January 2015

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 Executive Committee and the Board of Directors. 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 was featured in an article in Barron's and has been quoted in a number of articles in nationally distributed business journals and newspapers.

Double Digit Gain...
Thank You, May I Have Another?

The U.S. stock market finds itself in rare territory as we enter 2015. For only the sixth time in the past 150 years, the U.S. stock market has registered a double-digit gain for three consecutive calendar years from 2012 to 2014. We will try to answer the question: "Can the U.S. stock market post a fourth year of double-digit gains?"

2014 Review

Our observation is that the major drivers of returns for the market in 2014 were a continued improvement in the U.S. economy, a commodity collapse, and the ending of quantitative easing in the U.S. Performance in 2014 was very mixed and dominated again by large cap U.S. stocks. The S&P 500 gained 13.66%, giving the impression that 2014 was a banner year for stocks. However, a closer examination shows that most markets struggled in 2014. The average stock in the Russell 3000 was up only about 4% and the median stock was actually down! U.S. small cap stocks were only up 4.89%, international markets declined across the board with the MSCI EAFE index down 4.22% and emerging markets losing 2.11%.

In contrast to most expectations coming into 2014, Treasury bonds performed very well as the 10-year Treasury yield dropped from 3.03 to 2.17%, and duration outperformed credit risk. In fact, long-term treasuries were the top performing asset class in 2014 with the Barclays Capital 20+ Year Treasury index gaining 27.48%. Dollar

Executive Summary

Equity Market: Our expectations are based on historical precedence including the average market gains in the third year of the Presidential Election Cycle, strong momentum, earning growth, seasonal trends, accelerating economic growth, and the normal market performance around the first Fed rate hike suggest a year-end target for the S&P 500 of 2275, about a 10% gain. Expect small cap stocks to outperform in the first half of the year. Risks to the outlook include valuations, length of current bull market run, and potential negative reaction to Fed rate hikes.

Bonds: We expect the Federal Reserve to hike interest rates at the June FOMC meeting. Higher short-term rates, falling energy prices, and crumbling inflation expectations should result in a continued flattening of the yield curve. Municipal bonds appear most attractive and set for upgrade cycle. After a great year for Treasuries and sub-par year for high yield bonds, we favor credit over duration risk as the strengthening economy offers support to lower-quality fixed income. Range of 10-year Treasury yield 1.60% to 3.00%, with a year-end target of 2.50%.

Economy: Leading indicators suggest continued economic growth. We expect the U.S. economy to grow 3.0% and the global economy to grow 3.5% on the heels of additional stimulus from foreign central banks.

strength helped drive asset flows into the U.S. and domestic stocks and bonds were beneficiaries of that trend. The trade-weighted U.S. dollar index gained 12.79% while commodities posted their largest losses since 2008, dropping 33.06%.

The return profile in 2014 was so mixed that investors who prudently diversify may feel as if they missed the boat. The average broadly diversified portfolio was up in the 5% range.

Some interesting facts about last year that highlight the disparity of returns across asset classes.

- S&P 500 up at least 10% for third year in a row. First time since five-year streak from 1995 to 1999.
- No more than three consecutive down days for S&P 500. Fewest on record.
- First time since 1982 that long-term Treasuries outperformed S&P 500 by 1000 bps when the S&P 500 was up by 10% or more.
- Largest S&P 500/EAFE spread since 1997.
- U.S. dollar's best year since 1997.
- S&P GSCI Commodity Index second worst year on record.
- Oil's worst year since 2008.
- Largest Russell 1000/2000 spread since 1998.

We have been fairly accurate in our forecasts since we started making annual predictions. We were right on in 2012 and only missed by a little in 2009 and 2010. 2013 was our largest miss. Last year we forecast that the market, based on the S&P 500, would advance to 1950, which would have been a 5.5% price increase, and about a 7.5% increase on a total return basis. The S&P 500 actually closed at 2058, 5.5% above our target. However, as we illustrated earlier, 2014 was a very mixed year. Aside from U.S. large cap stocks, overall returns for equity markets were only marginally positive and in fact negative for most international markets.

