Your Clients' Top Questions, Answered

Glenn Dorsey, CFA®, CAIA®

FAQs

- What is your Outlook for 2023?
- Are the Lows in for Stocks and Bonds?
- Do I Still Need to Worry About Inflation?
- The Fed is Still Raising Rates, will there be a Recession in 2023?
- How will the Debt Ceiling Debate impact the Market?
- Is It Time to Buy or Sell International Stocks?
- What are your Thoughts on Crypto?

Perspective…

Domestic Equity		2019 - 2021	2022	2019 - 2022
	S&P 500	100.29%	-18.13%	63.98%
	Russell 1000	100.97%	-19.14%	62.50%
	Russell 2000	72.75%	-20.46%	37.40%
	Russell 3000	98.96%	-19.22%	60.71%
	Russell 1000 Value	62.71%	-7.56%	50.40%
	Russell 1000 Growth	141.00%	-29.14%	70.77%
International Equity				
	MSCI Emerging Market	36.54%	-20.09%	9.11%
	MSCI All Country World (ex US)	44.97%	-16.00%	21.77%
Fixed Income				
	BBgBarc U.S. Aggregate Bond	15.08%	-13.01%	0.10%
	BBgBarc U.S. Treasury	12.73%	-12.46%	-1.32%
	BBgBarc U.S. Corporate	24.55%	-15.76%	4.92%
	BBgBarc U.S. Corporate High Yield	28.91%	-11.19%	14.49%
	BBgBarc Municipal	14.86%	-8.53%	5.06%

What is your Outlook for 2023?

We believe:

- The economy ended 2022 on a strong note, advancing in the second half of the year despite negative growth in the first half. Economic momentum is likely to carry into early 2023, but growth should weaken in Q2 and Q3.
- Economic indicators including Leading Indicators, the yield curve, manufacturing indices, housing, and the cumulative effect of monetary tightening suggest the odds of at least a mild recession are increasing for the 2nd half of the year. We expect the economy to grow only 0.5% in 2023.
- It is rare for the S&P 500 to post back-to-back years of negative returns. High yield bond losses in 2022 suggest a positive roadmap for stocks and high yield bonds in 2023. S&P 500 target of 4200.
- Inflation is set to continue moderating and could well be near the Fed's target in the 2nd half of the year. CPI y/y should fall to 3% with the potential for a downside surprise.
- Federal Reserve is in the late innings of rate hikes. We expect the final rate hikes to occur in Q1, then pause.
- The 10-year Treasury Note yield to digest gains, with 2022 high of 4.2% likely capping yields. The yield curve should steepen as the market prices in the end of the tightening cycle. Credit and duration should rebound from a miserable 2022.
- Risks to the outlook include: Federal Reserve policy error, recession, earnings revision cycle/negative earnings growth, geopolitics (Russia/Ukraine, China/Taiwan, China COVID policy).

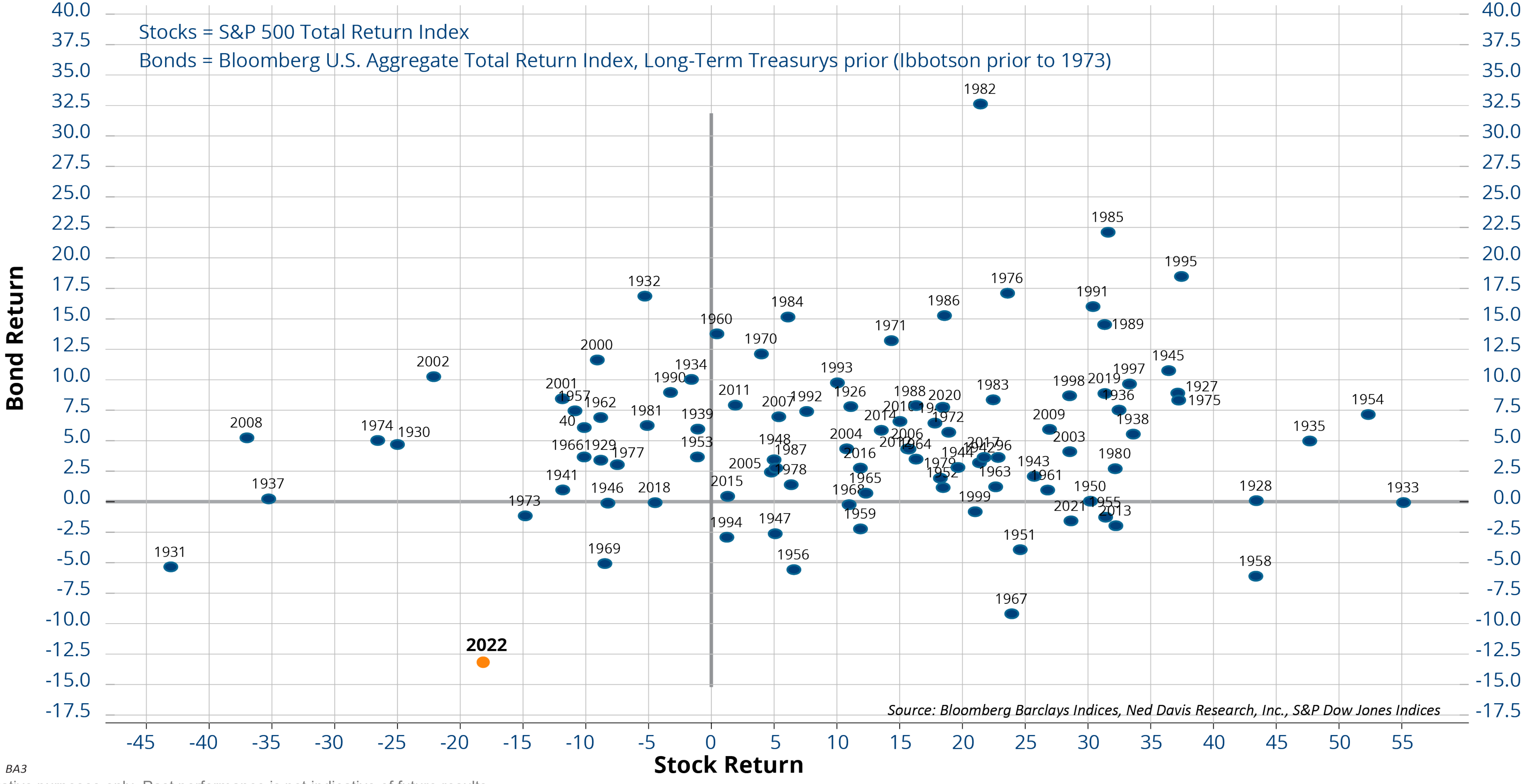
Are the Lows in for Stocks and Bonds?

- Worst year since the 1930's for 60/40 portfolios
- Worst year ever for the Bond Market
- 7th Worst year for the S&P 500
- Rare to see consecutive down years for Stocks
- Even more rare to see consecutive down years for Bonds

Unusual for Stock and Bonds to both be Down

U.S. Stocks vs Bonds Returns

Yearly data from 1926 to 2022



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Bonds – A Closer Look

The Bond Blueprint

How Bonds Build Value Over Time

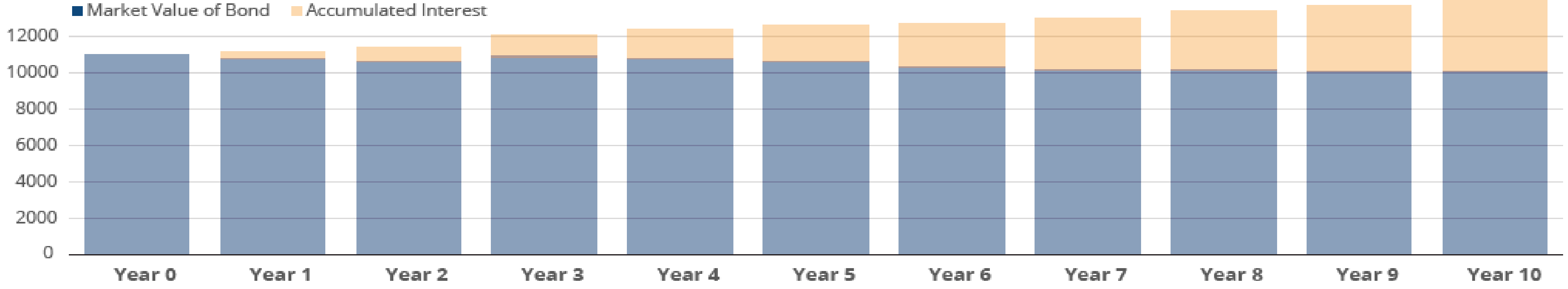
The Benefits of Owning Individual Bonds

One of the benefits of owning individual bonds is that they provide regular interest payments and the return of par value at maturity, helping investors meet their income needs and stay on track to reach their goals.

Bonds are a contractual obligation from the issuer to pay the holder of the bond, interest (usually twice per year), and the par value of that bond back to the holder at maturity. In the example below, you can see how bonds build value over time, even when prices go up and down. **After 10 years of regular interest payments, the portfolio increased from $11,000 to an ending value of $14.000.**

Example: The Value of Bonds Over Time

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Linear Price Movement	110	109	108	107	106	105	104	103	102	101	100
Market Fluctuations	110	108	106	109	108	106	103	102	102	101	100
Interest Payments		$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00
Accumulated Interest		$ 400.00	$ 800.00	$ 1,200.00	$ 1,600.00	$ 2,000.00	$ 2,400.00	$ 2,800.00	$ 3,200.00	$ 3,600.00	$ 4,000.00
Linear Value of Bond	$11,000.00	$10,900.00	$10,800.00	$10,700.00	$10,600.00	$10,500.00	$10,400.00	$10,300.00	$10,200.00	$10,100.00	$10,000.00
Market Value of Bond	$11,000.00	$10,800.00	$10,600.00	$10,900.00	$10,800.00	$10,600.00	$10,300.00	$10,200.00	$10,200.00	$10,100.00	$10,000.00
Market Value of Bond Plus Interest	$11,000.00	$11,200.00	$11,400.00	$12,100.00	$12,400.00	$12,600.00	$12,700.00	$13,000.00	$13,400.00	$13,700.00	$14,000.00



