shows that new home sales activity has stayed in a lower range as mortgage rates have remained elevated over the last couple of years.

Chart 3



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ISM manufacturing data disappointed in May again, but the service industries showed a solid bounce back into expansion territory. The ISM Manufacturing Index for March broke the streak of 16 straight months of manufacturing declines when it posted a reading of 50.3. Unfortunately, the reading for April slipped below the 50 mark to 49.2 and the May reading moved even lower to 48.7. Estimates for May were calling for a reading of 49.5. In a continuation of this weakening trend, the ISM Manufacturing Index for June disappointed at 48.5 compared to expectations of 49.1.

The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, bounced back above the 50 level after unexpectedly dropping below that in April. At 53.8, the reading was well above expectations of 51.0 and markedly above the prior month's sub 50 reading of 49.4. The service industries have consistently shown growth, but the pace of growth had slowed in recent months culminating with the reading for April reflecting contraction. As we noted after the April reading, one month is not a trend, and the May reading has clearly moved back to expansion territory. Hopefully, the decline in April will ultimately prove to be just a one-off slip for this index and not a trend. Recall, the dividing line between expansion and contraction for the ISM indices is 50.

Retail sales (ex. auto and gas) were disappointing in May with a gain of only 0.1%, when expectations were calling for a 0.4% gain. Furthermore, the reading for April was revised to show a bigger drop in retail sales (-0.3%) compared to the previously reported drop (-0.1%). The preliminary University of Michigan Sentiment reading for June fell again to 65.6 from the prior month reading of 69.1 and expectations of 72.0. After breaking a two-year streak of declines in February, the Conference Board's Leading Index has now declined for three straight months. For May, it fell -0.5%, more than the expected decline of -0.3%.

The market has remained strong despite some more consistent weaker economic data points. This might reflect the idea that if the economy is slowing somewhat, the Fed might be able to lower rates sooner than had been expected. The CME FedWatch Tool is reflecting two rate cuts expected in September and December as we end the first half of 2024. We believe the economy will grow in 2024, but at a more muted pace than last year and that is what we have started to see develop over the last couple of months. Over the long run, we believe a strong and growing economy is what ultimately drives business earnings higher, and we think that is paramount for long-term stock market progress. The good news is that currently, earning expectations for 2024 and 2025 reflect expected double-digit growth, but that is obviously subject to revisions. As always, we believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Gains have not all come in a straight line higher, and there are 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 of a correction may be elevated if they persist.

Clark Capital's Bottom-Up, Fundamental Strategies

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.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	May	49.5	48.7	49.2	—
ISM Services Index	May	51.0	53.8	49.4	—
Change in Nonfarm Payrolls	May	180k	272k	175k	165k
Unemployment Rate	May	3.9%	4.0%	3.9%	—
Average Hourly Earnings YoY	May	3.9%	4.1%	3.9%	4.0%
JOLTS Job Openings	Apr	8350k	8059k	8488k	8355k
PPI Final Demand MoM	May	0.1%	-0.2%	0.5%	—
PPI Final Demand YoY	May	2.5%	2.2%	2.2%	2.3%
PPI Ex Food and Energy MoM	May	0.3%	0.0%	0.5%	—
PPI Ex Food and Energy YoY	May	2.5%	2.3%	2.4%	2.5%
CPI MoM	May	0.1%	0.0%	0.3%	—
CPI YoY	May	3.4%	3.3%	3.4%	—
CPI Ex Food and Energy MoM	May	0.3%	0.2%	0.3%	—
CPI Ex Food and Energy YoY	May	3.5%	3.4%	3.6%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	May	0.4%	0.1%	-0.1%	-0.3%
Industrial Production MoM	May	0.3%	0.9%	0.0%	—
Building Permits	May	1450k	1386k	1440k	—
Housing Starts	May	1370k	1277k	1360k	1352k
New Home Sales	May	633k	619k	634k	698k
Existing Home Sales	May	4.10m	4.11m	4.14m	—
Leading Index	May	-0.3%	-0.5%	-0.6%	—
Durable Goods Orders	May P	-0.5%	0.1%	0.6%	0.2%
GDP Annualized QoQ	1Q T	1.4%	1.4%	1.3%	—
U. of Mich. Sentiment	June P	72.0	65.6	69.1	—
Personal Income	May	0.4%	0.5%	0.3%	—
Personal Spending	May	0.3%	0.2%	0.2%	0.1%
S&P CoreLogic CS 20-City YoY NSA	Apr	7.00%	7.20%	7.38%	7.46%

Source: Bloomberg: P=Preliminary; T=Third Reading

Past performance is not indicative of future results. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Material presented has been derived from sources considered to be reliable and has not been independently verified by us or our personnel. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Investing involves risk, including loss of principal.

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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 or an investment), credit, prepayment, 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).

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 value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors.

JOLTS is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment.

The Core Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services

The Core Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight or 0.2% of the index total at each quarterly rebalance.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

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.

Nonfarm payrolls (NFPs) are the measure of the number of workers in the United States excluding farm workers and workers in a handful of other job classifications.

A municipal bond, commonly known as a muni, is a bond issued by state or local governments, or entities they create such as authorities and special districts.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-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 Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Bloomberg US Trsy Bellwethers 30Y is a U.S. Treasury debt obligation that has a maturity of 30 years.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries*. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas. The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

In the United States, the Core Personal Consumption Expenditure Price (CPE) Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

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