2015 Outlook

No one really knows how the next twelve months will progress as there are so many variables that impact the economy and markets. But every year analysts are asked to look into their crystal balls and give their best guess of what the markets will do. As students of market history, history and long established precedents help guide and shape our annual *Market Outlook*.

We enter the New Year with an overall bullish view, but it is no layup and there are a number of risks that could derail the market's historic run. Over the long term, we believe we are in a secular bull market in stocks and that helps to give a framework around where we see opportunity and risks.

Historical tendencies suggest 2015 could be a very good year. However, it is very hard to get overly bullish given the many risks we see on the horizon. For example, since 1875 the S&P 500 has only rallied seven consecutive years once, from 1982 through 1989, when it advanced for eight consecutive years. The current bull is almost six years long and much older than the 3.8 year average of bull markets dating back to 1932. In addition, with the S&P 500 trading at a price-to-earnings ratio of 18, multiple expansion seems unlikely and further gains will largely depend on earnings growth. Fortunately, valuations can remain stretched for extended periods and we do expect another positive year of earning growth on the heels of a strengthening U.S. economy. We expect U.S. economic growth of 3.0%, which would be the strongest annual growth rate since the recession, while the global economy should grow by about 3.5%.

Our baseline expectations for the market call for additional gains. Our year-end target for the S&P 500 is 2275, which would be about a 10% gain. Those expectations are based on analysis of historical precedence including the average market gains in the third year of the Presidential Election Cycle, strong momentum, earning growth, seasonal trends, accelerating economic growth, and the normal market performance around the first Fed rate hike. As far as fixed income goes, we expect a further flattening of the yield curve as the Fed hikes rates, probably at the June FOMC meeting. The 10-year Treasury yield, currently trading at around 2.0%, is likely to challenge 1.60% before heading higher. Our year-end target for the 10-year Treasury yield is 2.50% with a potential range of 1.60% to 3.0%. We do favor credit risk over duration as the strengthening economy and low defaults offer fundamental support to lower quality debt.

Economy

The U.S. economy began diverging from the rest of the world in the second half of 2014. While Europe, China and Japan saw their economies decelerate, with Japan entering recession, the U.S. economy grew by 5% in the third quarter, its strongest in more than a decade. As we look to 2015, the Fed is expected to begin raising rates around the middle of the year for the first time in more than a decade. Inflation is also anticipated to come off its lows, which signals the economy is on stronger footing. But a sudden spike in the cost of goods could cause the Fed to up rates faster than expected. Worries also remain about how and when corporations are going to see significant sales growth, especially when there's lackluster growth abroad. But it's not all warning signs for stocks entering 2015. Low energy prices, better consumer confidence and a pickup in the job market and hourly earnings all bode well for equities.

The U.S. economy has expanded for over five years now, but only at a 2.3% pace. In fact, the economy has grown at less than 3% in every calendar year since the Great Recession ended in 2009. However, the economy is accelerating and appears to be on solid footing to continue growing in 2015. Over the prior five quarters, the economy has averaged 3.1% growth, even when including the weather related decline in the first quarter of 2014. In addition, in four of the past five quarters economic growth has been better than 3.0%. In the third quarter of 2014, the economy grew at the fastest pace in over a decade and the 5.8% unemployment rate is the lowest since June 2008.

We expect the U.S. economy to grow by 3.0% in 2015, spurred along by strong momentum in the labor markets, gains in income and payrolls, favorable credit conditions, and improving manufacturing and services activity. The main risks come from a potential negative response from Fed tightening and slowing global economic growth. With Japan in recession, China posting the lowest growth since 1990 and Europe on the edge of a recession, 44% of the global economy is in decline. They used to say when the U.S. caught a cold everyone else would sneeze. Now the operative word is "Decouple." Everyone is hoping the U.S. has decoupled from the rest of the world and will not catch the economic virus sweeping 44% of the global economy.

We have a high degree of confidence that the U.S. economy has further growth potential. The Conference Board's Index of Leading Economic Indicators (LEI) has risen to its highest level since July 2007. Over the past 50 plus years, early weakness in the Leading Indicators Index has preceded recessions and provided an early warning sign for investors. As the table shows, the typical lead time between the peak in leading indicators and the start of recession is at least four months. Since 1960, the average lead time has exceeded 11 months. We are not currently seeing any weakness in the Leading Indicators Index. So if history is any guide, the U.S. economy should continue its expansion through 2015.

