



MarketOutlook

2015

By K. Sean Clark, CFA[®], Chief Investment Officer

Tuesday, January 6, 2015

2014 – A Deceptively Weak Year

Domestic Equity		
	SPX	13.66%
	Russell 2000	4.89%
	Russell 3000	12.53%
	Value Line Arithmetic	6.93%
International Equity		
	MSCI EAFE	-4.22%
	MSCI Emerging Market	-2.11%
	MSCI AC World	4.16%
Fixed Income		
	Barclays Aggregate Bond	5.97%
	Barclays High Yield	2.45%
	Barclays 20+ Year Treasury	27.48%
	Barclays 7-10 Year Treasury	9.00%
Currency & Commodity		
	US Dollar Index	12.79%
	S&P GSCI Commodity Index	-33.06%

2014 – Interesting Statistics

- S&P 500 up at least 10% for third year in a row. First time since five-year streak from 1995-1999.
- 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.
- Biggest S&P 500 / EAFE spread since 1997.
- US dollar's best year since 1997.
- S&P GSCI second worst year on record.
- Oil's worst year since 2008.
- Biggest Russell 1000 / 2000 spread since 1998.
- First time Utilities top sector when S&P 500 up at least 10%.
- Energy worst sector for first time since 1991.

Past Predictions

S&P 500

	Target	Finish	% Missed by
2014	1950	2058.90	5.6%
2013	1625	1848.00	13.70%
2012	1425	1426.19	Spot on
2011	1350	1257.60	6.80%
2010	1300	1257.94	3.20%
2009	1100	1115.10	1.50%

Our 2015 Outlook – Executive Summary

- Pre-election year historic bullish tendencies. Strongest of the 4-year cycle. As January goes, so does rest of year.
- 2015 S&P 500 Range 1800-2500. Strong momentum, earnings growth, seasonal trends suggest year-end target of 2275, 10% gain in S&P 500.
- Small cap outperformance likely, at least during first half of 2015. Favor consistent earnings growers in 2015.
- Overvaluations and bullish extremes in sentiment suggest gains could be limited and less than historical precedent. Surge in passive index net inflows suggests caution.
- Market gains 6 months ahead of first Fed rate hike.
- Long-term – attractive Relative Valuations for stocks. Commodity secular bear market.
- Economy – Leading indicators suggest continued economic growth. U.S. economy we expect 3.0% growth. Modest inflationary pressures. Global economy to grow 3.5%. Europe to avoid recession but experience sub-par growth.
- Mixed inflation outlook. Decline in oil offset building wage pressures. Expect inflation to come in at 2.1%, slightly above Fed target.
- Federal Reserve – first rate hike in June. Expect Fed to begin shrinking balance sheet.
- Fixed Income – Flattening yield curve as Fed hikes rates. Favor credit over duration risk. Municipal bonds appear attractive and set for upgrade cycle.

United States GDP Growth Rate

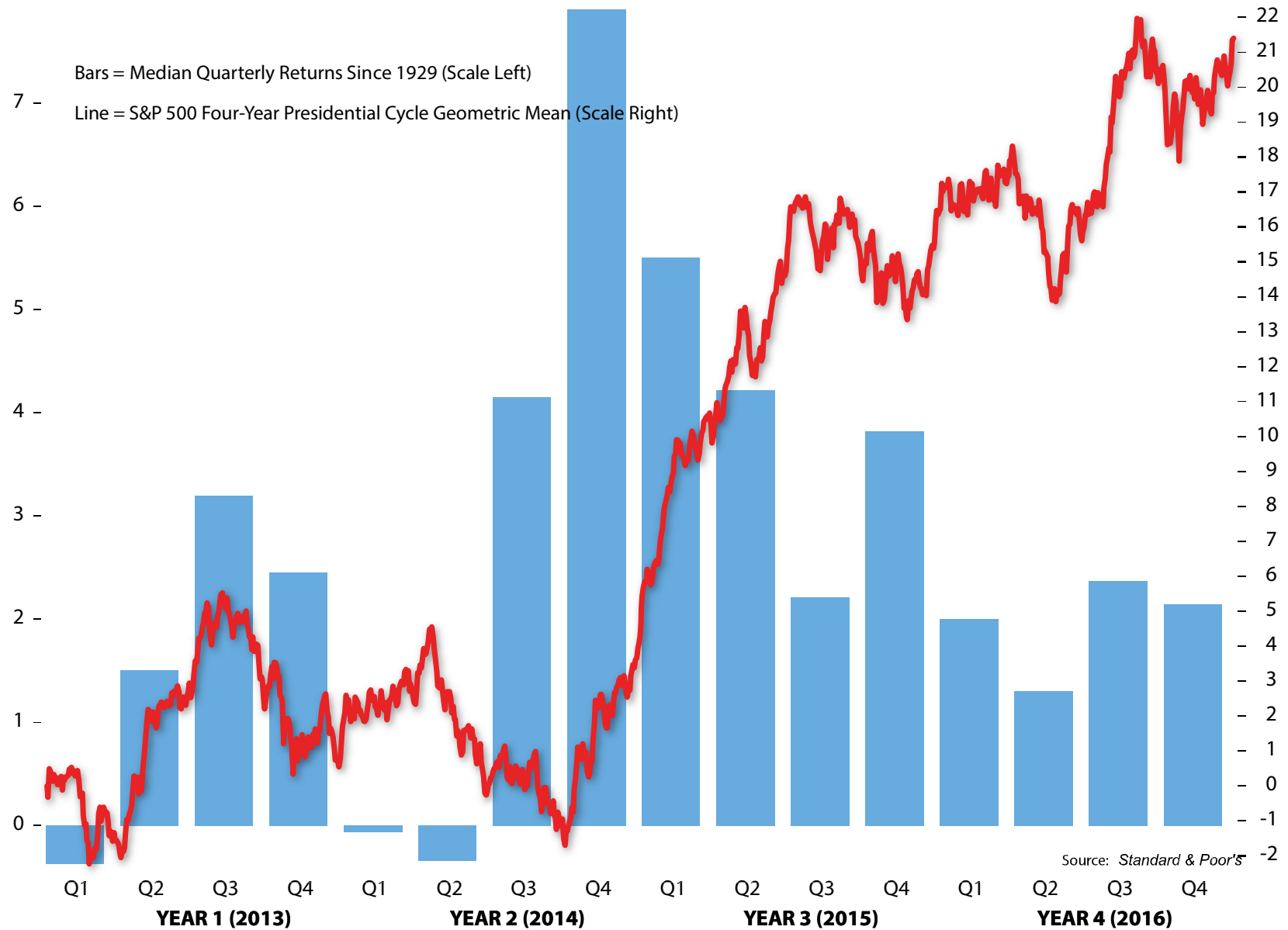
Percent Change in Gross Domestic Product



Source: www.tradingeconomics.com | U.S. Bureau of Economic Analysis

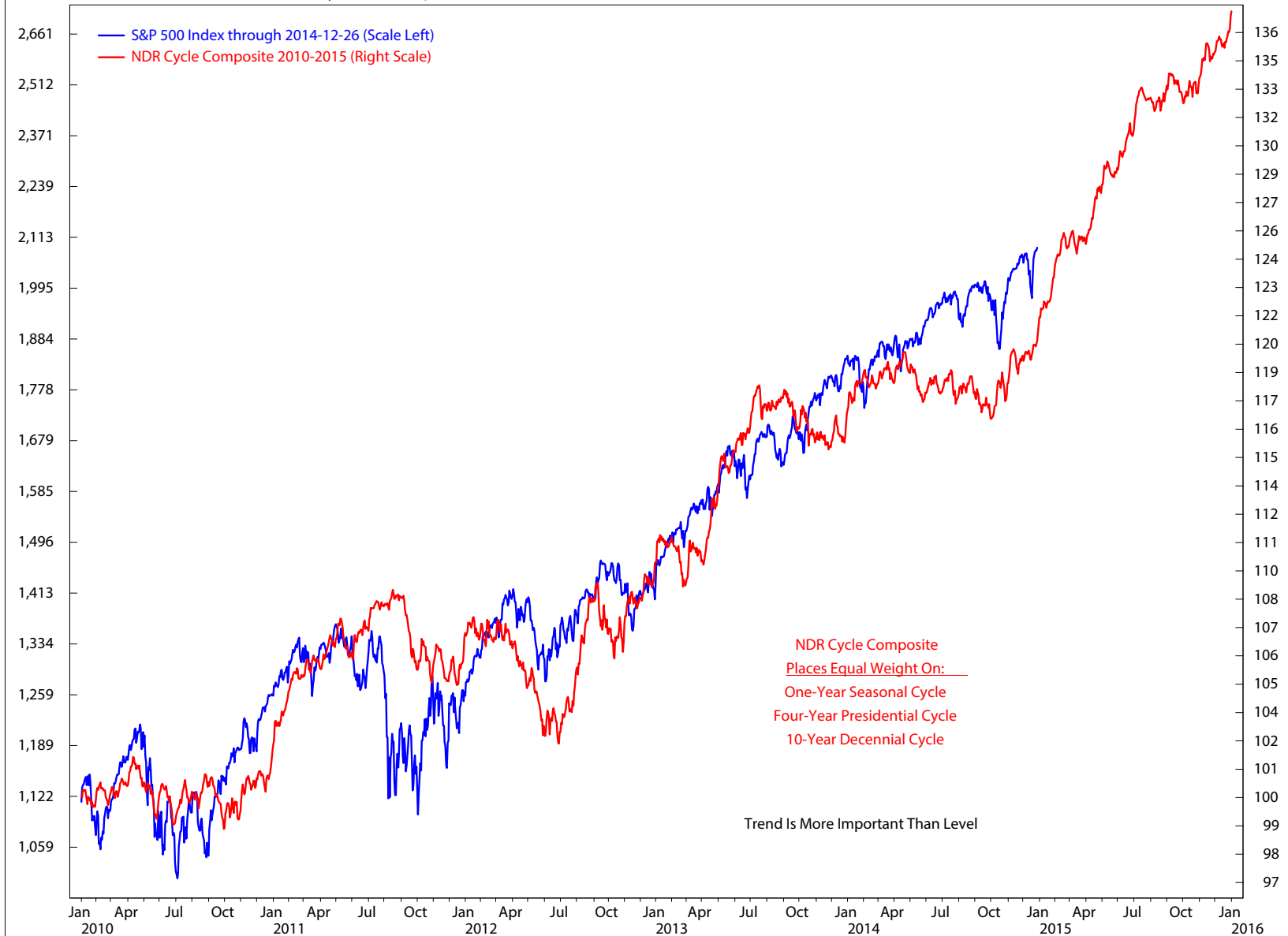
Past performance is not indicative of future results.