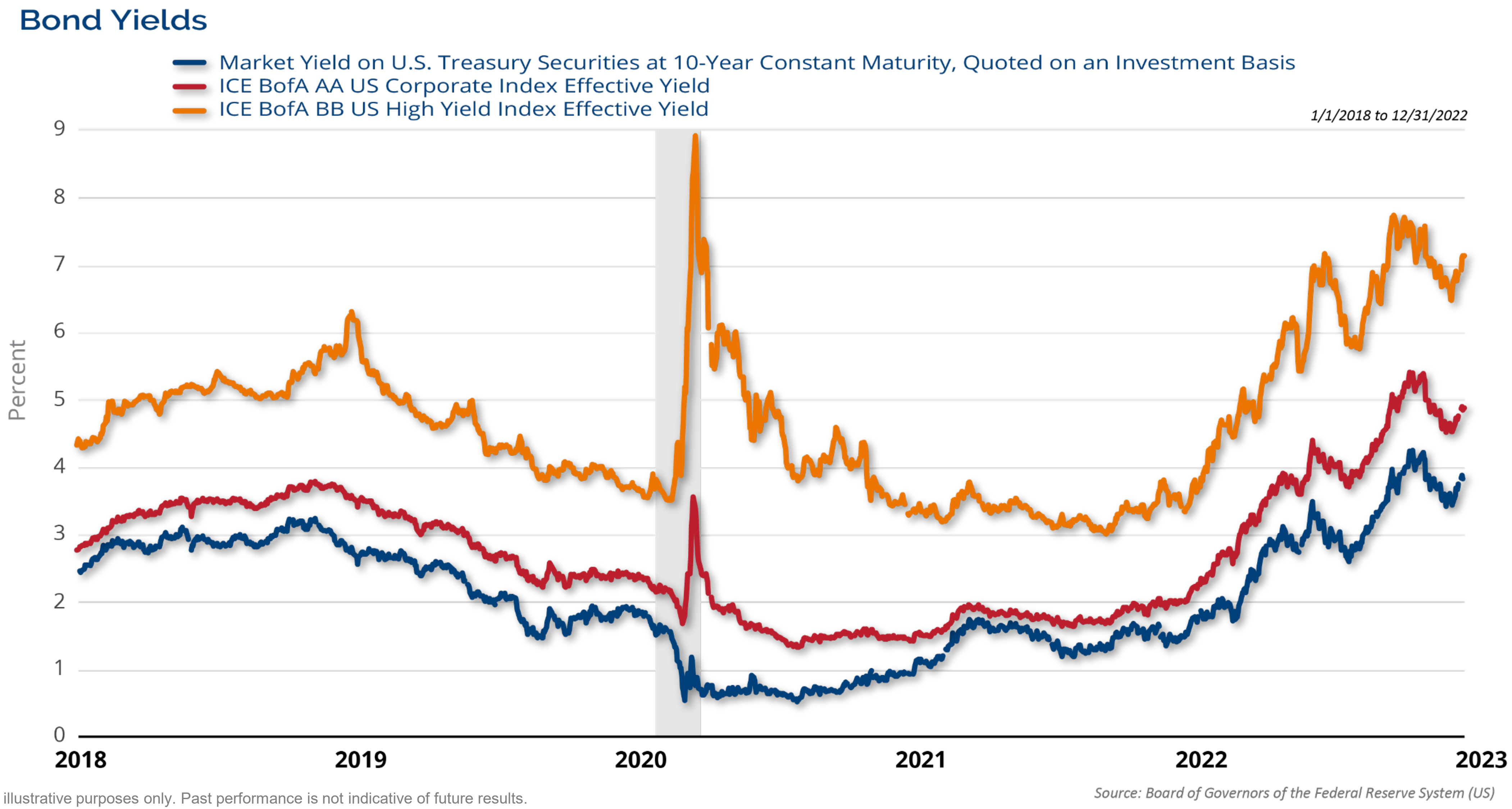
Source: Clark Capital. For illustrative purposes only. Please see disclosures for additional information.

The Comfort of Owning Individual Bonds

If bonds are held to maturity and the issuer doesn't default, investors can know the cash flow each bond will generate to the penny, which can help them plan for the future and achieve their long-term financial goals.

Contact Your Investment Consultant to
Learn More About Clark Capital's Individual Bond Strategies
800.766.2264

Bonds now offering attractive yields



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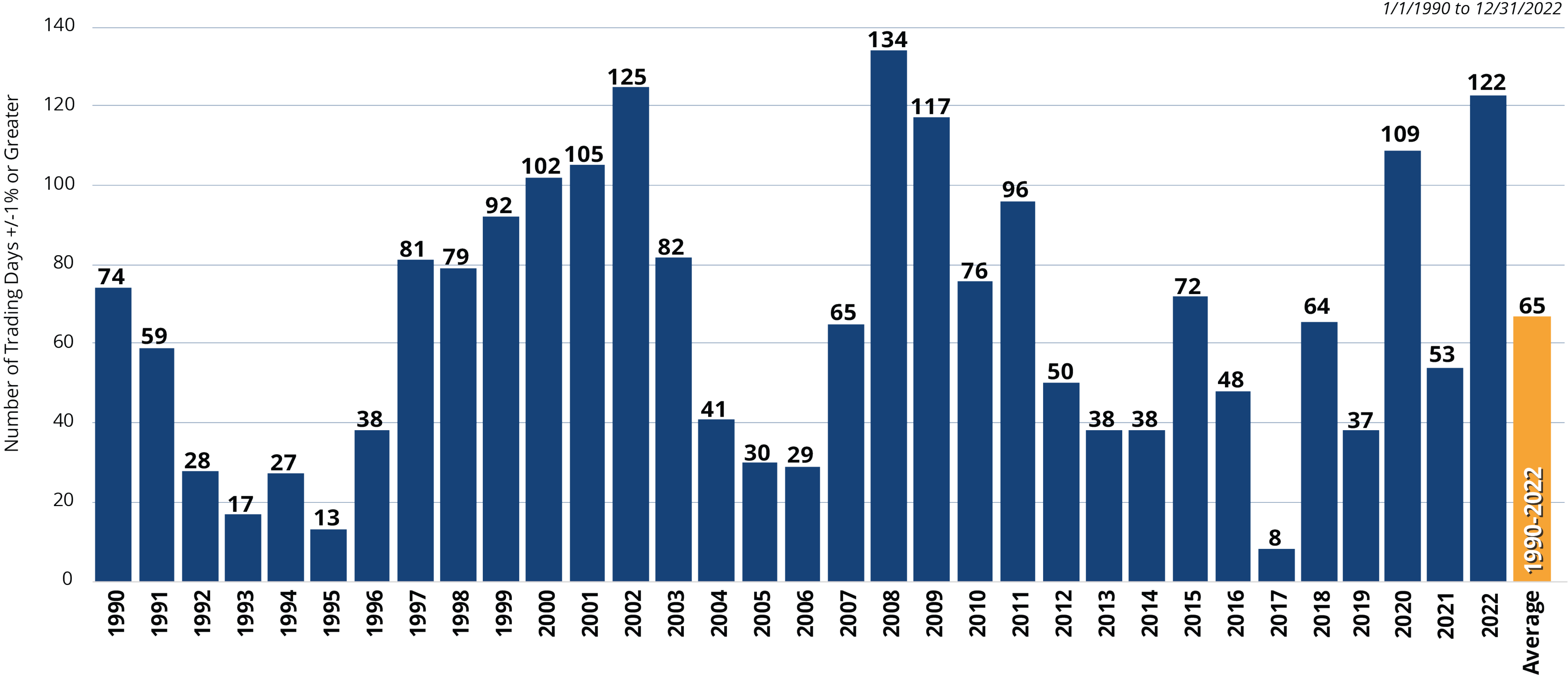
Bigger Daily Swings in 2022

Total Trading Days Greater than +/-1% Change



Source: Bloomberg

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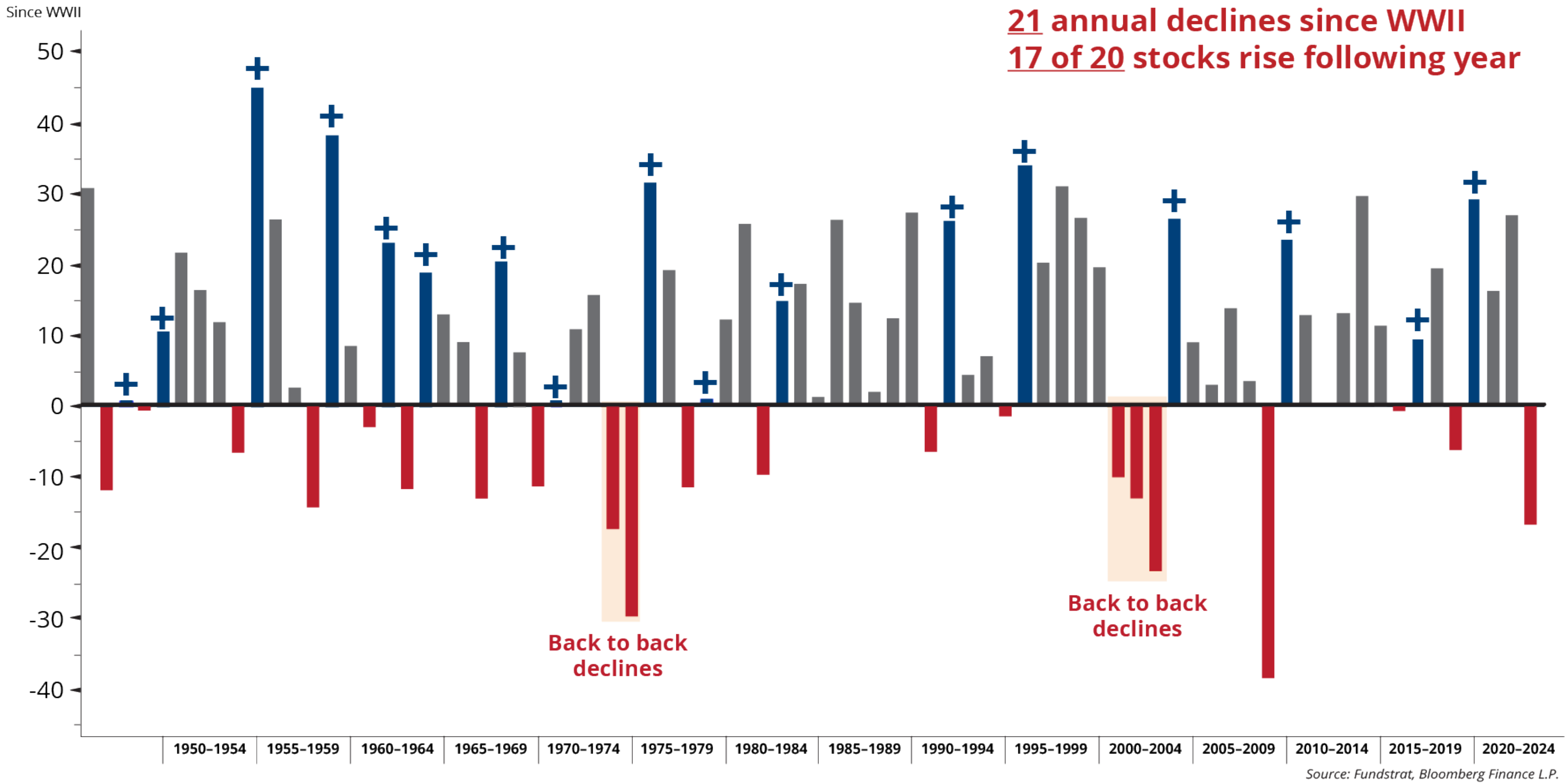
Annual S&P 500 Price Return
Rare to See Two Consecutive Annual Declines