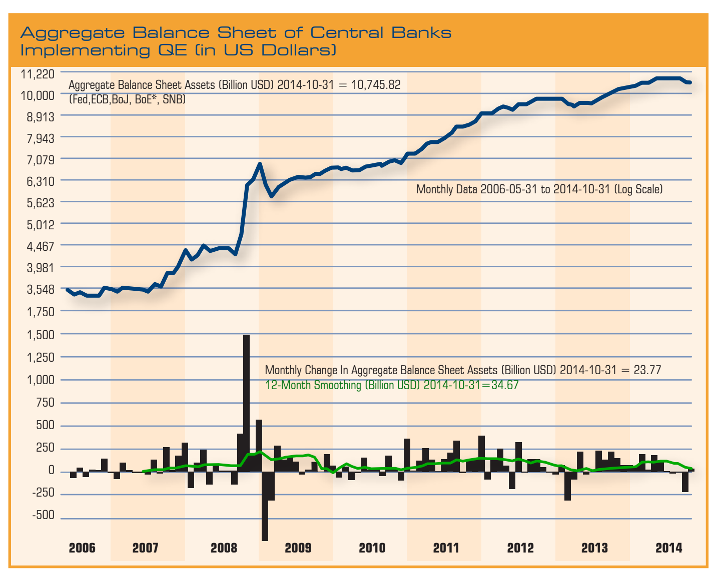
LEI Recession Lead Times

LEI Peak	Recession Start	Months from Peak to Start
12/31/1959	04/30/1960	4
4/30/1969	12/31/1969	8
02/28/1973	11/30/1973	9
10/31/1978	01/31/1980	15
10/31/1980	07/31/1981	9
01/31/1989	07/31/1990	18
04/30/2000	03/31/2001	11
03/31/2006	12/31/2007	21

Source: Ned Davis Research

We expect to see the global economy grow better than 3.5% in 2015 led by accelerating growth in North America and Asia. The risks to the global economic outlook come from the large emerging market economies faltering, with the BRIC economies representing 20% of the global economy, and deflationary pressures in the developed world, especially in Japan and Europe.

The risk of deflation will likely keep global monetary policy very accommodating in 2015, which should be supportive of global growth. This chart shows the aggregate balance sheet of central banks that have implemented QE, it stands near a record level. Even though the Fed will begin removing stimulus and will likely hike rates, stimulus from the Bank of England, the European Central Bank (ECB), Bank of Japan, and Peoples Bank of China will offset the effects of the Fed's rate hikes on the global economy.



Source: Ned Davis Research

The ECB has stated that it wants to bring its balance sheet back up to early 2012 levels, which would be about a 1 trillion euro increase. So we expect to see more QE from the ECB beginning in the first quarter. Meanwhile, the Bank of Japan has already doubled the size of its balance sheet in less than two years. More stimulus is likely from the Bank of Japan in the second half of 2015 if deflation pressures continue. All of this is likely to be supportive for global stocks.

Equity Markets

Our baseline expectations for the market call for additional gains. Our year-end target for the S&P 500 is 2275, which would be about a 10% gain. Those expectations are based on analysis of historical precedence including the average market gains in the third year of the Presidential Election Cycle, strong momentum, earning growth, seasonal trends, accelerating economic growth, and the normal market performance around the first Fed rate hike.