S&P 500 Four-Year Presidential Cycle (1929 - 2013)



S&P 500 Index vs. NDR Cycle Composite

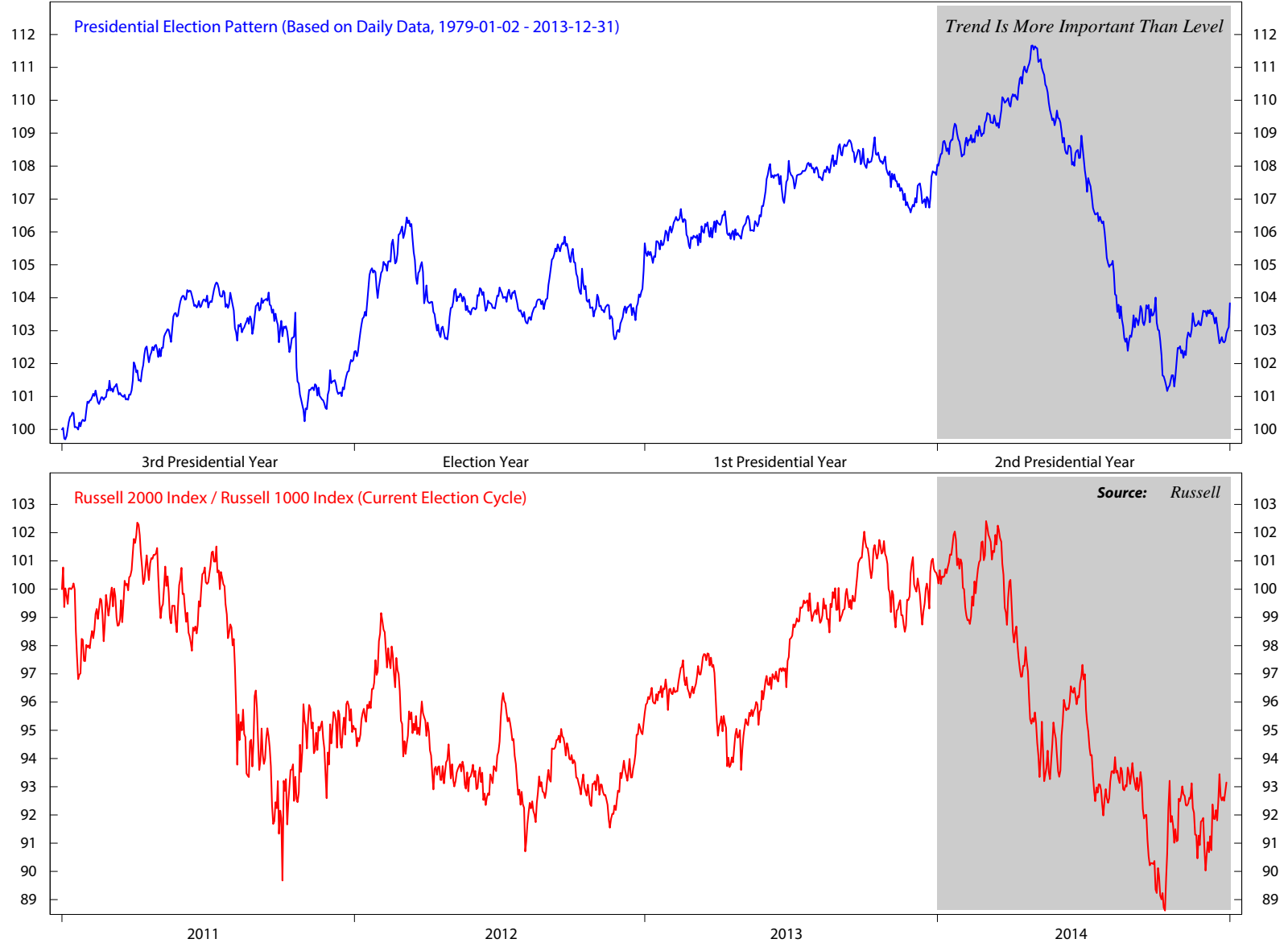
Daily Data 2009-12-31 to 2015-12-31 (Log Scale)



[DAVIS173](#)

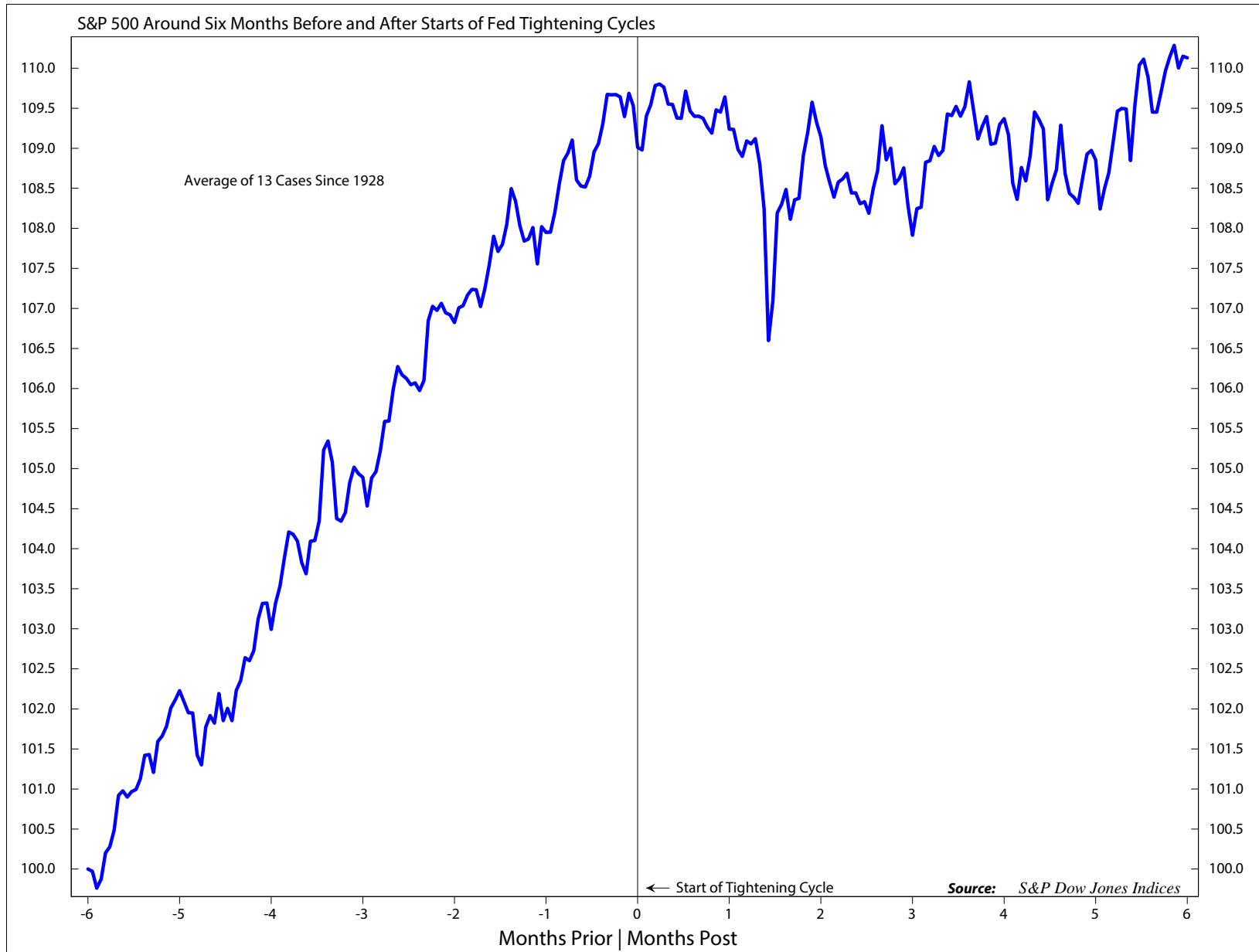
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Russell 2000 Index / Russell 1000 Index Four-Year Presidential Cycle vs. Current Election Cycle



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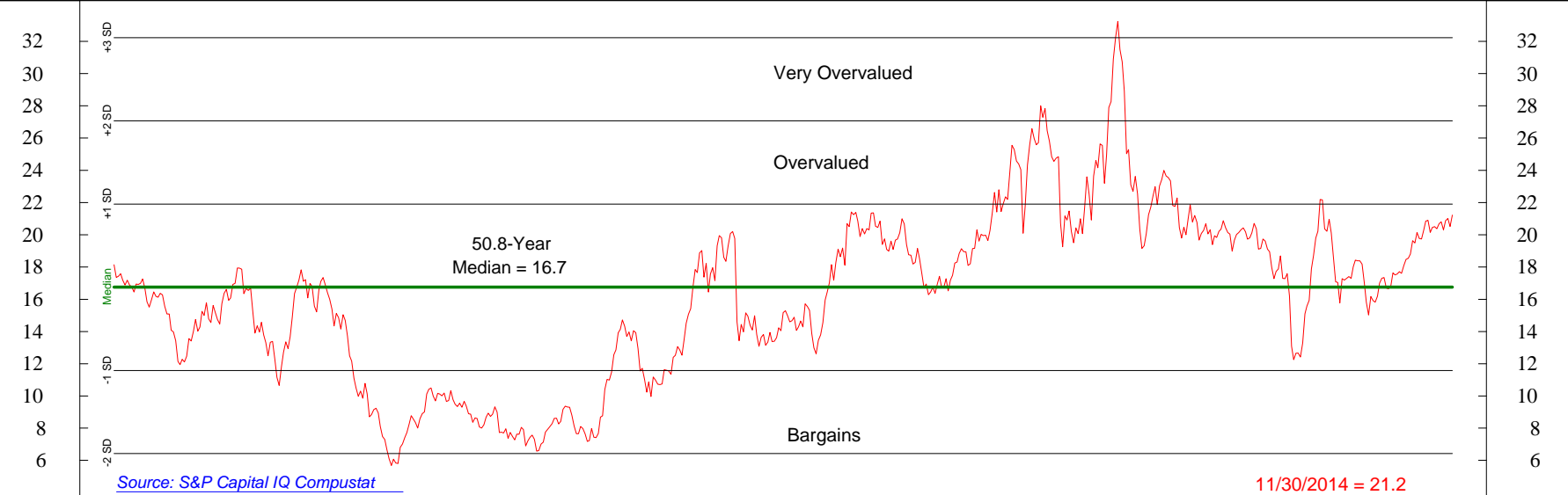
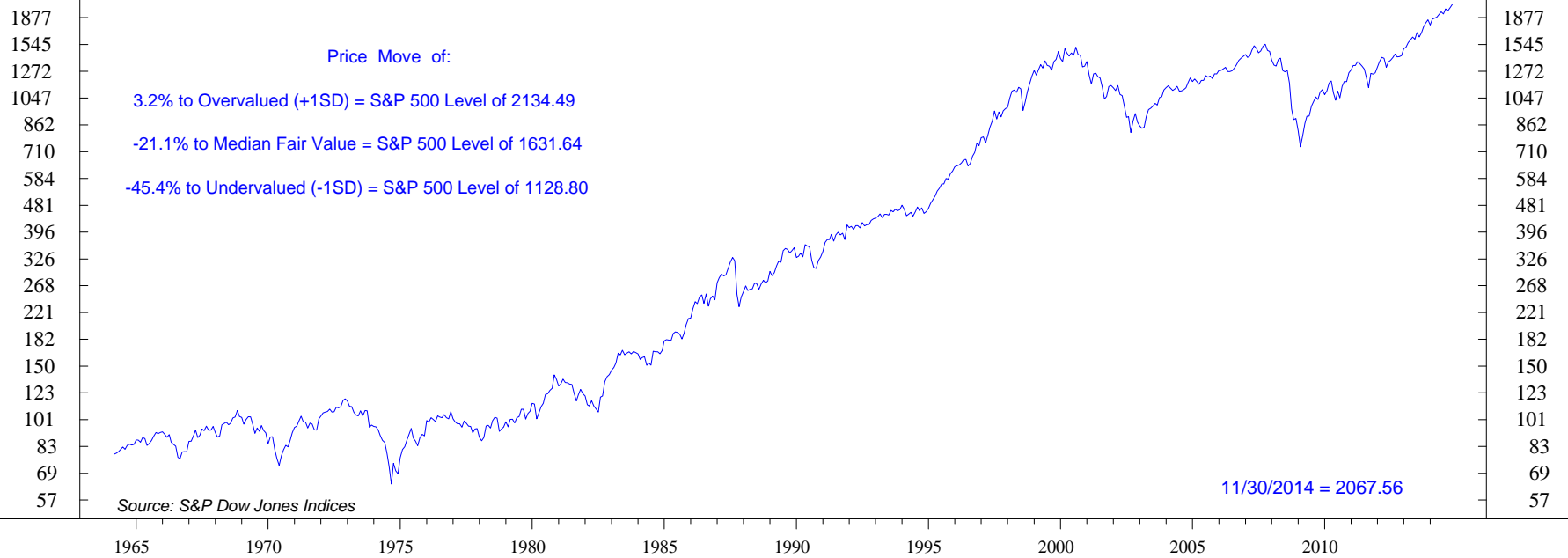