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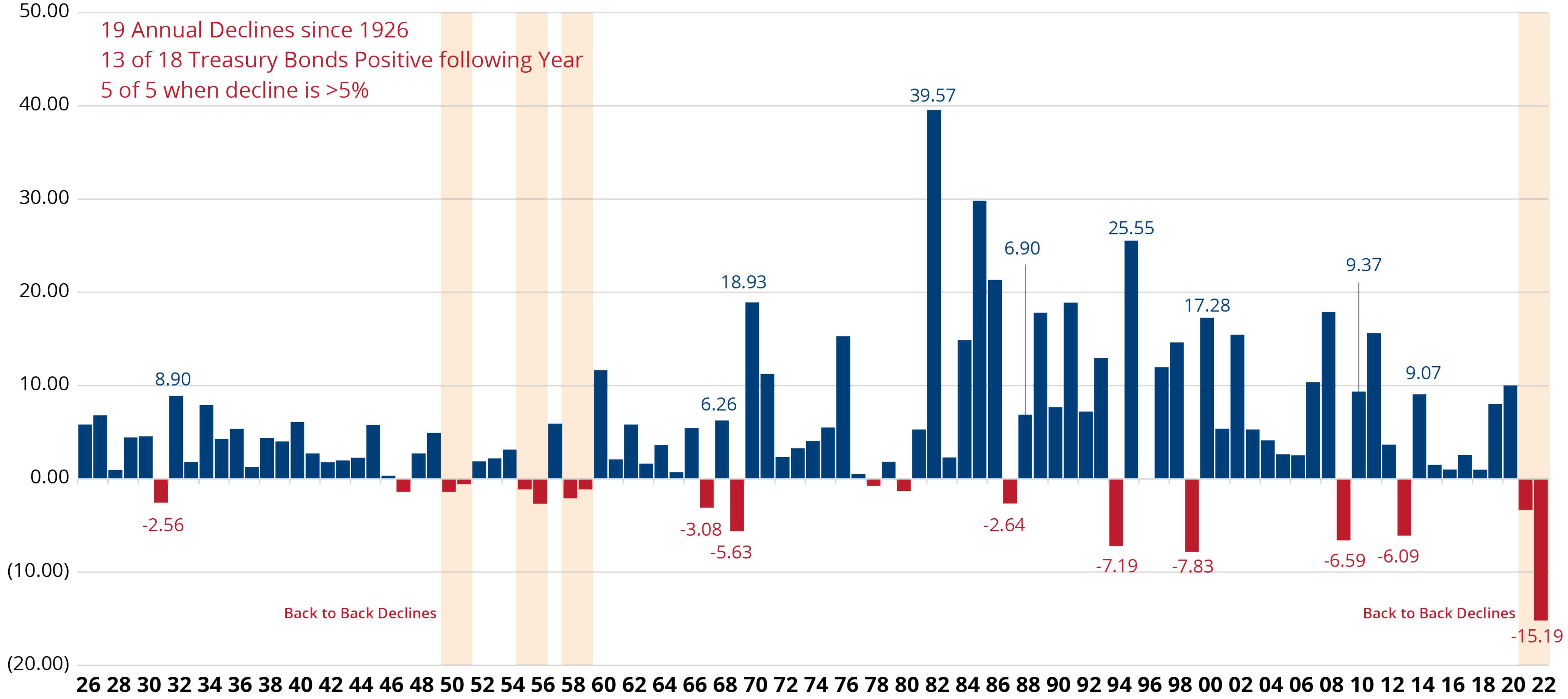
Consecutive Declines for Treasury Bonds are also Rare

10 Year Treasury Returns 1926-2022



Source: Slickcharts.com, Lazyportfolioetf.com

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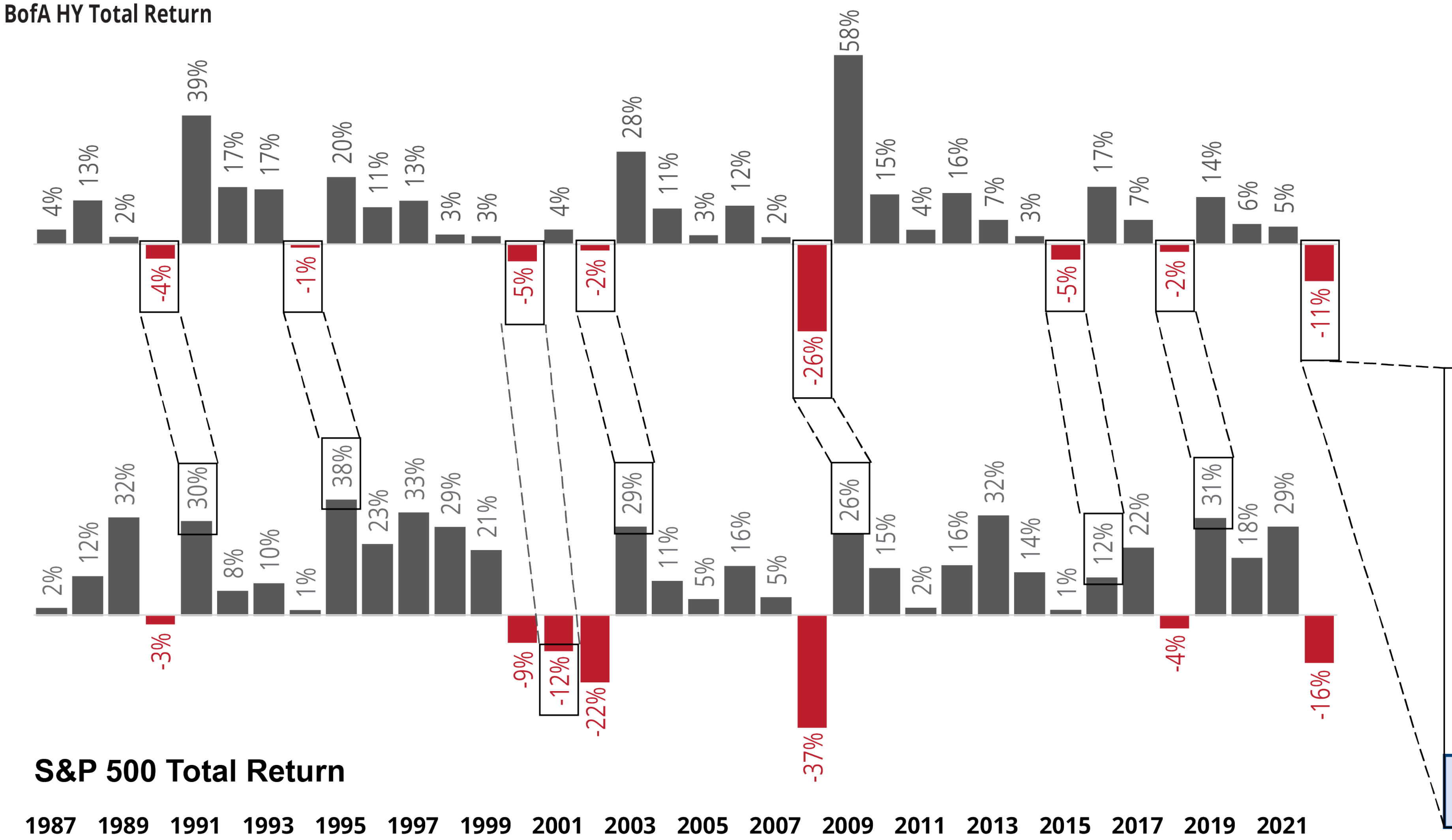
Source: Slickcharts.com, Lazyportfolioetf.com

HY Signal: S&P 500 Returns Strong After Negative HY Year

High Yield and S&P Total Returns

Since 1987



S&P 500 year *after* HY negative return	
1991	+30%
1995	+38%
2001	-12%
2003	+29%
2009	+26%
2016	+12%
2019	+31%
Average	+22%

Source: Fundstrat, Bloomberg Finance L.P., FRED

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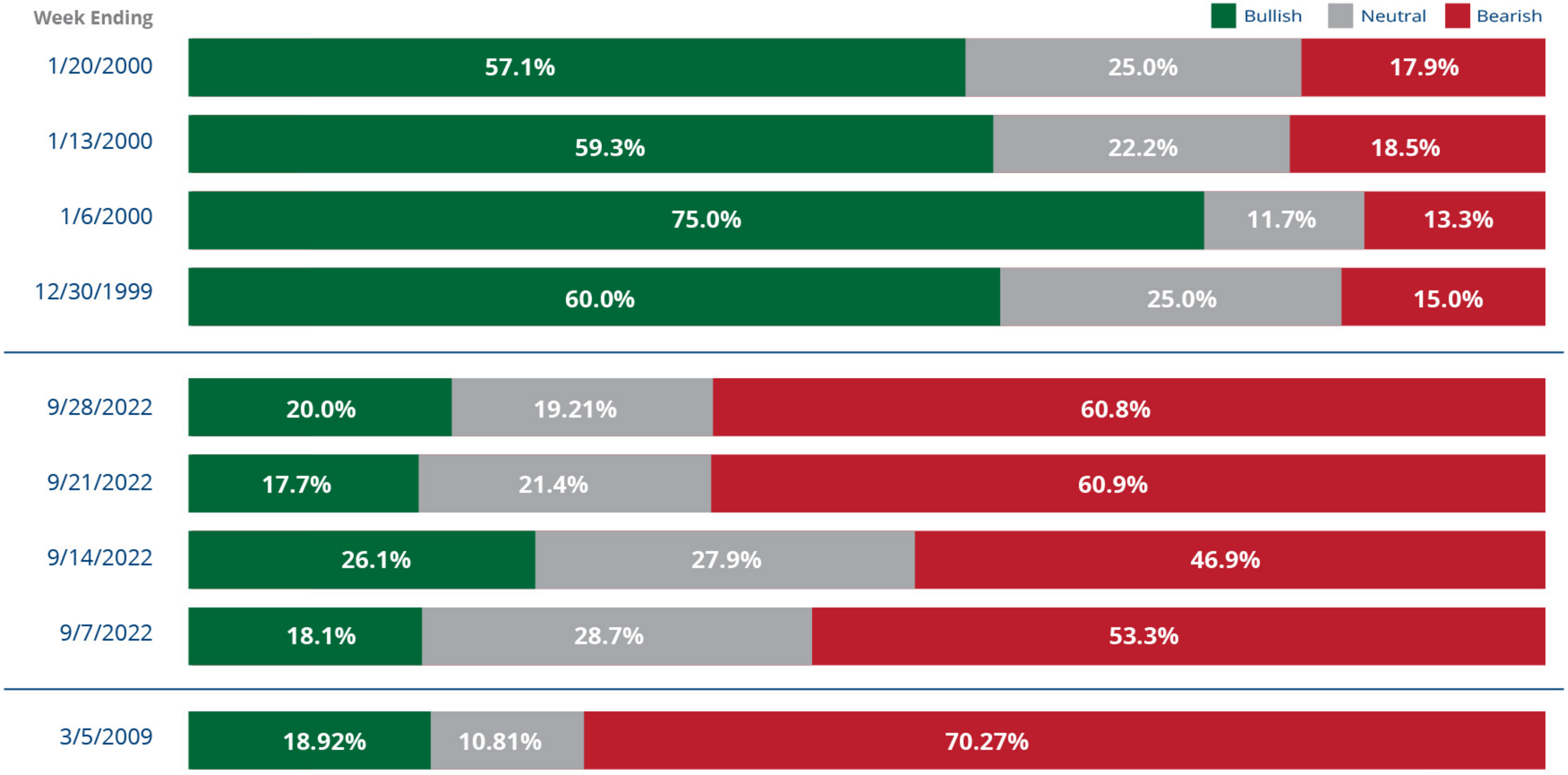
Bottoms are Formed When Pessimism is High

Sentiment Votes



Source: American Association of Individual Investors

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Lots of FUD: Fear, Uncertainty, and Doubt

BUSINESS INSIDER

"Dr. Doom" economist Nouriel Roubini says stocks could plunge another 50% as the US heads towards a severe financial crisis

75

Jennifer Sor
July 3, 2022 · 2 min read

Nouriel Roubini, an economics professor, speaks at a panel discussion at the SALT conference in Las Vegas May 14, 2014.REUTERS/Rick Wilking

Morgan Stanley's Mike Wilson warns U.S. stocks could slump another 22% if recession arrives in 2023

Last Updated: Jan. 10, 2023 at 9:34 a.m. ET
First Published: Jan. 9, 2023 at 2:04 p.m. ET

By Isabel Wang (Follow)

Current market consensus could be right directionally, but wrong in terms of magnitude: Wilson

BUSINESS INSIDER

Jeremy Grantham predicts the US 'superbubble' will pop, wiping out $35 trillion in stocks and housing. Here are the 11 best quotes from his new note.