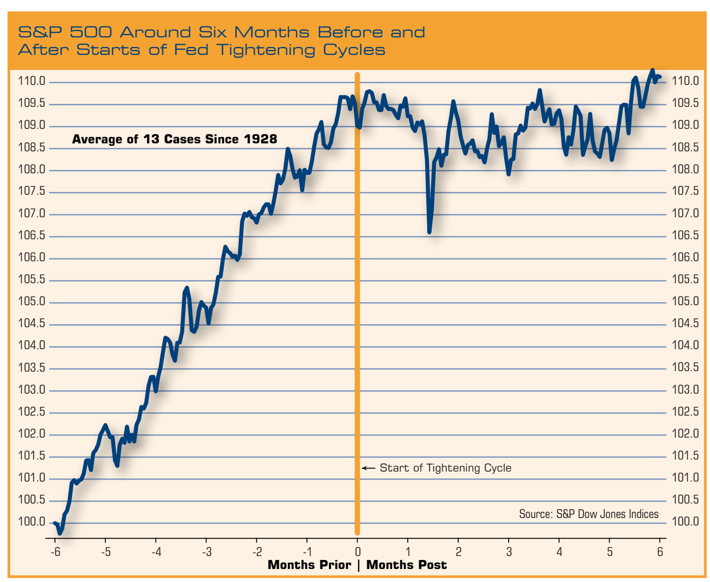
Last year was a mid-term election year and historically the rebounds out of the mid-term correction low have been very powerful. The four best quarters of the presidential cycle are the second half of the mid-term year and the first half of the third year. So we are right in the middle of the strongest seasonal period for the market. The historic gains have averaged 48.5% in the S&P 500 from the mid-term election year low to the high in the third year and a 60.0% gain from the mid-term election year low to a high in the presidential election year. From the February 3, 2014 low, those gains would equate to 2586 and 2787 respectively on the S&P 500. Now we don't expect the gains to be quite that strong given the valuation and sentiment readings, but this cycle is generally one of the strongest and most reliable in the market, and it may signal strong gains ahead.

In addition, the third year of the president's term is by far the best year of the four-year cycle and especially with a second term president. Since 1948, the post WW II environment, the S&P 500 has averaged a 17.1% gain (price appreciation) in the pre-presidential election year and has posted a gain 94% of the time (15 out of 16 years). The only pre-election year with a loss was 2011, and that was marginal. Finally, in the last 84 years there have only been three times when the markets were up by double digits three years in a row. In each of those occurrences the fourth year was up an average gain of +23.1%. So, 2015 has the makings of being a very good year according to historical precedent. This makes our 10% expected return in 2015 look fairly conservative.

The cycle composite is a combination of the market's historical one-, four-, and ten-year cycles combined into a single composite and serves to provide a framework or possible roadmap of how the market may trade. In the past it has served us well in formulating our outlooks and by this chart you can see that the market (in blue) has tracked the cycle composite (in red) very closely since the beginning of 2009. It not only forecasted the broad trends correctly, it also called many of the important turning points over the past couple of years. So, you can see why we give this composite so much weight when we formulate our outlooks. This year the cycle composite shows the market continuing its advance with strong gains, especially in the first half of the year.

Source: Ned Davis Research

Small cap stocks underperformed large cap stocks by 877 bps last year, which as we noted earlier was the largest spread since 1998. Small cap stocks should post a countertrend rally on a relative basis



Source: Ned Davis Research

compared to large caps. After a dismal 2014, small caps are oversold relative to large caps. In addition, the four-year presidential cycle is bullish for small-caps into mid-2015 and accelerating U.S. economic growth is also a positive factor for small caps.

The Fed appears to be on track to raise short-term rates to above 0% for the first time since December 2008. In our opinion, the rate hike is likely to come at the June FOMC meeting. History suggests that a rate hike need not derail the market. In the 13 cases since 1928 in which the Fed embarked on a rate hike cycle, the S&P 500 climbed an average of 9.8% during the one year spanning six months before and six months after the start of a tightening cycle, although the gains have been stronger before the hike than after it. (See chart on prior page.)

So, long-term historical trends and a strengthening economy suggest 2015 has the potential to post robust gains. However, it is not a layup by any means.