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Standard & Poor's 500 Stock Index

Monthly Data 3/31/1964 - 11/30/2014 (Log Scale)

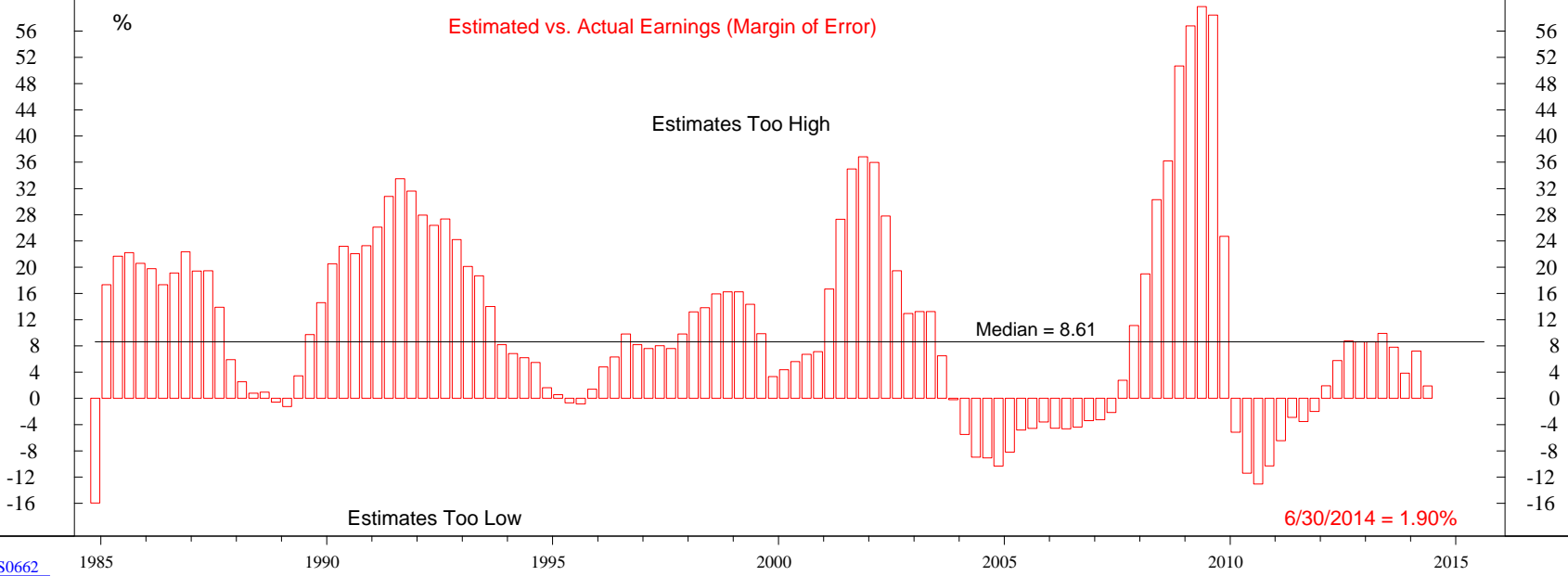
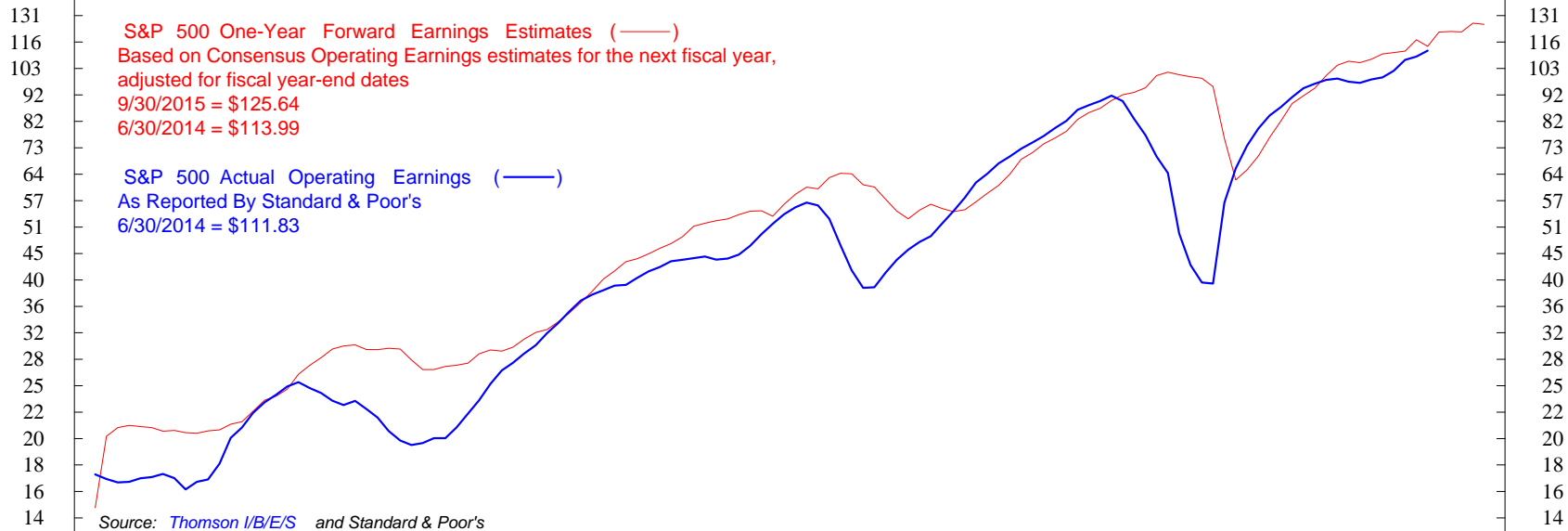


(DAVIS100) S&P 500 Median Price/Earnings Ratio (NDR Calculation) with Historical Median

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S&P 500 Actual Operating Earnings vs Earnings Estimates

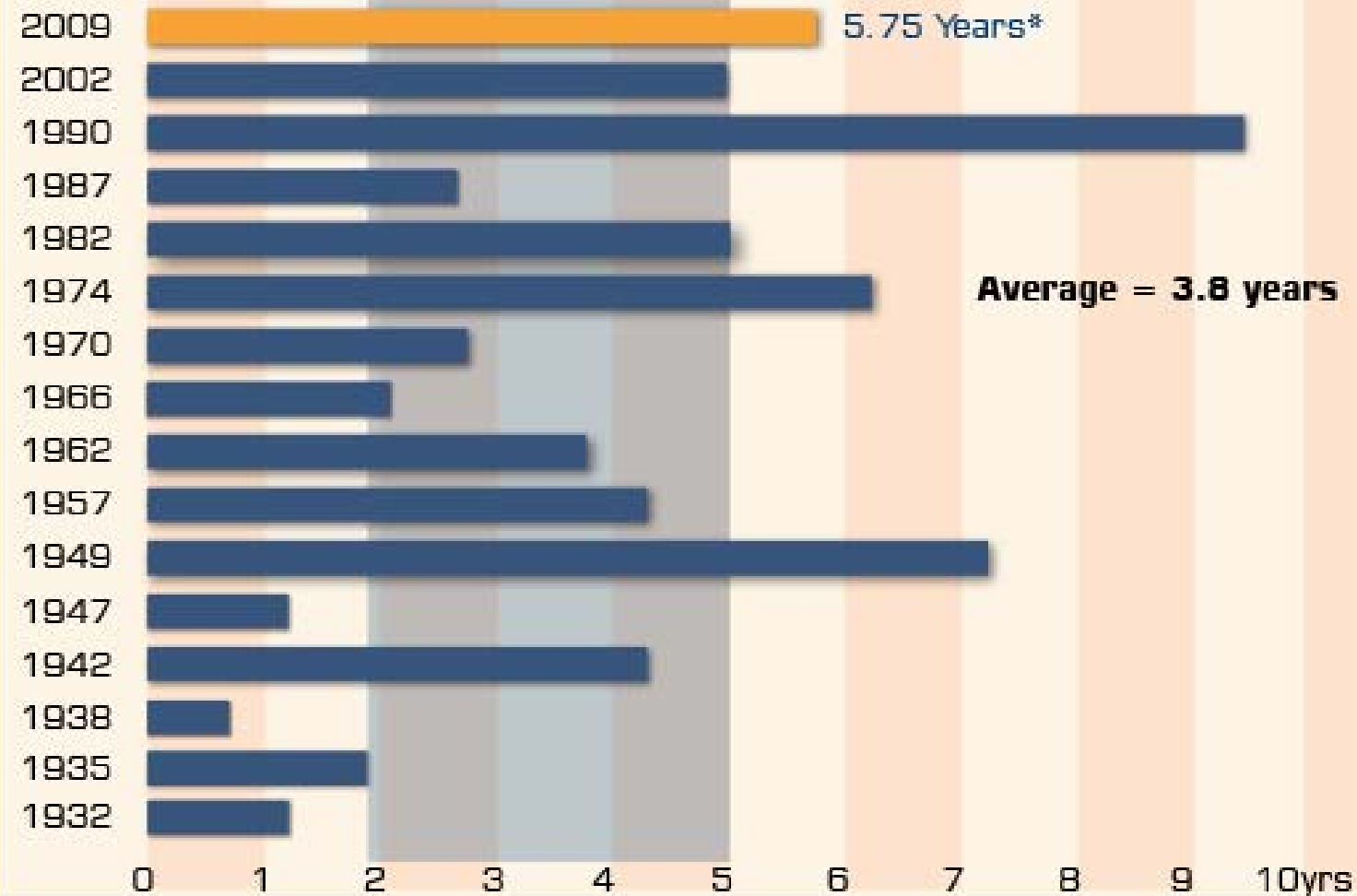
Quarterly Data 12/31/1984 - 9/30/2015 (Log Scale)