55

Harry Robertson
January 21, 2022 · 3 min read

Jeremy Grantham is a famed investor and historian of stock markets.Matthew Lloyd/Getty Images

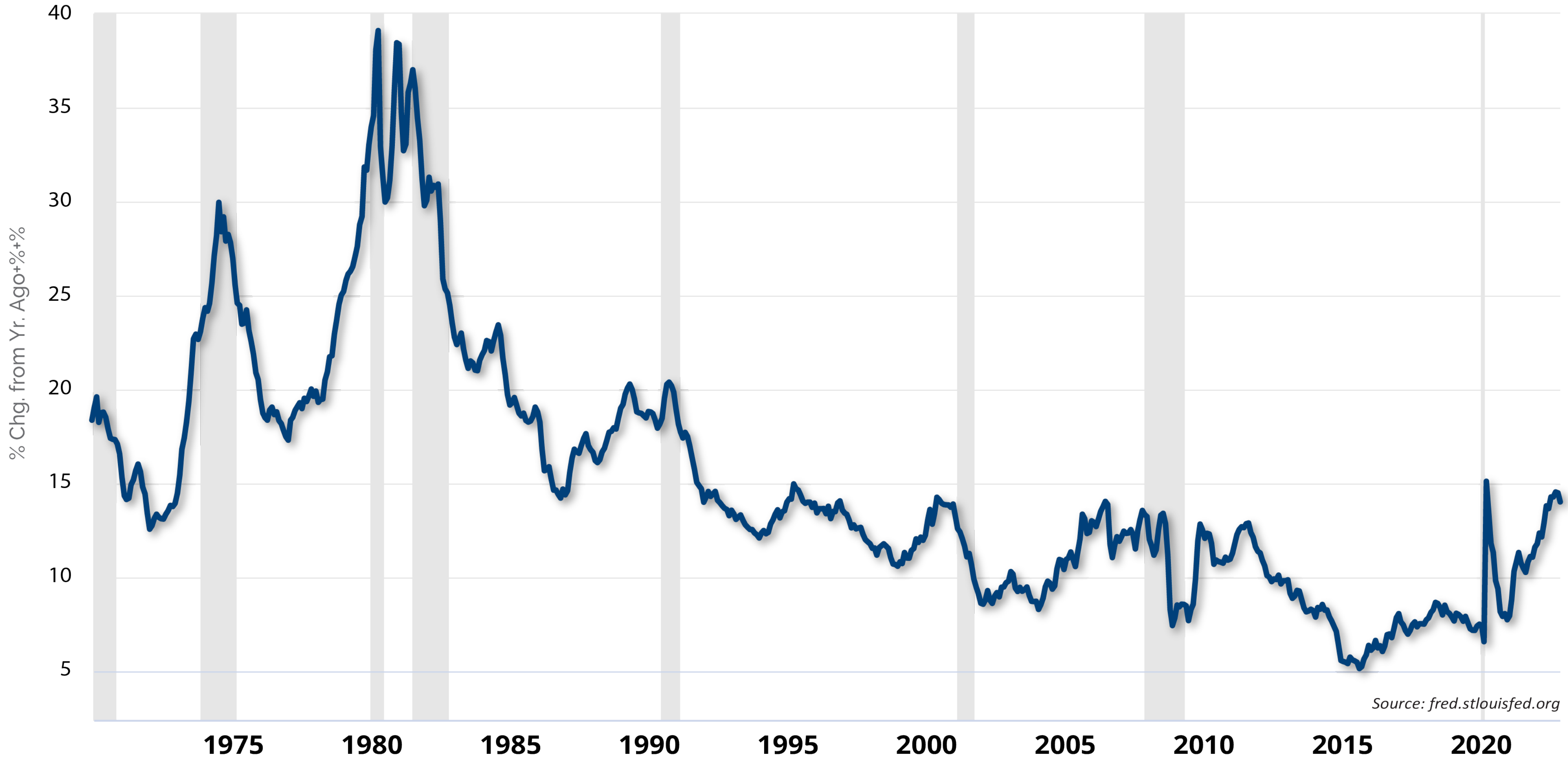
Source: Business Insider, Yahoo Finance, CNBC

Do I Still Need to Worry About Inflation?

- Our take is that inflation has likely peaked and will moderate further this year
- We think uninvested cash should be your biggest concern
- Stay/get invested, grow your cash flow

Not That 70's Show

Consumer Price Index for All Urban Consumers:
All items in U.S. City Average + Unemployment Rate + Federal Fund Effective Rates



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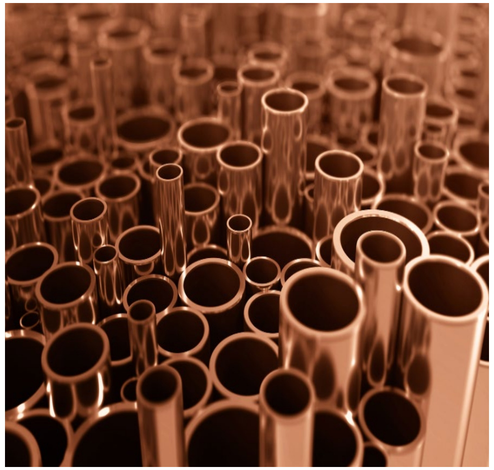
Commodity prices are off their highs

Lumber
03/04/22 $1477
12/30/22 $374
-75%

Crude Oil
03/08/22 $129
12/30/22 $80
-38%

Wheat
03/04/22 $1340
12/30/22 $792
-41%



Copper
03/07/22 $4.92
12/30/22 $3.81
-22%

For illustrative purposes only.

Source: Investing.com

Used cars, Home prices, and Freight rates are also lower

Used Cars
Jan 2022 257.7
Dec 2022 219.3
-15%

Home Prices
Jun 2022 308.37
Oct 2022 298.99
-3.04%

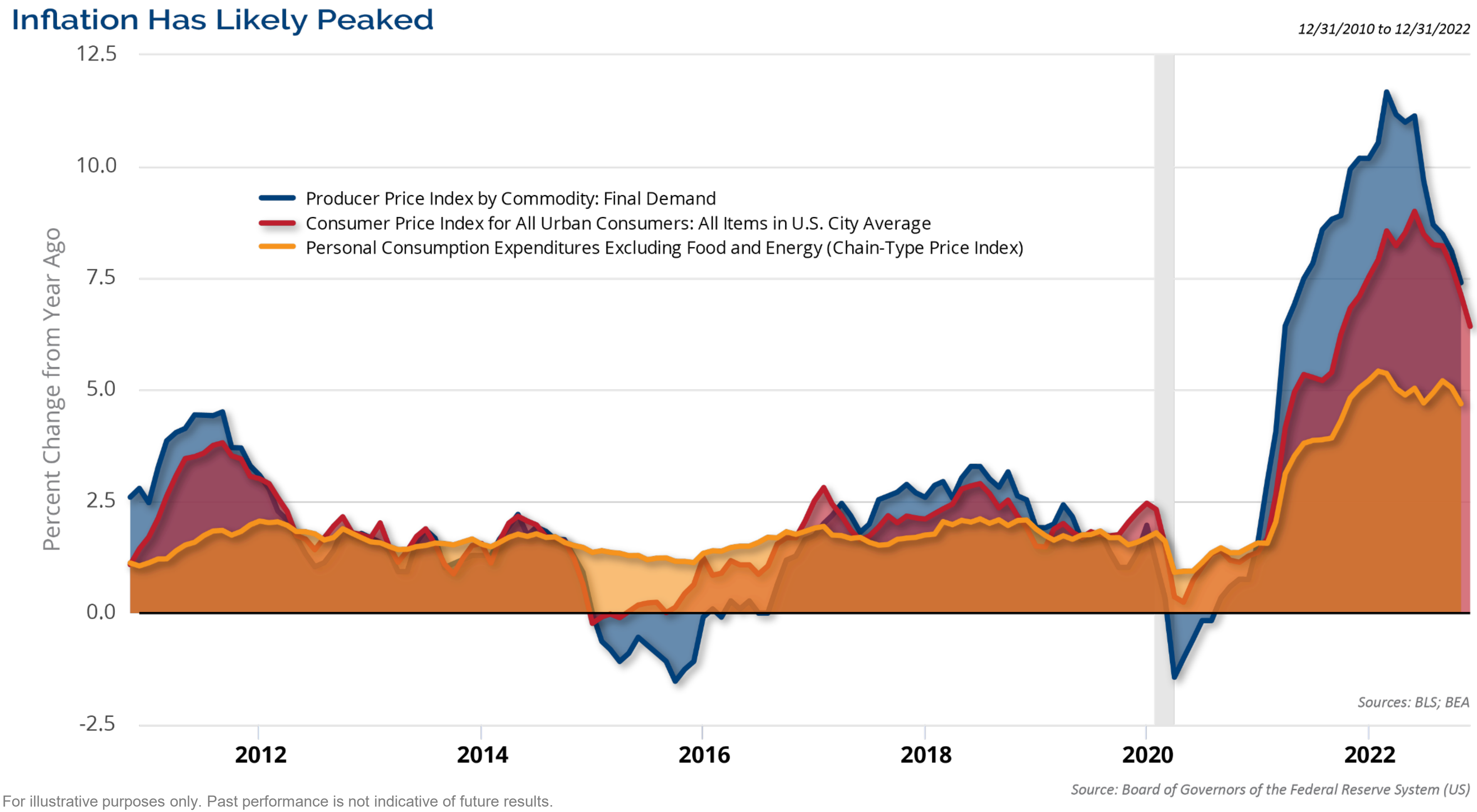
Baltic Dry Index
10/07/21 5650
01/03/23 1250
-78%

Container Rates
Sep 2021 $10377
01/05/23 $2135
-79%

For illustrative purposes only.