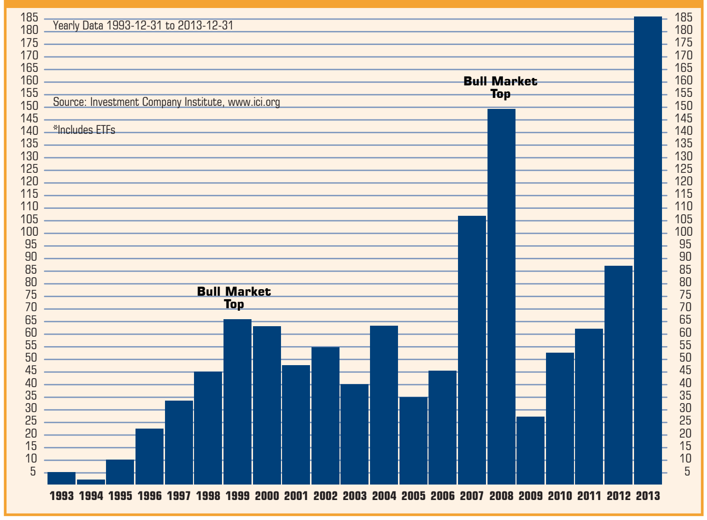
Our single biggest concern continues to be stretched valuations. The median P/E ratio for the S&P 500 is 21.2. If the bubble period from the late 1990s/early 2000s is excluded, the market has been unwilling to push the median P/E much above 23, suggesting that there is not much room for multiple expansion. Valuations can remain stretched for extended periods. The same concerns could have been raised a year ago (we did). Our conclusion is the same as a year ago: stretched valuations do not necessarily mean that a bear market is imminent, but they place increased importance on earnings growth.

We believe that fortunately earnings should remain fairly robust with the improved economic activity. Consensus estimates suggest that S&P 500 operating earnings per share growth will accelerate from 9.3% in 2014 to 13.7% in 2015. That seems a bit aggressive to us. Absent an external shock, we project earnings growth of about 9%.

Adding to the concerns about valuations is that, by historical standards, the current bull market is no spring chicken. It began in March 2009, and at 5.75 years it is longer than the 3.8 year average bull market duration of the past 80 years, and only three of the past 15 bull markets since 1932 have lasted longer than the current bull. Fortunately, bull markets don't die from old age and investors have profited mightily during this run. However, the age of this bull does suggest that risks are rising and expecting it to last much longer without a cyclical downturn would be stretching historical probability.

Finally, throughout 2014 a debate raged about the merits of active versus passive investing. We engaged in the debate by publishing several articles on the subject in "ETF.com." As active managers, we believe active strategies can reduce risk and add alpha over time, but we do subscribe to both styles and believe both have merits in constructing a robust portfolio.

Net New Cash Flow into Domestic Equity Index Funds* ($ Billions)



Source: Ned Davis Research

This is a chart of the public net inflows into passive index funds from 1993 to 2013. As you can see, passive index flows soared in 1999-2000, again in 2007-2008, and now again beginning in 2013 with a record projected for 2014. Through September 2014, nearly all flows have gone into passive index funds. For example, $173 billion net has gone into passive index funds versus only $2.5 net into active funds.

This indicates less about passive investing but more about where we are with investor sentiment. We view this as a warning sign that it is a very crowded trade, and that can pose serious risks for the market. The prior times when passive net inflows really soared, the market suffered thereafter. Of course we were in the midst of a secular bear market in stocks then, this time we believe the secular trends are a tailwind for stocks. Nonetheless, it is something to watch closely.

Fixed Income

Coming into 2014, consensus was that bonds would decline and rates rise during the Fed's taper of QE3. The exact opposite happened. 10-year Treasury rates peaked on December 31, 2013 at 3.03% and declined steadily throughout the year, ending at 2.17%. How much further can interest rates decline on the longer end of the curve? There is good support around 2.0%, and then again at 1.60% on the 10-year Treasury. They could break 2.0% and push lower into 1.60% range. If that happens we think it would be a temporary event with the rate moving higher and settling near 2.50% at year-end. The range we look for is 1.60% to 3.0%.

With the unemployment rate approaching full employment, there is no reason for the Fed to keep interest rates at zero. While inflation remains below the Fed's target, we see a mixed picture developing in 2015. Aided by falling energy prices, inflation expectations have crumbled. But we also see compensation pressures slowly building. We think this will be more important and that the Fed will view the drop in energy prices as largely transitory.

The entire yield curve has flattened and we expect that to continue into 2015. That should not be surprising, considering our expectation that the Fed will raise rates in June, combined with falling energy prices and inflation expectations.