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Bull Market Duration

Bull Markets

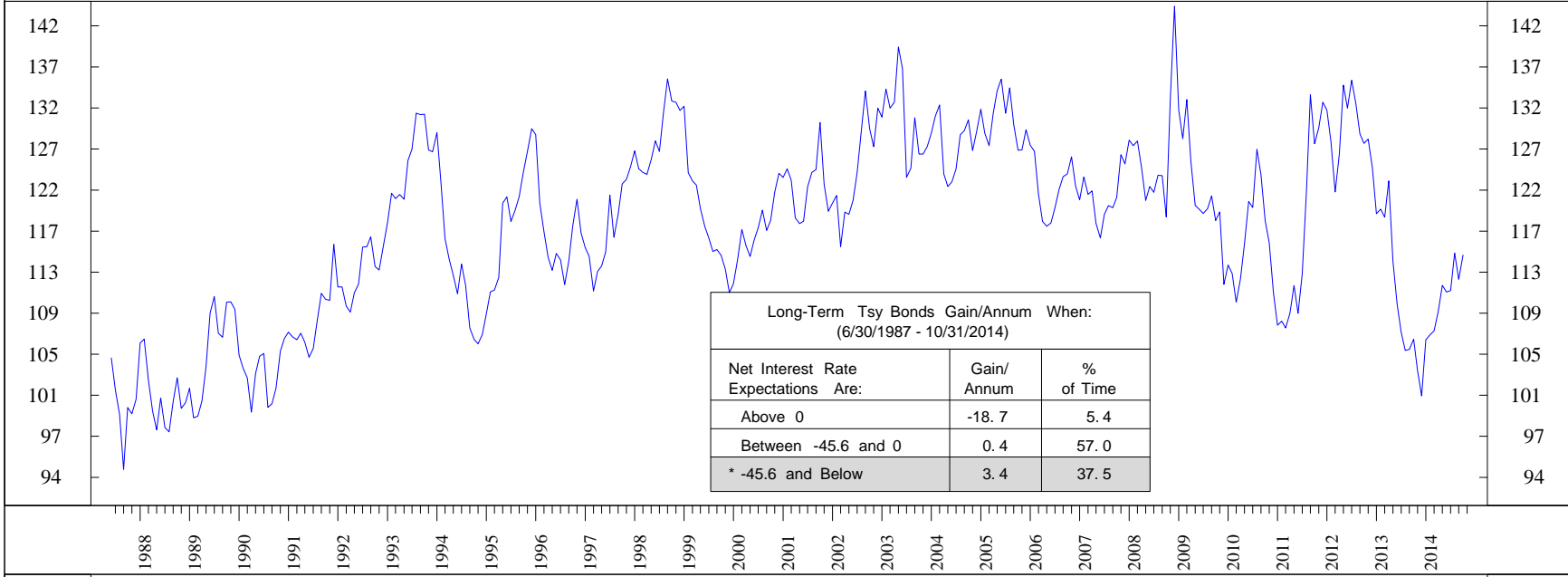


*Through 12/31/14

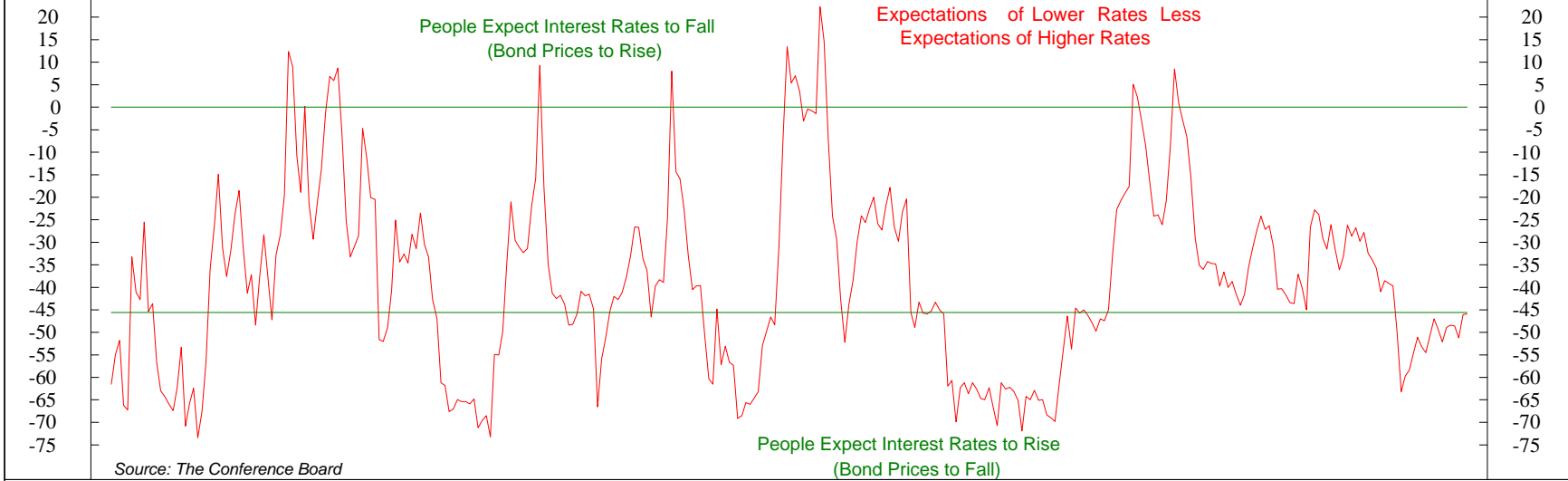
Source: Investech Research

Barclays Long-Term Treasury Bond Price Index

Monthly Data 6/30/1987 - 11/30/2014 (Log Scale)



Long-Term Tsy Bonds Gain/Annum When:		
(6/30/1987 - 10/31/2014)		
Net Interest Rate Expectations Are:	Gain/Annum	% of Time
Above 0	-18.7	5.4
Between -45.6 and 0	0.4	57.0
* -45.6 and Below	3.4	37.5



Source: The Conference Board

(B0318)

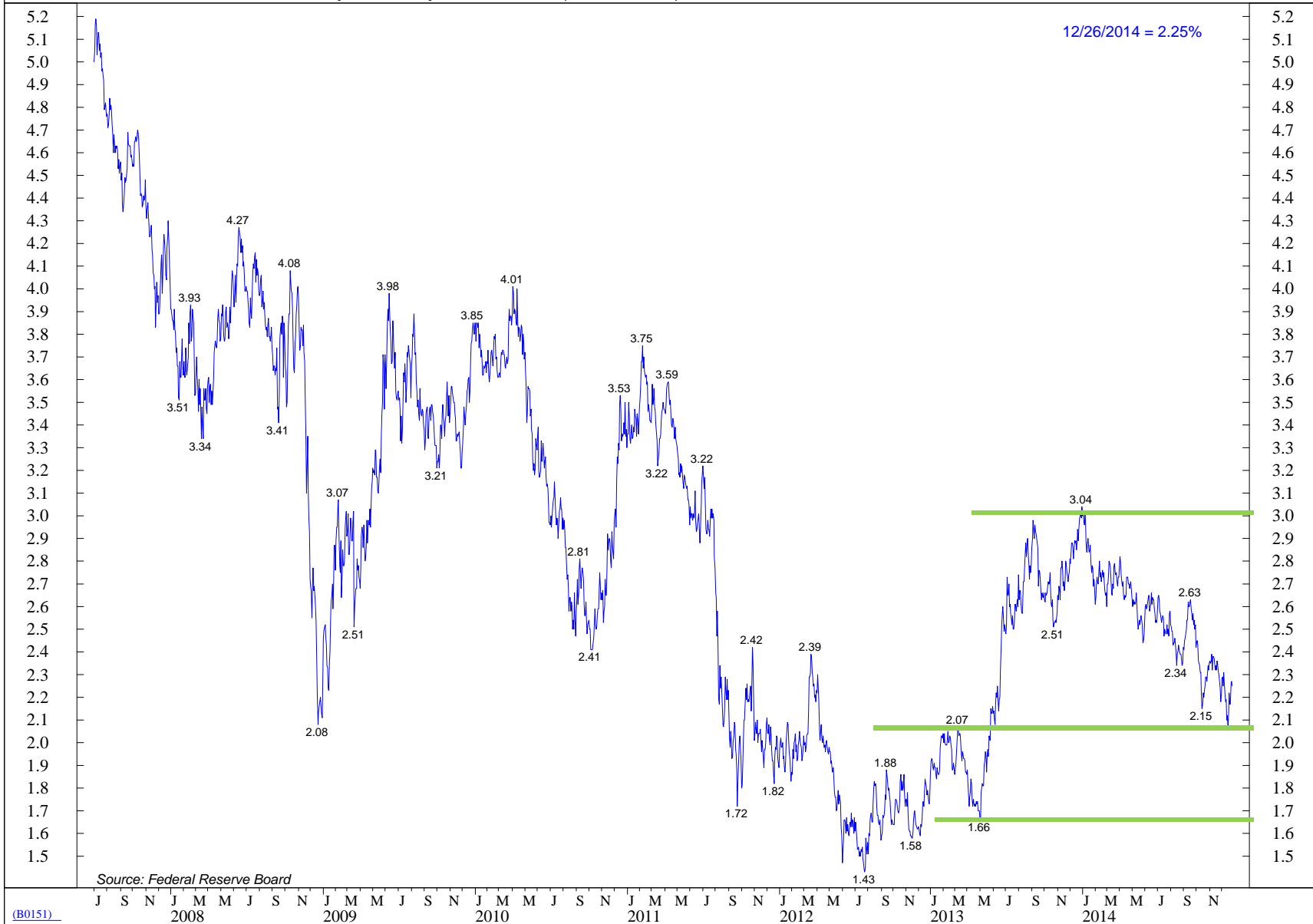
Conference Board's Interest Rate Expectations Survey

Source: The Conference Board

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10-Year Constant Maturity Treasury Note Yields (Since 2007)

Daily Data 7/02/2007 - 12/26/2014



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German, Italian, and Spanish 10-Year Government Yields and Spreads

