Navigator® Market Update

K. Sean Clark, CFA, Chief Investment Officer

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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.

GOVERNMENT SHUTDOWN

What Does It Mean?

At midnight on September 30th the government officially shutdown with non-essential staff being furloughed. There has been a lot of fear mongering on both sides of the aisle as they negotiated, in good faith and bad faith, depending on your perspective. In reality, the shutdown is not likely to do much damage to the economy unless it turns out to be a protracted affair. This isn't the first time the government has shutdown and it surely won't be the last. The longest government shutdown occurred between December 15, 1995 and January 6, 1996, which lasted about three weeks. There was a five-day shutdown in November 1995. In the 1980s, government shutdowns were more frequent but in most cases were shorter in duration.

A government shutdown has never been a disaster to the stock market or the economy. Deutsche Bank issued a report out that was posted on *Zero Hedge* that gave some statistics regarding shutdowns. Deutsche Bank found that during prior seven shutdowns from 1984 to present, the average loss in the S&P 500 was only 0.2%, the maximum loss was only 2.4%, and 10 days after the end of the shutdown the index rebounded 2.1%. It could be different this time, but if history is any guide it could represent a buying opportunity, especially after the market declined a bit over the past week.

Current estimates of the economic impact of a shutdown vary depending upon its duration. Since the wages of federal employees are counted as nominal GDP output, their furlough has a direct impact on growth. According to Ned Davis Research (NDR), if this shutdown is anything like the 1995-1996 experience, 36% of federal employees will lose pay during the shutdown. An estimated impact on nominal GDP would be about $23.1 billion at an annual rate, if government offices are closed for one week. That is equivalent to subtracting about 0.1% from nominal GDP growth in the fourth quarter. Hardly a disaster! A one-month shutdown will reduce GDP proportionately more and would have a more meaningful impact. However, in prior shutdowns the furloughed employees were paid back wages, and that would be likely to happen again, offsetting a portion of the decline in GDP.

In our opinion the bigger threat to the markets and economy comes from the debt ceiling debate that is set to begin in a couple of weeks. If it is anything like it was in 2011, then we could see a rise in volatility and stress in the markets. The fiscal uncertainty is a big reason why the Fed did not taper bond purchases. Risks to the market and economy would definitely rise if the current shutdown persists into the debt ceiling debate.

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.

The Dow Jones Industrial Average is a stock market index that shows how 30 large publicly owned companies based in the U.S. have traded during a standard trading session in the stock market.

The NASDAQ Index is a market-weighted index of all common stocks listed on the NASDAQ exchange.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The MSCI All Country Europe is a free float-adjusted market capitalization index that is designed to measure the performance of European equity markets.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

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.

The VIX Index is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries and government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

The Barclays 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.

The Barclays U.S. Corporate High-Yield Index covers the 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.

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.

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