Divergent economic and inflation performance, as well as divergent central bank policies, have led to European rates being much lower than U.S. rates. Across Europe, with the exception of Portugal and Greece, 10-year bond yields are below U.S. Treasuries. Just a year ago it was hard to imagine a world in which U.S. Treasuries yielded more than periphery Europe, but that is where we are. Low rates abroad should help keep a lid on U.S. treasury rates.

The high yield market has gotten bloodied of late, primarily due to the collapse in energy prices. While yields and spreads have backed up, broader based credit has remained firm, suggesting that this is an isolated problem due to the collapse of the energy market.

Broadly speaking, after a noteworthy year for Treasuries and sub-par year for high yield bonds, we favor credit over duration risk as the strengthening economy offers support to lower quality fixed income. Credit spreads have recently backed up, with the Barclays Capital High Yield index ending the year trading at a 440 bps spread over the 10-year Treasury. They do remain low historically and given continued economic growth we think they could stay low for an extended period.

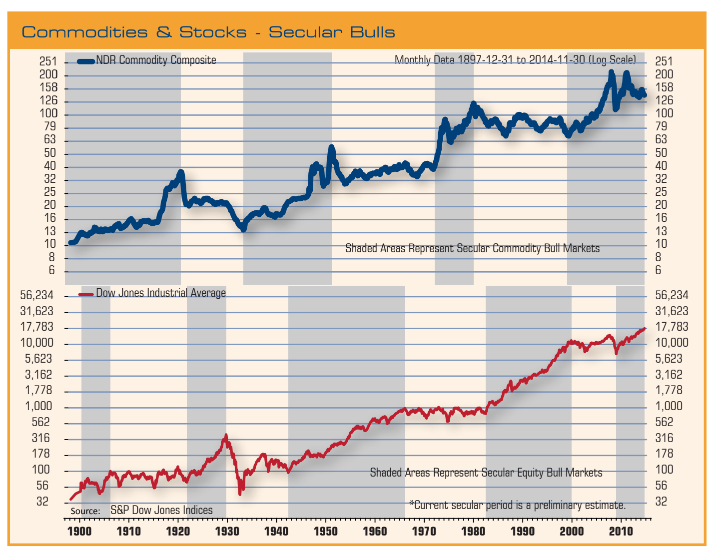
We've noted before that default rates have historically tracked the fed funds rate with about a two-year lag and given the Fed is only going to begin hiking rates this year, we shouldn't see any meaningful increase in defaults. In addition, analysis looking at bank lending standards vs. default rates shows that lending standards have tended to lead defaults by around four quarters. The latest bank lending surveys in both Europe and the U.S. show further net easing in lending to corporates, which should at the very least mean we don't see a material rise in default rates.

Although lending standards and rating actions don't seem to be consistent with a material rise in U.S. defaults, one factor that could put increased pressure on defaults in the U.S. is the continued decline in oil prices. Analysis suggests that if oil stays below $60 bbl for a few months or quarters, U.S. shale producers would be in distress, which could lead to a broad sector restructuring. This scenario would have repercussions for the timing of the overall high yield default cycle. The default cycle hit a low of 1.7% in September, and depending on oil we could see defaults heading towards a 3.5% level in 2015/2016.

Within fixed income, municipal bonds appear most attractive and set for an upgrade cycle. Municipalities are highly leveraged to the price of gas and oil, with energy costs representing upwards of 20% of their budgets. Muni bonds are very cheap at current levels, especially considering the tax hikes. Combining the 3.8% Affordable Care Act tax and the top marginal rate of 39.6%, the top Federal tax rate reaches 43.4%.