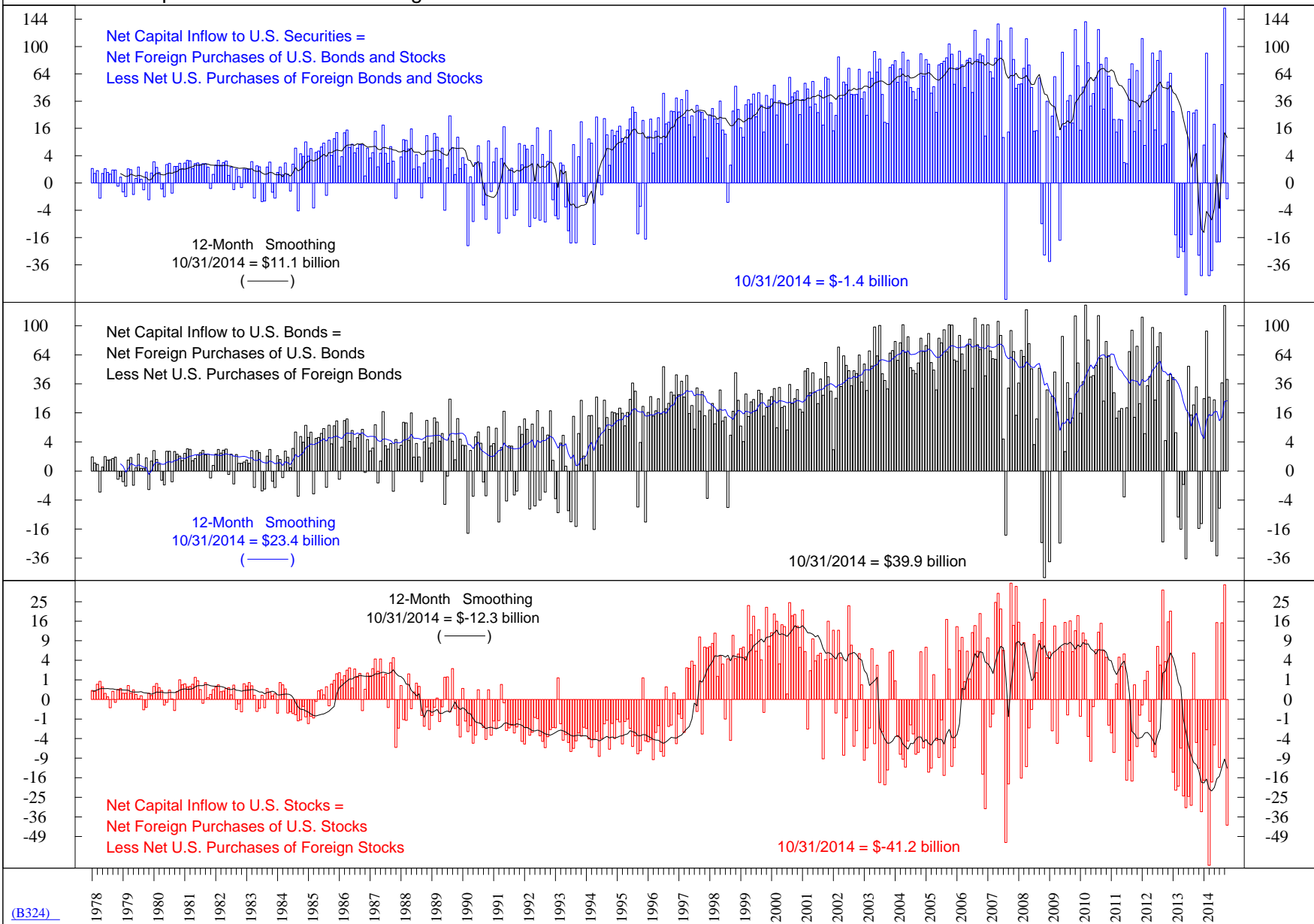
Daily Data 1/02/2008 - 12/26/2014 (Log Scale)



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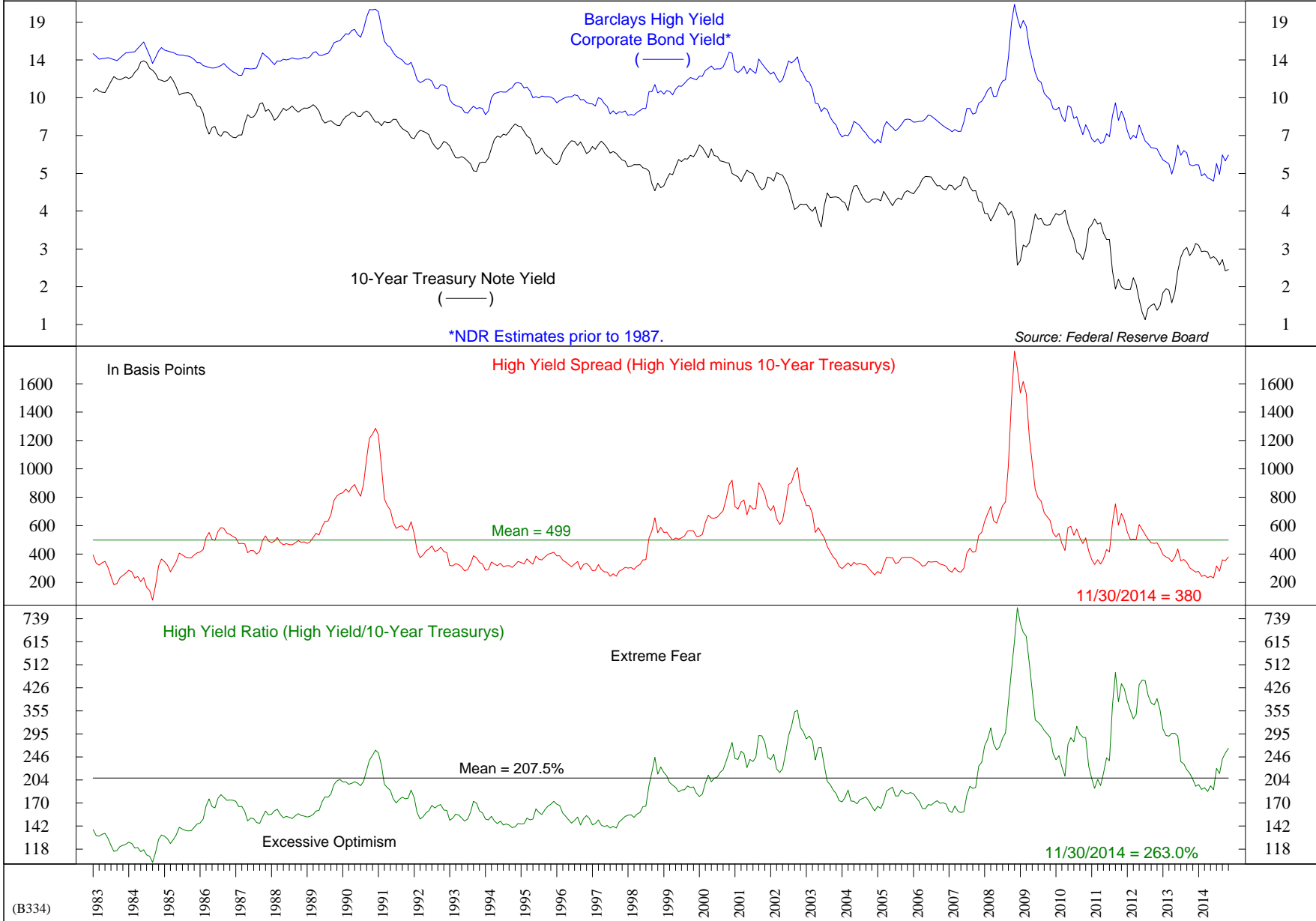
Net Capital Market Inflows to Long-Term U.S. Securities



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High Yield Corporate Spreads (Relative to 10-Year Treasurys)

Monthly Data 1/31/1983 - 11/30/2014 (Log Scale)

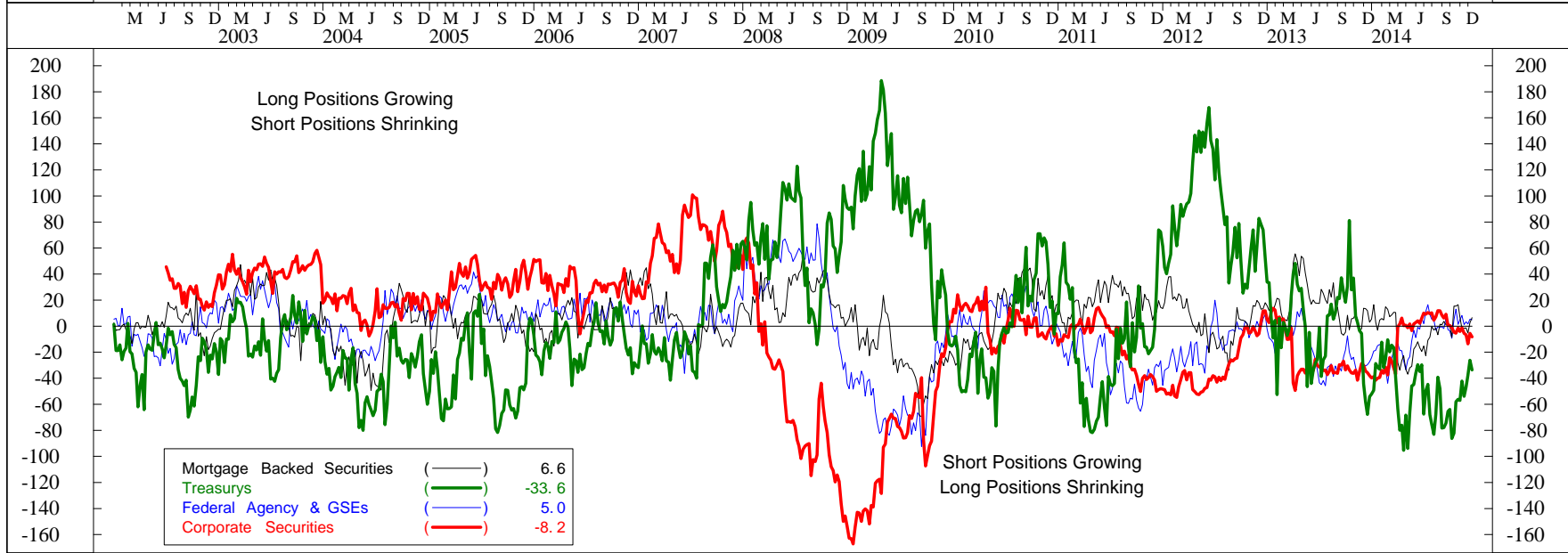
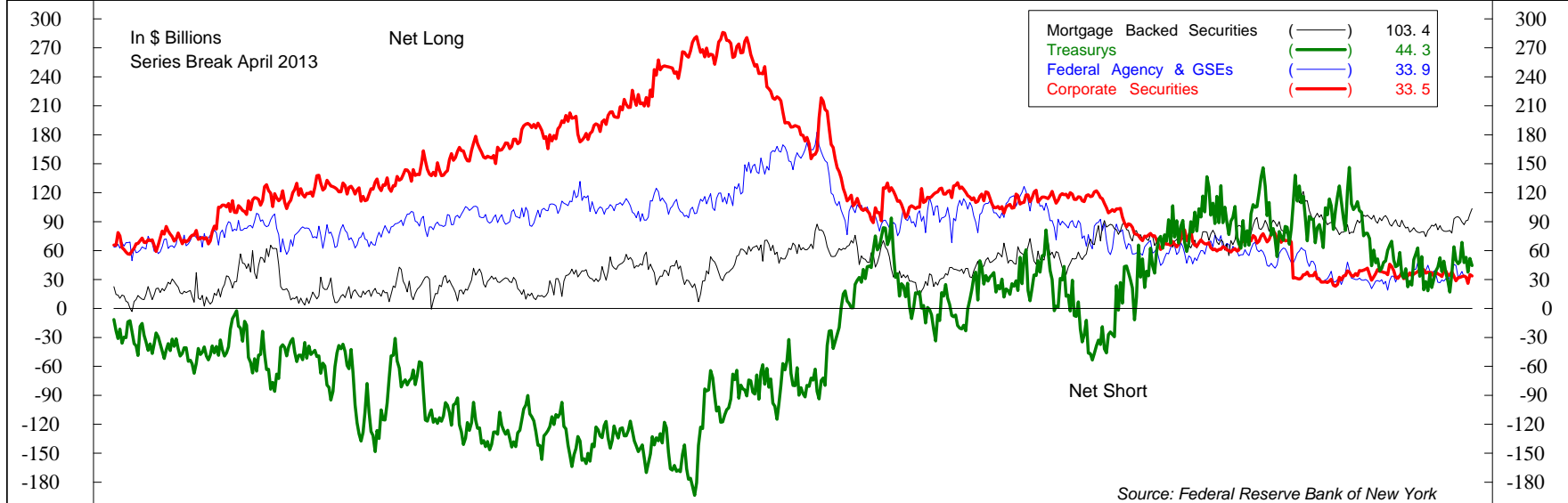