Source: Manheim, Case-Shiller, Investing.com, Drewry

Our Take: Inflation Has Likely Peaked



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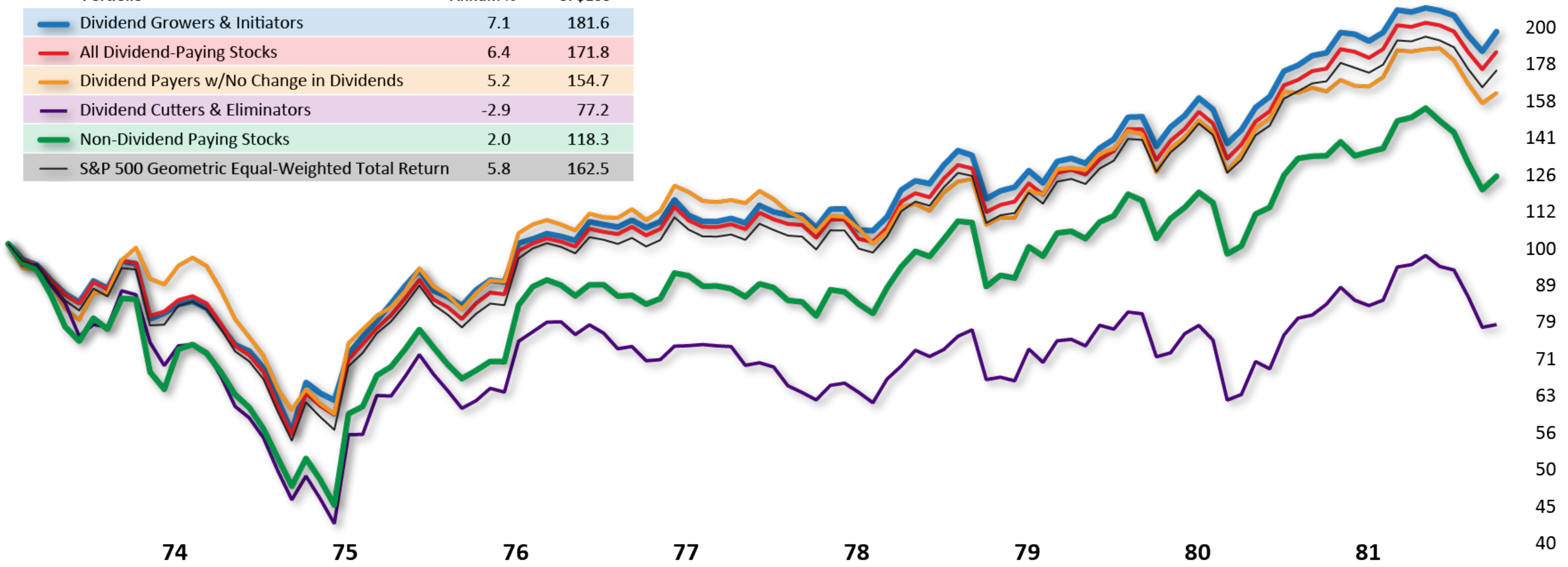
Growing Cash Flow Impacts Returns

Returns of S&P 500 Stocks by Dividend Policy

Monthly Data 1973-01-31 to 1981-09-30 (Log Scale)

Portfolio Performance Statistics
Analysis Dates: 1973-01-31 - 1981-09-30

Portfolio	Gain/ Annum %	Growth of $100
Dividend Growers & Initiators	7.1	181.6
All Dividend-Paying Stocks	6.4	171.8
Dividend Payers w/No Change in Dividends	5.2	154.7
Dividend Cutters & Eliminators	-2.9	77.2
Non-Dividend Paying Stocks	2.0	118.3
S&P 500 Geometric Equal-Weighted Total Return	5.8	162.5



Returns Based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

S09

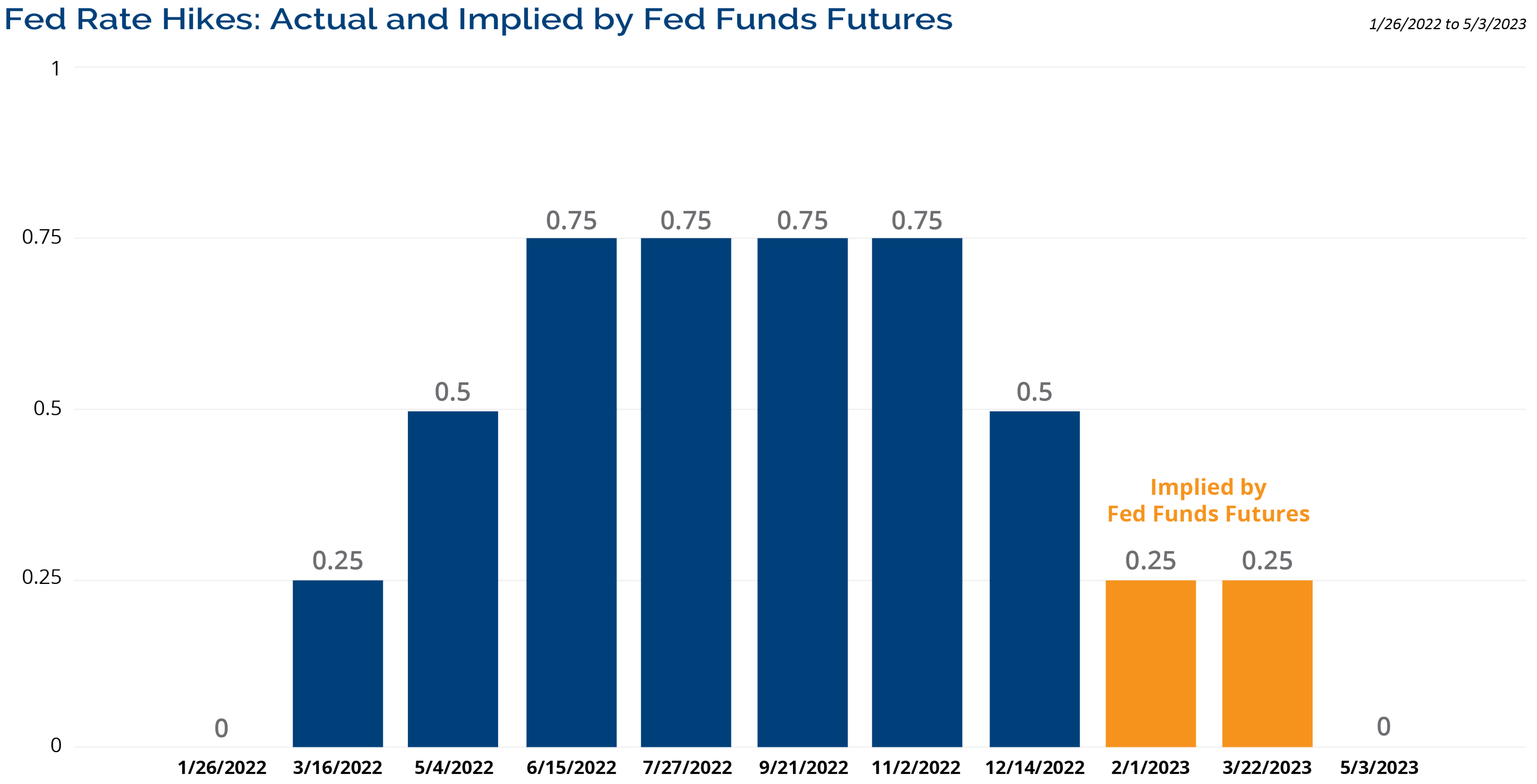
Source: Ned Davis Research

Chart date range was selected for illustrative purposes only. It should not be considered a current investment option.
Past performance is not indicative of future results. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.

The Fed is still raising rates, will there be a Recession in 2023?

- The Fed raised rates 425bps in 2022
- The Fed is nearing end of rate hike cycle
- The Economy rebounded in the second half of 2022
- Parts of the Economy remain resilient, while others have begun to soften
- Odds of a Mild Recession are on the rise

The Fed was Aggressive in 2022, but has begun to “step down” the size of the hikes



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Source: FOMC, Bloomberg

Fed Rate Hike Cycles

Date	#	Total Increase (bps)	Max Decline	Days Until Bottom	% Change from Low to Last Hike	Days Before Last Hike	Length of Cycle
2/4/1994 – 2/1/1995	7	300	-9%	59	+7.2%	303	362
6/30/1999 – 5/16/2000	6	175	-4%	107	+17.5%	214	321
6/30/2004 – 6/29/2006	17	425	-5%	43	+19.7%	686	792
12/16/2015 – 12/29/2018	9	225	-12%	56	+34.9%	1043	1099
3/16/2022 – ???? (In Progress)	**7**	**425**	**-17%**	**210**	**????**	**????**	**????**
Average	**9.75**	**281.25**	**-7%**	**66**	**+19.8%**	**562**	**628**

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

Source: Factset

S&P 500 Returns and the Fed Funds Rate

Fed Funds Rate	Number of months	Avg Monthly Return	Annualized Return	Worst Month	Return	Best Month	Return
Less than 2%	222	0.96%	12.15%	Oct 2008	-16.94%	Apr 2020	12.68%
Between 2%-4%	173	0.24%	2.92%	Sep 2022	-9.34%	Nov 1962	10.16%
Between 4%-6%	197	1.13%	14.44%	Aug 1998	-14.58%	Jan 1976	11.83%
Greater than 6%	228	0.39%	4.78%	Oct 1987	-21.76%	Oct 1974	16.30%
Total	**820**	**0.69%**	**8.60%**				

Jul 1954 to Oct 2022

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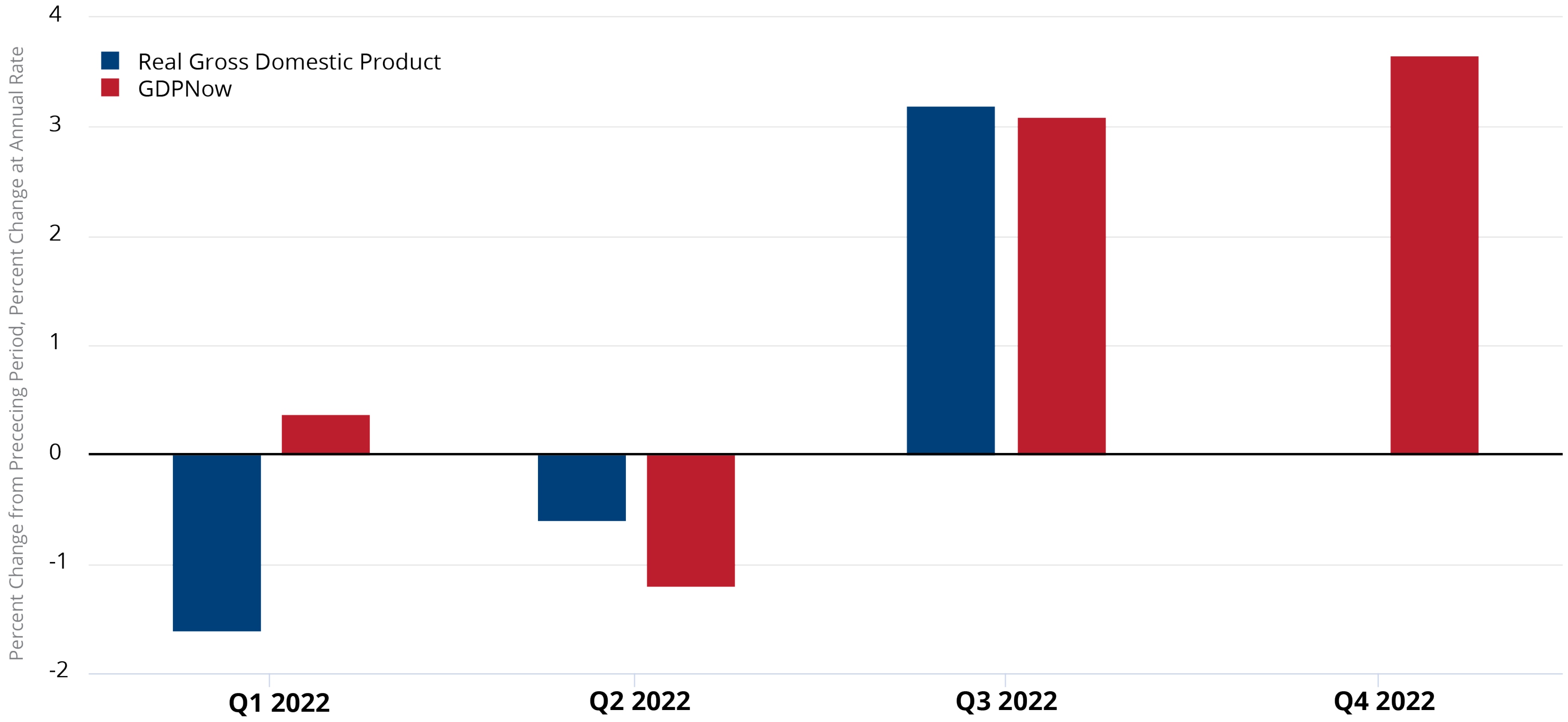
Source: Standard and Poors, FRED Board of Governors of the Federal Reserve System