Commodities

Commodities were the hardest hit asset class in 2014, with the S&P GSCI Commodity Index dropping over 33%. The technical damage to commodities has been substantial and throws into question whether the commodity bull market is intact. The commodity secular bull began in 1999 and the long-term up trendline was broken to the downside in September. We think the commodity bull is over. This is important because commodities historically tended to move together over long cycles. If the long-term tide has shifted in commodities, it will be hard for individual commodities to buck the trend. In addition, secular bears tend to be long in commodities. Since the late 1700s there have been six secular



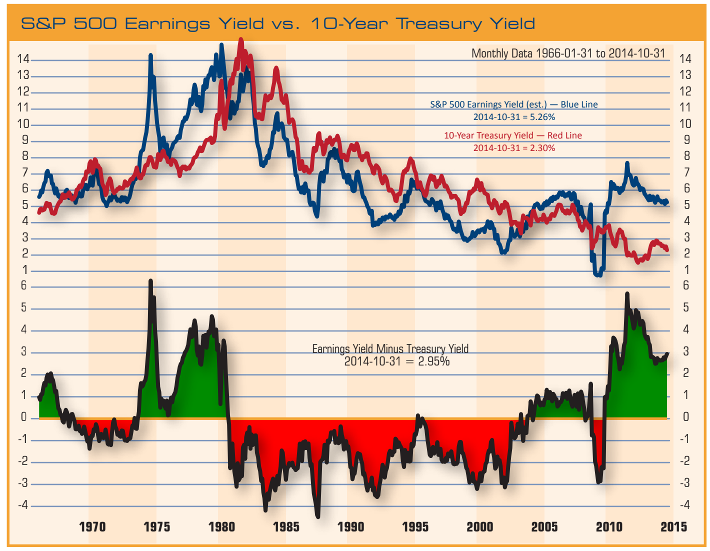
Source: Ned Davis Research

commodity bear markets that averaged 20 years.

On the positive side, falling energy prices and a stronger U.S. dollar should benefit consumer spending but could weigh on capital expenditures and exports. Oil prices have declined over 50% since June to their lowest level in five years. This could add as much as 0.75 percentage points to GDP growth this year. The direct beneficiaries are consumers, for whom lower prices at the gas pump act as a tax cut and translate into more funds available for other types of spending. Naturally, the impact will be stronger if the oil price decline is sustained and leads to a long-term shift in consumer spending habits.

The chart on the prior page shows commodities on top clip and stocks on the bottom clip. The shaded area represents secular bull markets in both asset classes. The key to this chart is the checkered look and identifying when each asset class is in a secular bull. We can see that when commodities are in a secular bull, stocks are in secular bear, and when stocks are in a secular bull, commodities are in secular bear.

If in fact we are witnessing a dying commodity secular bull, it would be a positive factor for the equity markets over the longer-term. Fading commodities result in less inflation and more opportunities for companies to expand margins, both good tailwinds for the overall equity markets.



Secular View

Our secular view of stocks is very bullish. In absolute terms, based on P/E multiples, stocks are considered overvalued or at best not cheap. However, on a relative valuation basis, stocks look cheap compared to bonds. Comparing the relative valuation of stocks to bonds using the S&P 500 earnings yield and the 10-year Treasury yield, stocks are firmly in the undervalued camp, still coming off their most undervalued level relative to bonds since 1974, and they have a long way to go before they are even fairly valued.

Disclosure

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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.

MSCI Japan is an unmanaged index considered representative of stocks in Japan.

MSCI Europe is an unmanaged index considered representative of stocks of developed European countries.

Barclays 7-10 Year Treasury Index tracks the investment results of an index composed of U.S. Treasury bonds with remaining maturities between seven to ten years.

Barclays 20+ Year Treasury Index tracks the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than 20 years.

S&P GSCI Index is an unmanaged world production-weighted index composed of the principal physical commodities that are the subject of active, liquid futures markets.

S&P GSCI Industrial Metals Index is considered representative of investment performance in the industrial metals market.

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 freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance.

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

The MSCI Asia ex. Japan is is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The MSCI AC Asia ex Japan Index consists of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

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

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 & 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 USD-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 iPath® S&P 500 Dynamic VIX ETN is designed to provide investors with exposure to the S&P 500® Dynamic VIX Futures™ Total Return Index.

The S&P 500® Dynamic VIX Futures™ Total Return Index (the "Index") is designed to dynamically allocate between the S&P 500® VIX Short-Term Futures™ Index Excess Return and the S&P 500® VIX Mid-Term Futures™ Index Excess Return by monitoring the steepness of the implied volatility curve. The Index seeks to react positively to overall increases in market volatility and aims to lower the roll cost of investments linked to future implied volatility.

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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