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Primary Dealer Positions in Securities

Weekly Data 1/04/2002 - 12/19/2014

Data reflects Wednesday posting



(B0351A) Year-to-Year Dollar Changes of Primary Dealer Positions

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Continuous Commodity Index (CCI) - Long-Term Trends

Daily Data 2001-01-02 to 2014-12-26 (Log Scale)

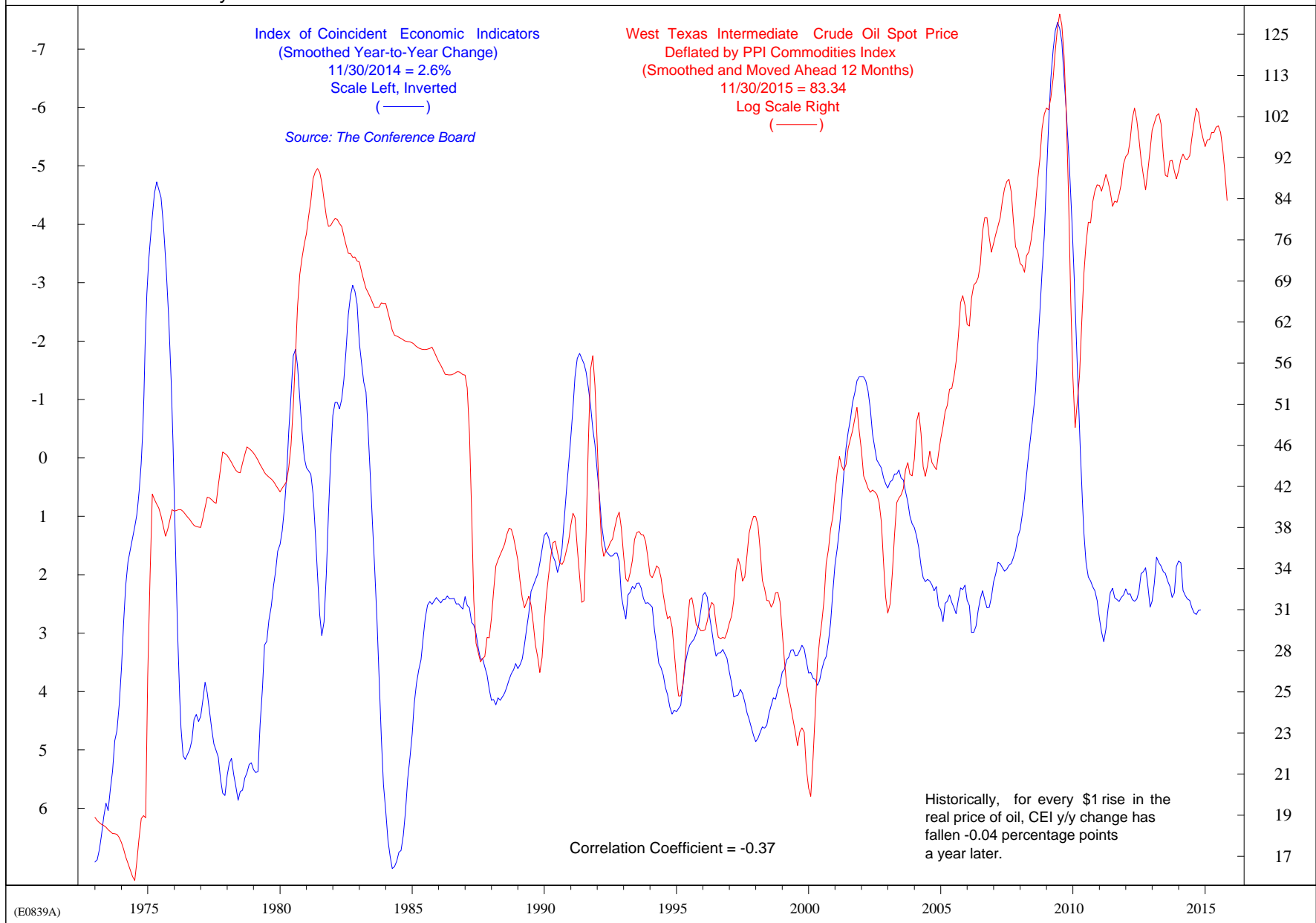


Source: Commodity Research Bureau, www.crbtrader.com

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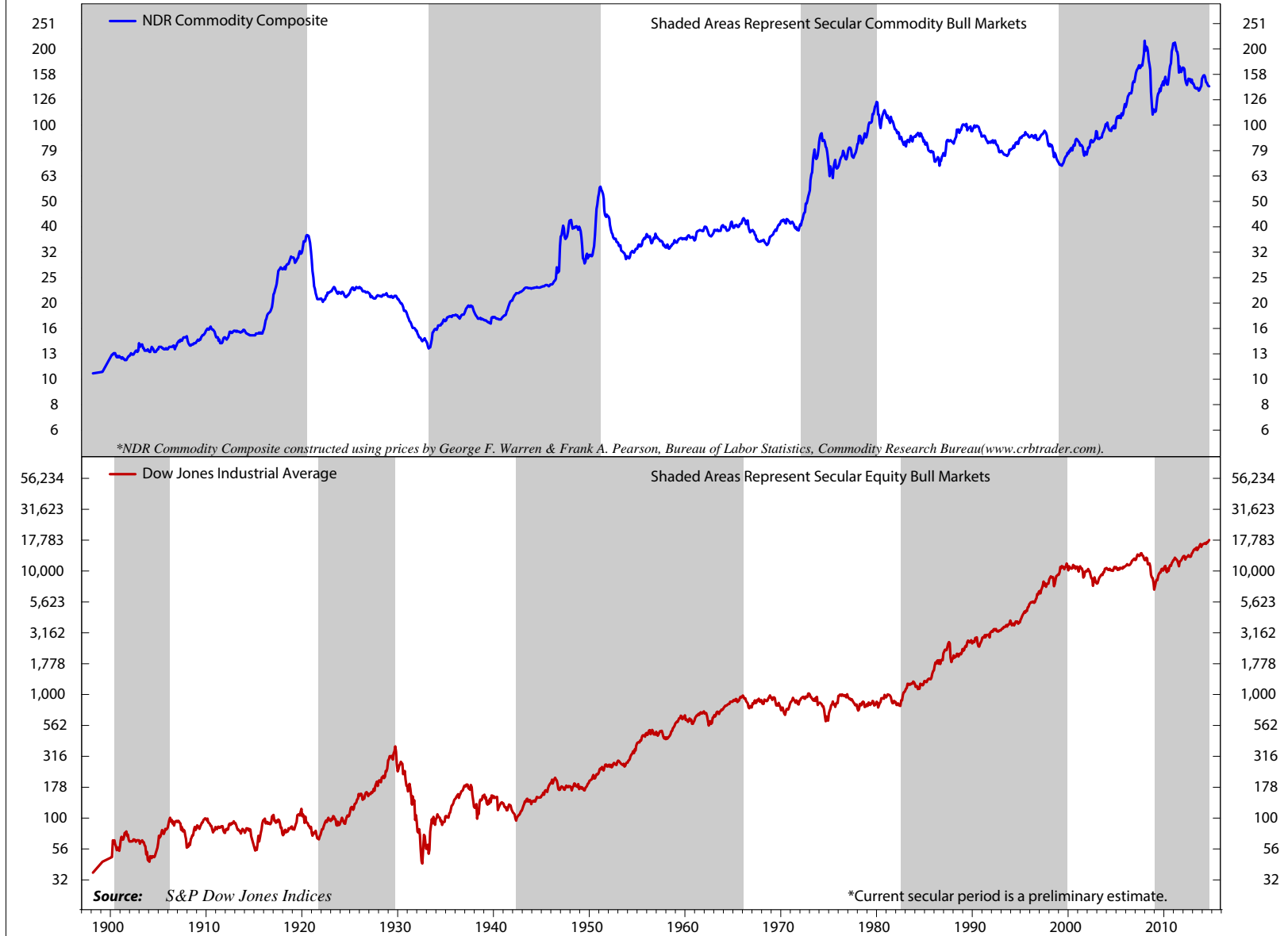
The Economy vs Real Oil Prices



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Commodities & Stocks - Secular Bulls

Monthly Data 1897-12-31 to 2014-11-30 (Log Scale)



COMIS

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U.S. M2 Money Supply Velocity (GDP/M2)

Quarterly Data 1954-12-31 to 2014-09-30

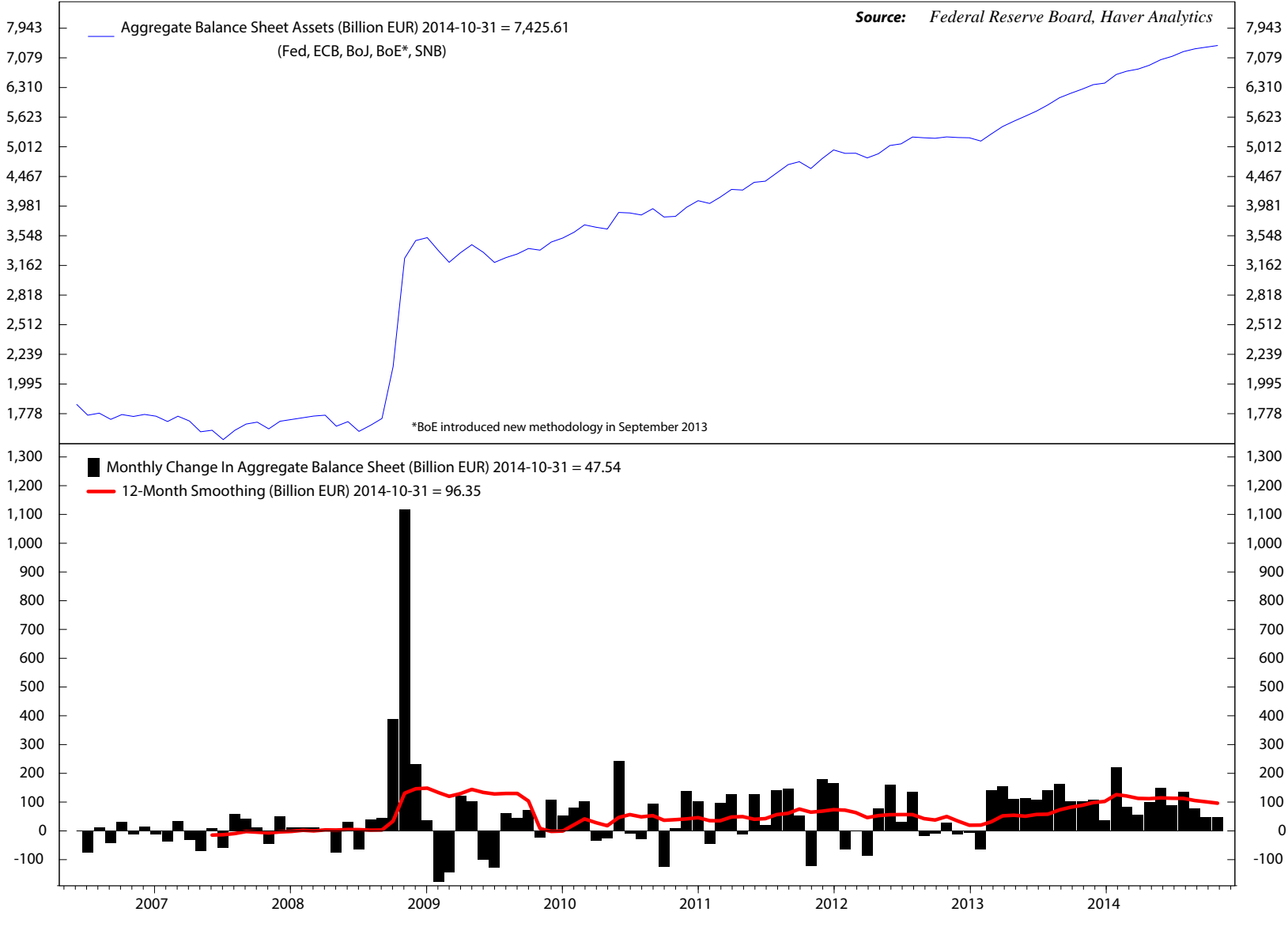


Source: Department of Commerce, Federal Reserve Board

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Aggregate Balance Sheet of Central Banks Implementing QE (in Euro)