GDP was negative in Q1/Q2 2022 but rebounded in the second half

Real Gross Domestic Product vs. GDPNow

7/01/2012 to 7/1/2022



Sources: BEA; Atlanta Fed

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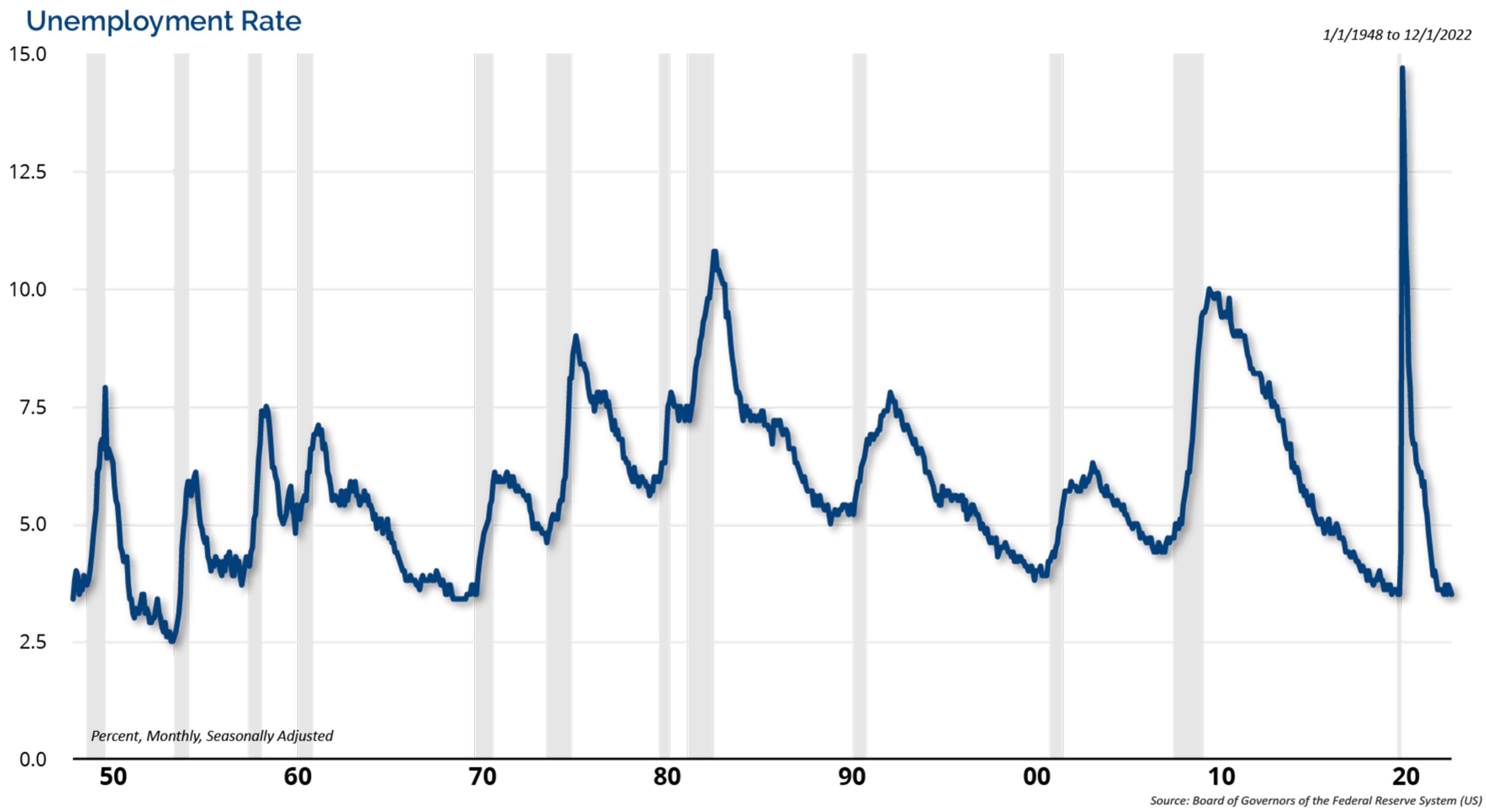
Strong Labor Market Helps the Consumer



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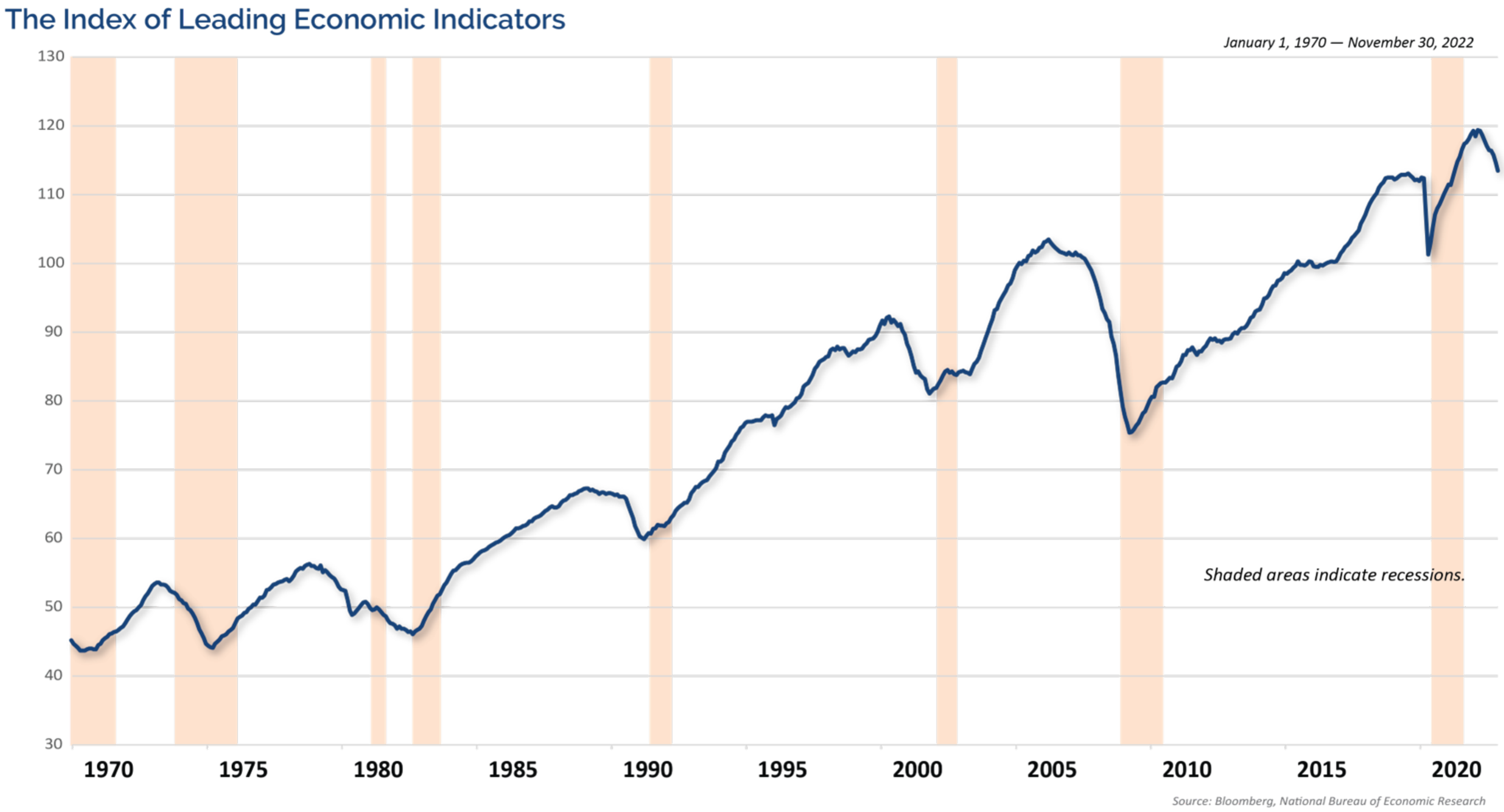
Some Clouds on the Horizon



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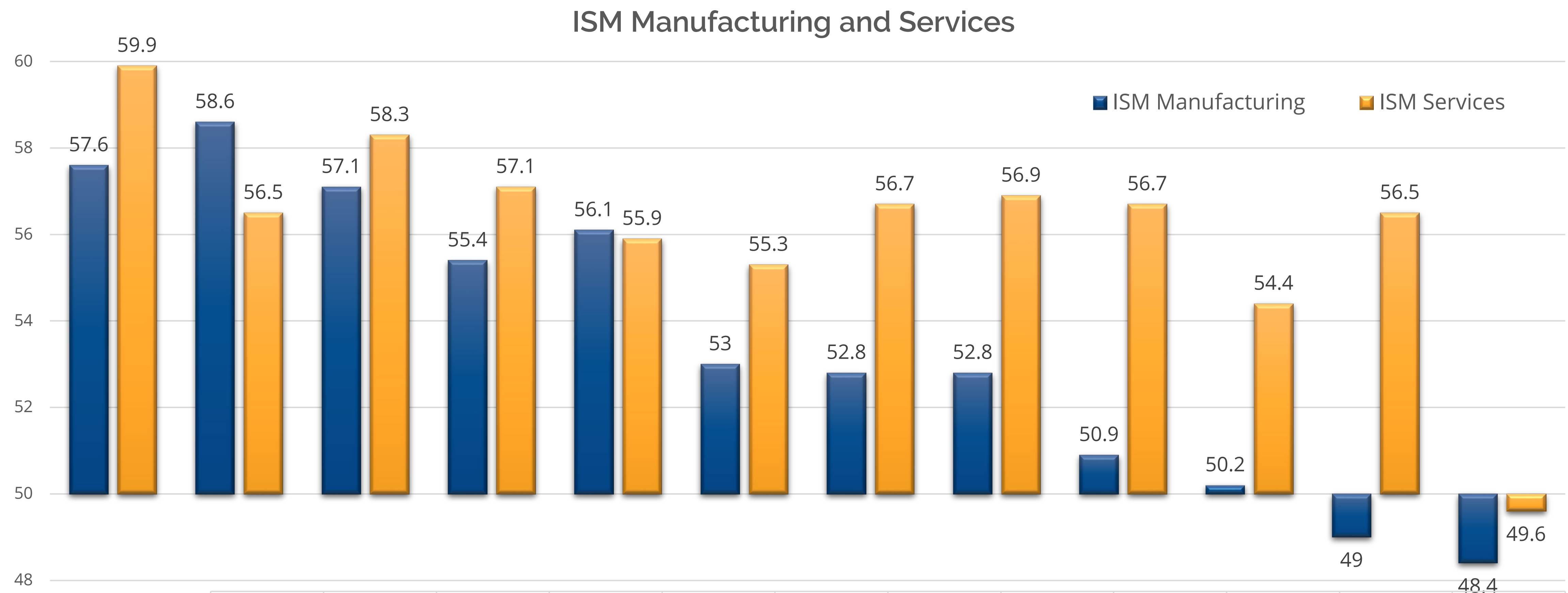
Manufacturing & Service Sector PMIs Show Contraction