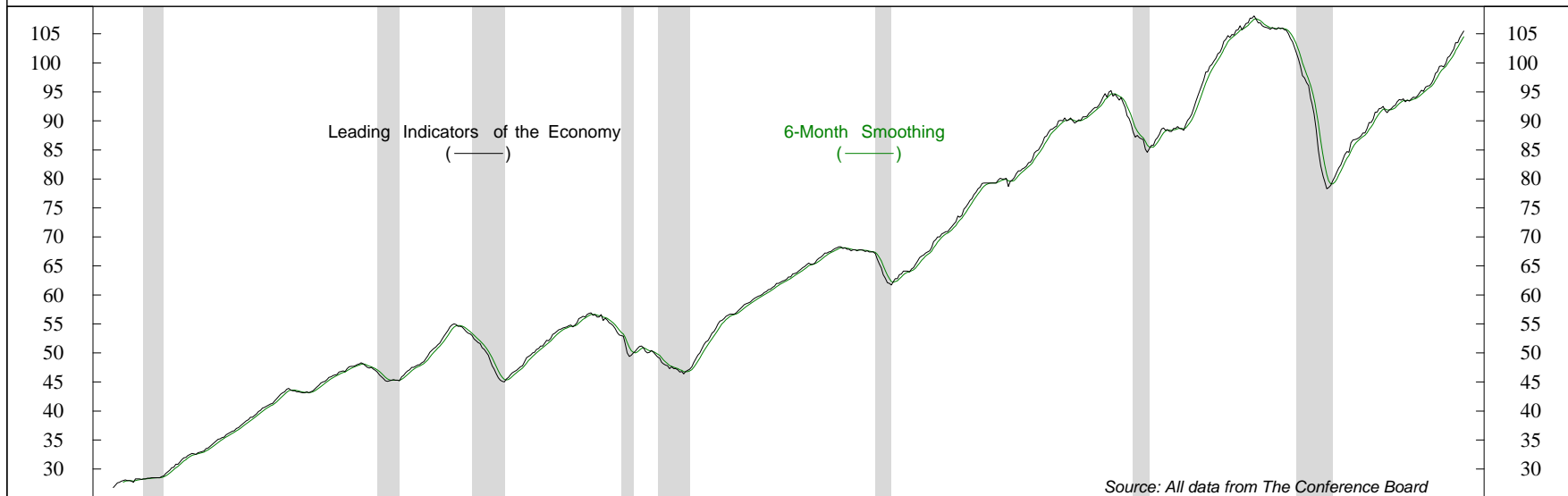
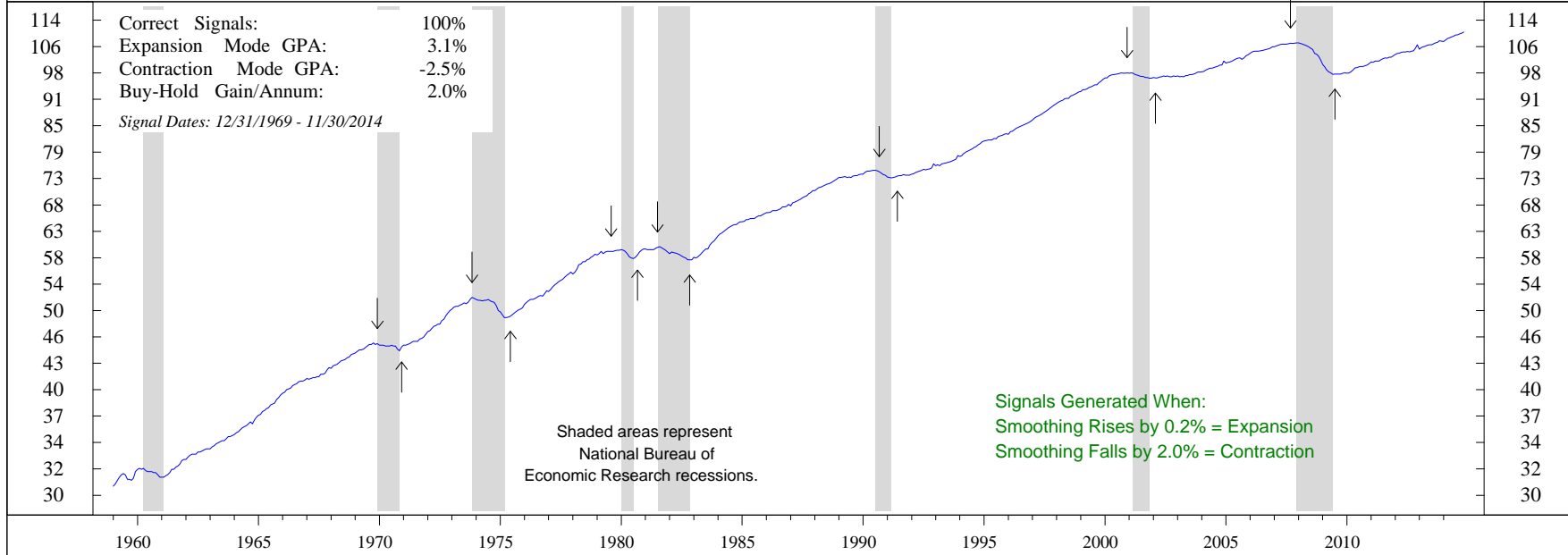


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The Economy (The Index of Coincident Economic Indicators)

Monthly Data 1/31/1959 - 11/30/2014 (Log Scale)



(E10) The Index of Leading Economic Indicators

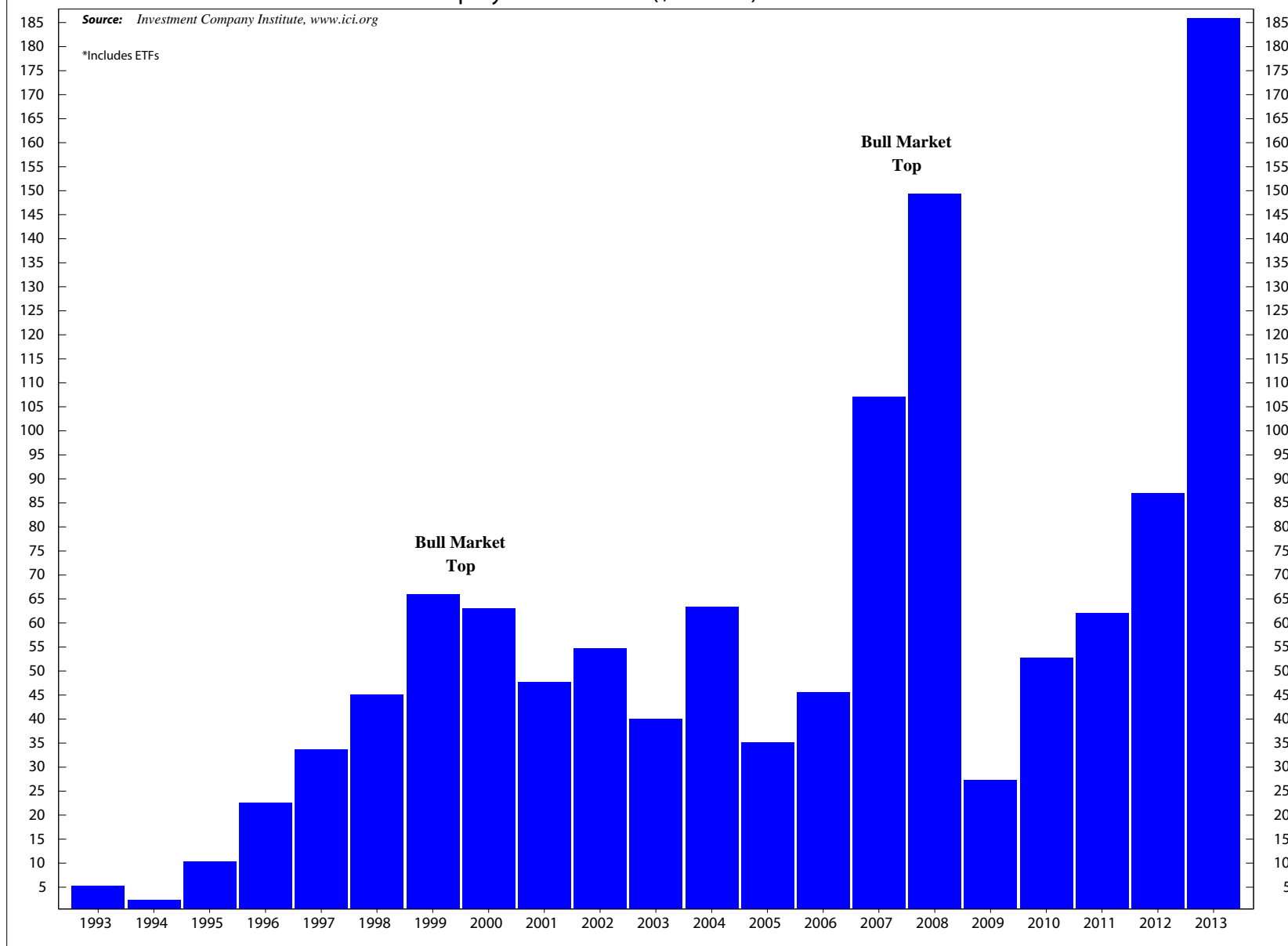
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LEI Recession Lead Times

LEI Peak	Recession Start	Months from Peak to Start
12/31/1959	4/30/1960	4
4/30/1969	12/31/1969	8
2/28/1973	11/30/1973	9
10/31/1978	1/31/1980	15
10/31/1980	7/31/1981	9
1/31/1989	7/31/1990	18
4/30/2000	3/31/2001	11
3/31/2006	12/31/2007	21