	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
ISM Manufacturing	57.6	58.6	57.1	55.4	56.1	53	52.8	52.8	50.9	50.2	49	48.4
ISM Services	59.9	56.5	58.3	57.1	55.9	55.3	56.7	56.9	56.7	54.4	56.5	49.6

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Stocks Lead the Economy

Bear markets lead recessions

Post-War Recessionary Bears

Equity Bear Market (DJIA)			Recession		Lead time (months) to recession	
Start	**End**	**% Drop**	**Start**	**End**	**Start**	**End**
6/15/1948	6/13/1949	16.3	11/1948	10/1949	5	4
1/05/1953	9/14/1953	13.0	7/1953	5/1954	6	8
4/06/1956	10/22/1957	19.4	8/1957	4/1958	16	6
1/05/1960	10/25/1960	17.4	4/1960	2/1961	3	4
12/03/1968	5/26/1970	35.9	12/1969	11/1970	12	6
1/11/1973	12/06/1974	45.1	11/1973	3/1975	10	3
9/08/1978	4/21/1980	16.4	1/1980	7/1980	16	3
4/27/1981	8/12/1982	24.1	7/1981	11/1982	3	3
7/16/1990	10/11/1990	21.2	7/1990	3/1991	0	5
1/14/2000	9/21/2001	29.7	3/2001	11/2001	14	2
10/09/2007	3/09/2009	53.8	12/2007	6/2009	2	3
2/12/2020	3/23/2020	37.1	2/2020	4/2020	0	1
Median		22.7			5.5	3.5

Source: Ned Davis Research, National Bureau of Economic Research.

Ned Davis Research T_BMF22_59.1

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Source: Ned Davis Research

Timing NBER Recession Declarations

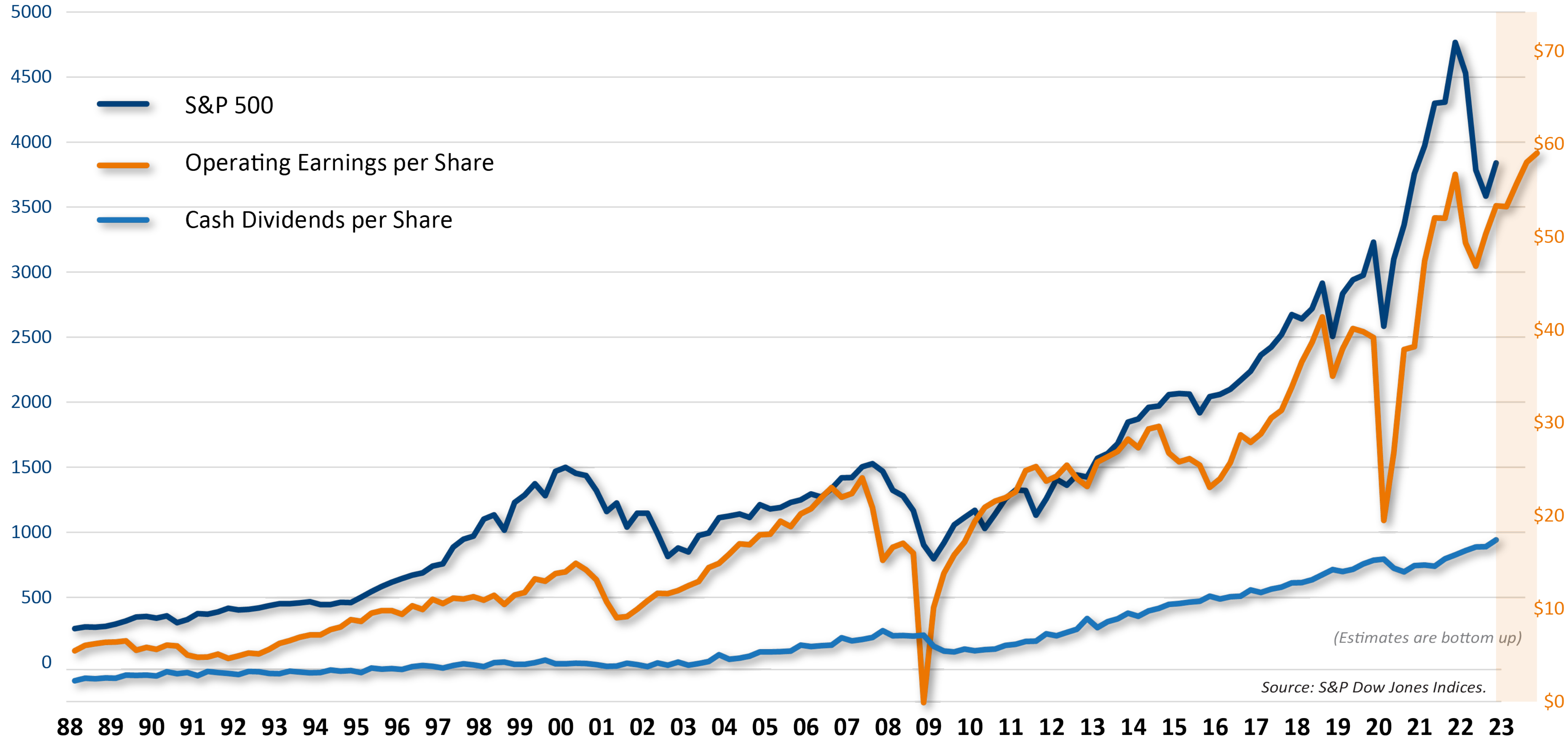
Recession Start Declared	S&P 500	Recession End Declared	S&P 500	Missed Return
06/08/2020	3232	07/19/2021	4258	31.74%
12/01/2008	816	09/20/2010	1143	40.00%
11/26/2001	1157	07/17/2003	982	-15.18%
04/25/1991	379	12/22/1992	440	16.10%
01/06/1982	119	07/08/1983	168	40.59%
06/03/1980	111	07/08/1981	128	16.12%
			Average	**21.56%**

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

Source: Standard and Poors, NBER

Earnings Drive Stock Prices

S&P 500 vs. Operating Earnings



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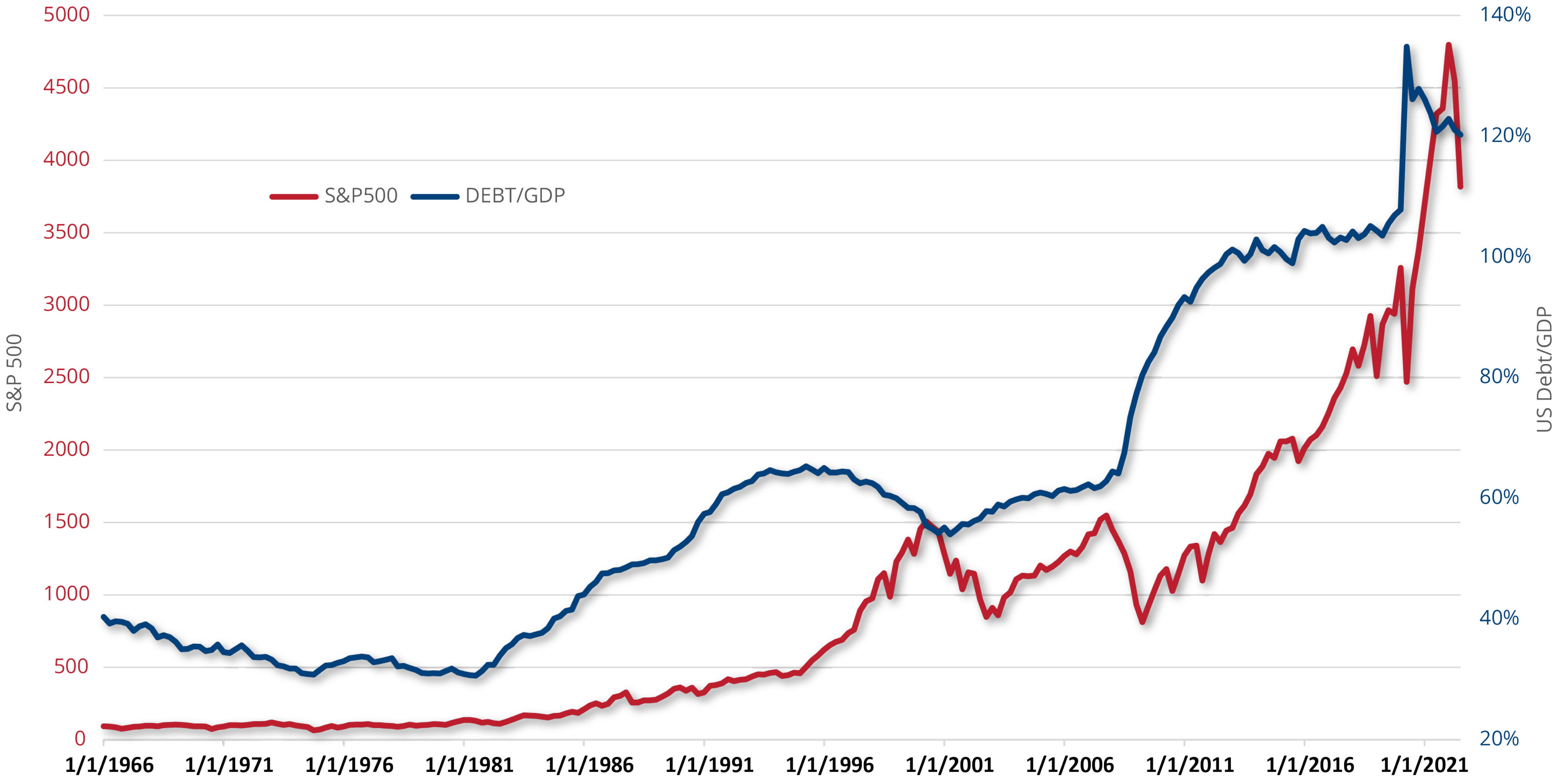
How will the Debt Ceiling Debate impact the Market?