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

Yearly Data 1993-12-31 to 2013-12-31

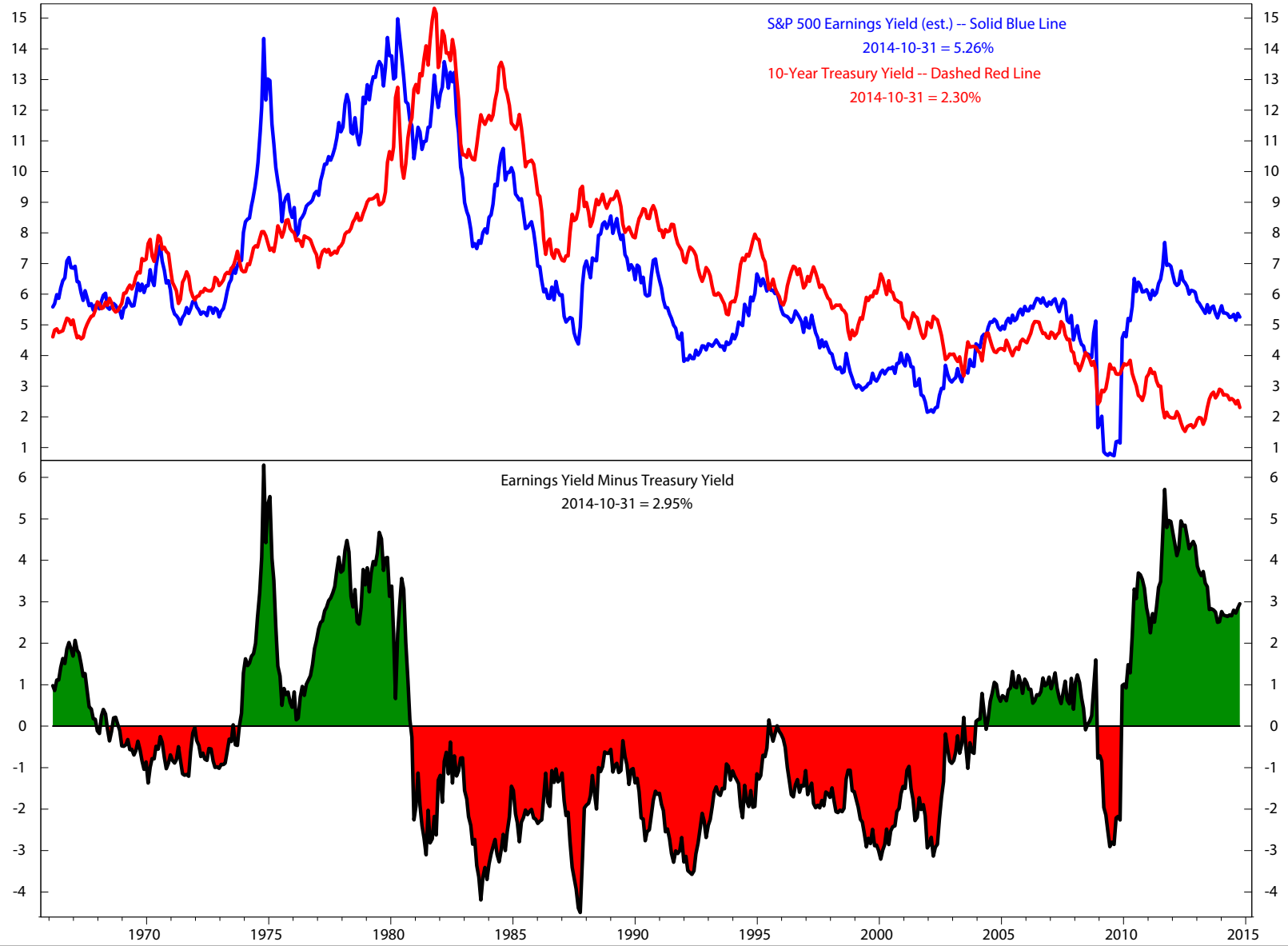


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S&P 500 Earnings Yield vs. 10-Year Treasury Yield

Monthly Data 1966-01-31 to 2014-10-31

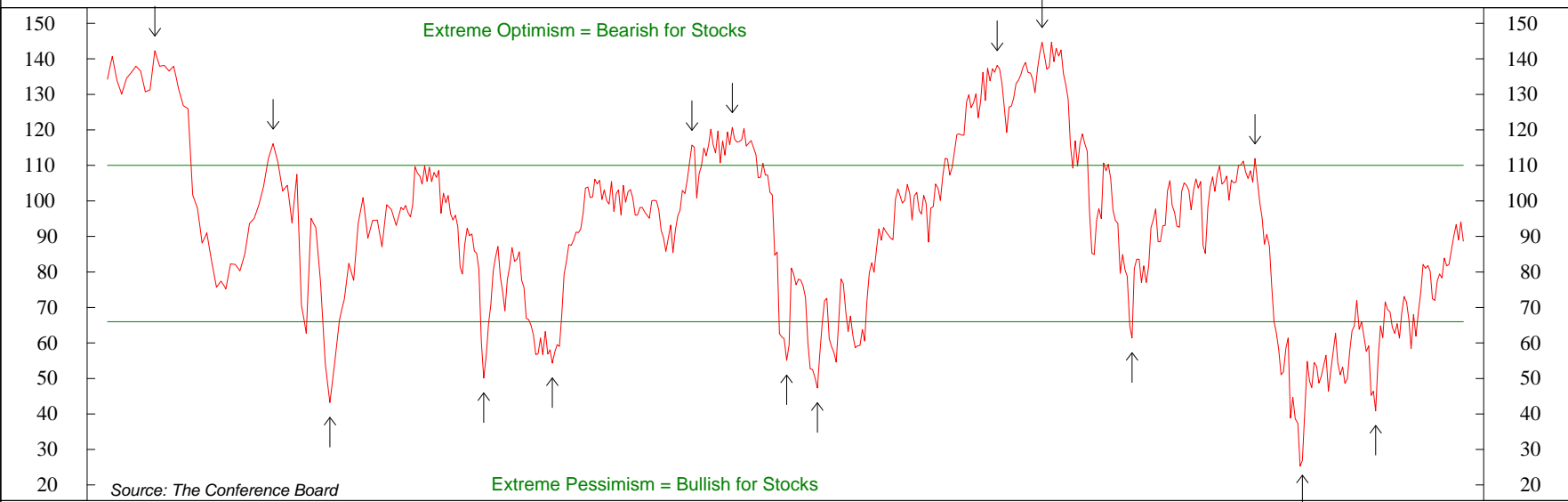
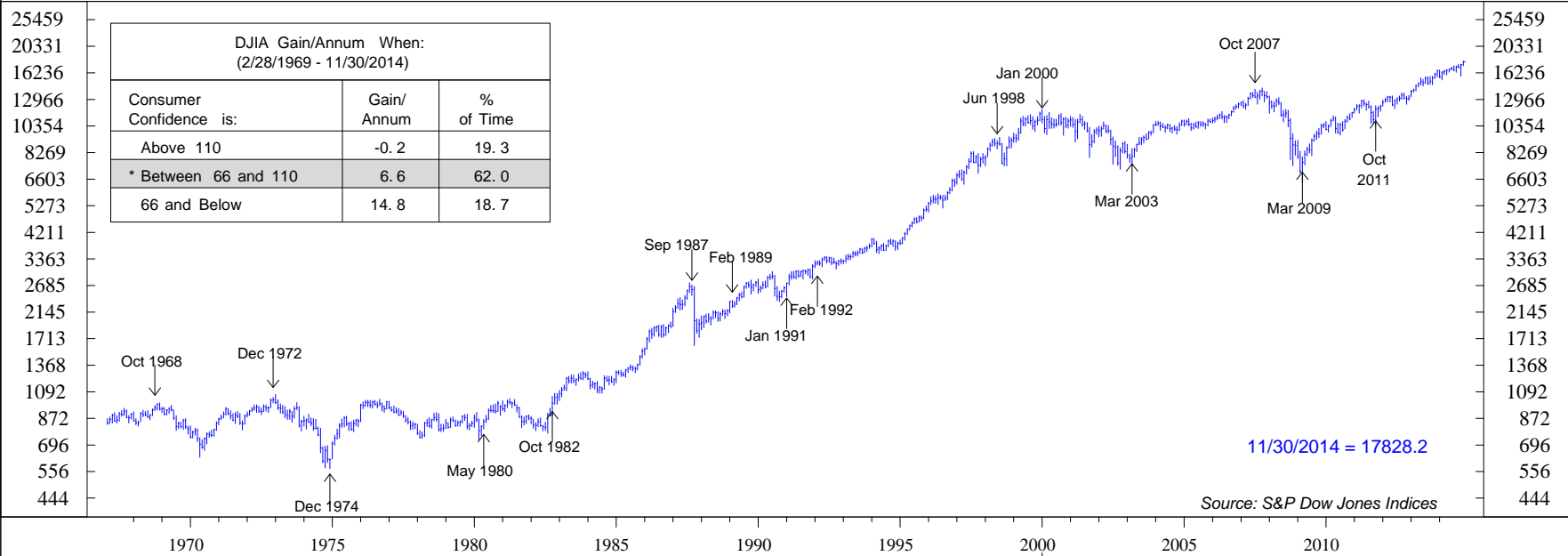


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Dow Jones Industrial Average

Monthly Data 2/28/1967 - 11/30/2014 (Log Scale)



(S1060A) Consumer Confidence (Conference Board)

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2015 Market Outlook

- Will be available in pdf format.

Market Commentary by K. Sean Clark, CFA® Chief Investment Officer

January 2013

Beyond the Fiscal Cliff



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 Management 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.

As a new year begins, many investment managers and analysts observe an annual ritual of looking out over the horizon and putting together a framework of what the next 12-months may have in store for the economy and investment markets. Most strategists enter the new year with an abundance of optimism for the future. I believe a good analogy for this is opening day of baseball season. For those of you who are baseball fans, you have undoubtedly experienced the excitement and enthusiasm of opening day. Not only because it marks the beginning of a new season of your beloved game, but also because every team has a hope and a chance of making it to the playoffs. That same kind of optimism is alive and well in the investment community, and no matter how good or bad the previous year was the score is now 0-0 and the future is promising. As each new year begins there are so many variables to consider in formulating an outlook or roadmap. This year those variables seem more plentiful than usual, and unfortunately most revolve around government policy. Those are the most difficult to handicap. We will get into our expectations for 2013 in a little bit, but first let's review how our Outlook for 2012 fared.

Review 2012

The year 2012 turned out to be a strong one for the global equity markets. The storyline for 2012 consisted of a presidential election in the U.S., an ongoing crisis in the eurozone, massive stimulus programs from the U.S. Federal Reserve and European Central Bank, slowdown in China, and the fiscal cliff. By year's end the status quo was maintained in Washington, Europe muddled through, China seemed to have orchestrated a soft landing, and U.S. politicians kicked the can down the road and averted the fiscal cliff at the twelfth hour. Stocks performed the best and outperformed both bonds and commodities. Thanks to a strong fourth quarter, international stocks outperformed domestic stocks for the first time in three years. Broad based commodity indices, such as the GSCI Commodity Index, finished marginally positive, while gold gained 6.9%

Executive Summary

Equity Market: Anticipated S&P 500 range 1300 - 1700. Attractive relative valuations and asset allocation shift into stocks. Year-end S&P 500 target of 1625. Expect international stocks to outperform led by emerging markets and Asia. Commodity sectors and markets to outperform.

Bond Market: Bull market in Treasuries is over. 10-year expected to rise towards 2.50%. We favor credit over duration risk and believe there is still plenty of room for high yields to run.

Economy: Continued economic growth. Global economy may expand to 3.5%. U.S. economy continues to grow by an anticipated 2.3%.

Volatility: Low volatility probably to stay with the exception of possible short lived volatility event surrounding the debt ceiling debate.

Risks: Economic and market risks center around the debt ceiling debate. Positive resolution would result in upside surprise in the economy and stocks.



Q&A

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.

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 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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