- U.S. Debt/GDP has risen since the 1960s
- So has the S&P 500
- 20 Funding Gap/Govt Shutdowns since 1976
- Minimal impact to Market in prior episodes

US Govt Debt – Only 1 Piece of the Puzzle

S&P 500 and U.S. Debt/GDP

Quarterly Data 01-01-1966 to 07-01-2022



Source: S&P Dow Jones Indices, FRED, Board of Governors of the Federal Reserve System

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US Funding Gaps/Shutdowns

	S&P 500		
Start	End	# of days	Return
9/30/1976	10/11/1976	11	-3.421%
9/30/1977	10/13/1977	13	-3.180%
10/31/1977	11/9/1977	9	0.693%
11/30/1977	12/9/1977	9	-1.244%
9/30/1978	10/18/1978	18	-1.999%
9/30/1979	10/12/1979	12	-4.418%
11/20/1981	11/23/1981	3	-0.090%
9/30/1982	10/2/1982	2	1.287%
12/17/1982	12/21/1982	4	0.815%
11/10/1983	11/14/1983	4	1.320%
9/30/1984	10/3/1984	3	-2.203%
10/3/1984	10/5/1984	2	0.148%
10/16/1986	10/18/1986	2	-0.288%
12/18/1987	12/20/1987	2	0.000%
10/5/1990	10/9/1990	4	-2.055%
11/13/1995	11/19/1995	6	1.312%
12/15/1995	1/6/1996	22	0.060%
9/30/2013	10/17/2013	17	3.069%
1/19/2018	1/22/2018	3	0.807%
12/21/2018	1/25/2019	35	10.268%
Average		**9**	**0.04%**

Source: S&P Dow Jones Indices, history.house.org

Is It Time to Buy or Sell International Stocks?

- Geographic Diversification Is Important
- Own Global Leaders, Wherever They Are Domiciled
- International Looks Undervalued Relative to the United States
- Direction of Dollar Very Important

Some of the Largest Companies in the World are located outside of the United States

For illustrative purposes. Past performance is not indicative of future results. The companies identified above are examples only and not reflective of any holdings in portfolios or strategies managed by Clark Capital. This information should not be considered a recommendation to purchase or sell any particular security.

International Struggling in Recent Years, but Long-Term is a Different Story

	International Outperformed (MSCI EAFE)	U.S. Outperformed (S&P 500)
Frequency	24 Years	27 Years
Dollar Down	18 Years	6 Years
Dollar Up	6 Years	21 Years

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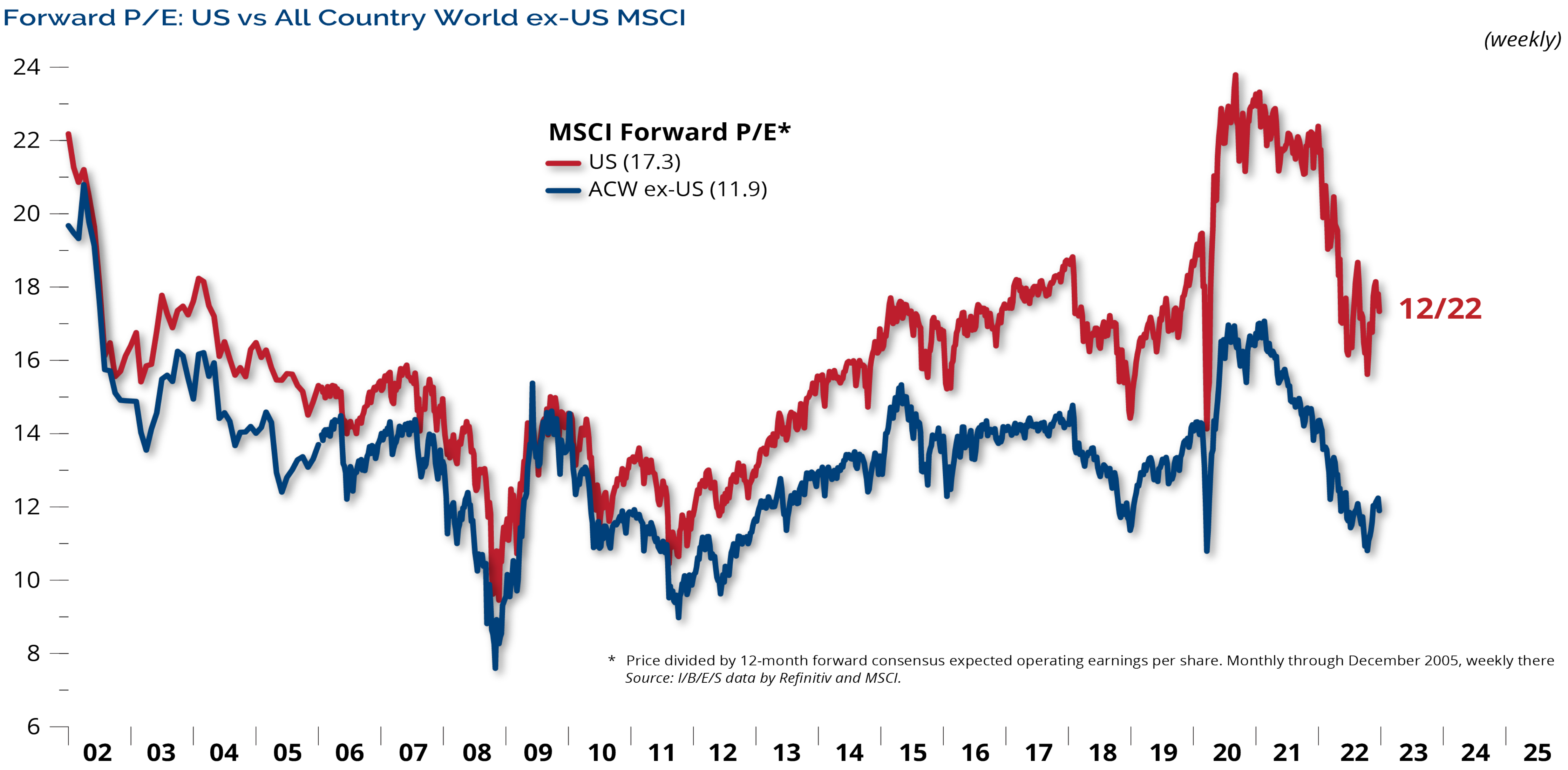
Source: Factset

International Stocks look Inexpensive



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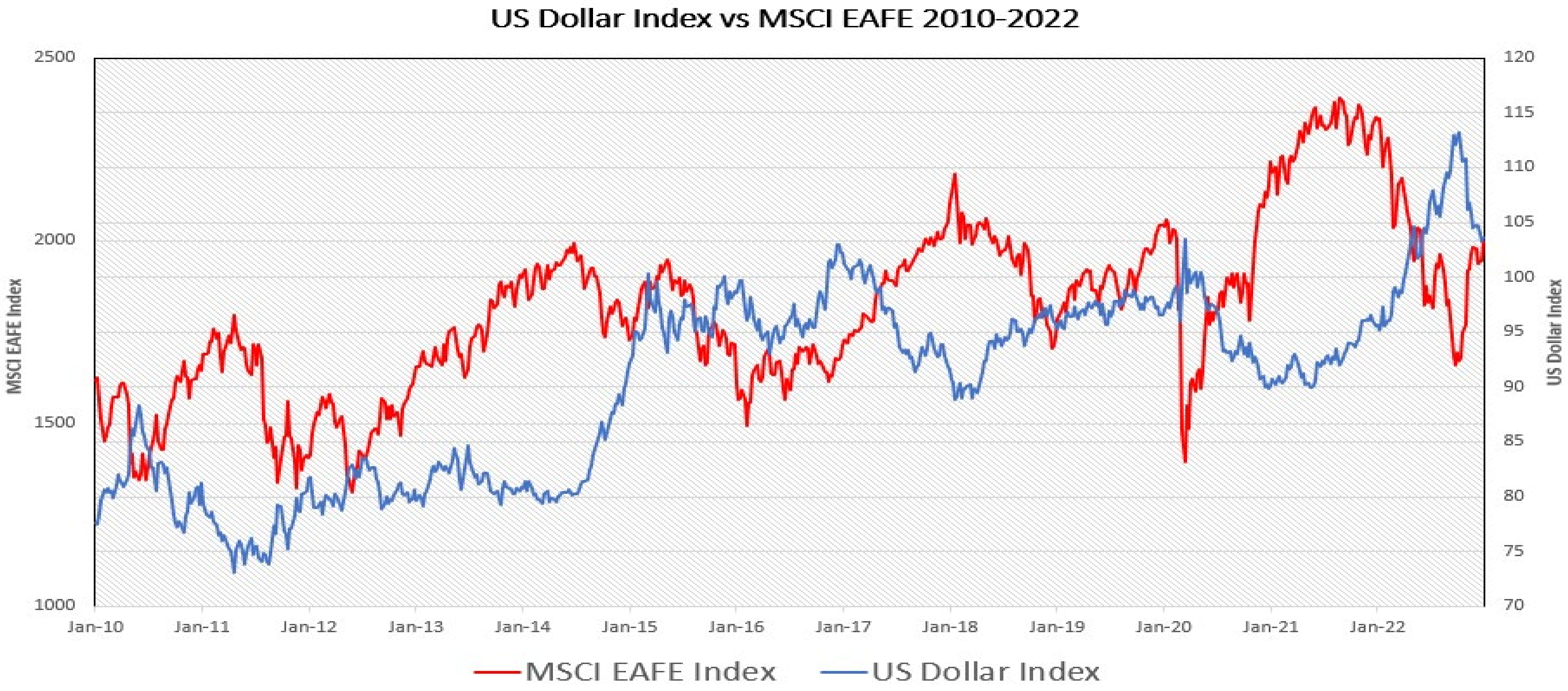
Source: Yardeni Research, Inc.

Strong US Dollar a Headwind in 2022 but may be a Tailwind in 2023



For illustrative purposes. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.

Source: Investing.com

What are your Thoughts on Crypto?

- Highly Volatile and Speculative Asset Class
- Not a Good Inflation Hedge
- Not a Store of Value
- Not "Digital Gold"
- Extremely Limited Role in a Well Diversified Portfolio and Not Suitable for Most Clients

Q&A

Disclosure

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CCM-648

Benchmark Descriptions

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.

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 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. Indexes are available for the U.S. and various geographic areas.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries, excluding the US, and 26 Emerging Markets countries covering approximately 85% of the global equity opportunity set outside the US.

BBgBarc 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.

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.

The volatility (beta) of an account may be greater or less than its respective benchmark.

The Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

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.

Gross domestic product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

The ICE BofA AA US Corporate Index, a subset of the ICE BofA US Corporate Master Index, looks at the effective yield of all securities with a given investment grade rating AA.

The ICE BofA US Corporate BB Index, a subset of the ICE BofA US High Yield Master II Index, looks at the effective yield of all securities with a given investment grade rating BB.

A Treasury yield is the effective annual interest rate paid by the U.S. government to a bondholder.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

The 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 MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries outside the US and Canada. With 918 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The EAFE acronym stands for Europe, Australasia and Far East.

GDPNow is a forecasting model that provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis.

The ISM manufacturing index, also known as the purchasing managers’ index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.