



**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 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.

## GLOBAL STIMULUS DRIVES YIELDS LOWER

The first quarter of 2015 was characterized by a few macro trends that dominated the investing landscape including the Federal Reserve pushing off rate hikes, foreign central bank easing, U.S. dollar strength, and oil weakness. These all influenced asset flows and contributed to a choppy market environment. The Federal Reserve ended QE3 in October and then spent the first three months of 2015 preparing the markets for a rate hike later this year. The U.S. economy went through a soft patch in the first quarter, not unlike the weather-related weakness in the first quarter of 2014 in which the economy declined at a 2.1% annualized pace. We don't expect anything like that this time around but, nonetheless, data has been soft due to the ending of quantitative easing, the strong dollar, poor weather across much of the U.S., West Coast port strikes, and oil weakness. Growth should pick up for the balance of the year and we already see evidence of strong underlying trends. Coming into the year it looked like the Fed would hike rates at their June meeting. However, the soft first quarter economic data and comments from the Fed have shifted markets' expectations and it now looks like the first rate hike will be in the fall, possibly at the September meeting.

Meanwhile, European Central Bank (ECB) President Draghi announced quantitative easing for the eurozone as they attempt to stimulate an economy that flirted with recession last year. The ECB exceeded market expectations with its expanded quantitative easing (QE) program that was larger than expected and open-ended. Central banks across the globe from London to Tokyo remain in easing modes. For example, China's central bank cut its benchmark interest rate by 25 basis points for the second time since October 2004.

The ECB's all-in approach has resulted in negative interest for much of Europe from short duration sovereign bonds all the way out to 7-year maturities, with rates negative in Switzerland all the way out to 10-year maturities. Meanwhile, at quarter end the U.S. 10-year Treasury yield was 1.93. The effects of the rate differential between the U.S. and the rest of the developed world has had a pronounced impact. The euro fell 11.2% in the first quarter, the largest quarterly decline in the single currency since its inception in 1999. Even after the steep losses the euro looks lower as negative interest rates across Europe prompt investors to sell euros and buy dollars, putting further pressure on the continent's currency. At quarter end the euro

### Executive Summary

**U.S. Rate Hike Update:** Economic data consistently came in below expectations in the first quarter, and comments from the Fed have shifted markets' expectations. It now looks like the first rate hike will be in the fall, possibly at the September meeting.

**Eurozone QE Continues:** European Central Bank (ECB) President Draghi announced quantitative easing for the Eurozone as they attempt to stimulate an economy that flirted with recession last year.

**High Yield Bonds Rebound:** Despite soft economic news in the first quarter, high yield bonds still outperformed, with credit spreads narrowing from 444 basis points at the beginning of the year to 426 basis points at the end of the quarter.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

## First Quarter — Portfolio Commentary

stood at 1.0731 dollars/euro, down from 1.40 dollars/euro in the last year. Analysts expect it to continue weakening with many forecasting 0.85 dollars/euro in 2016. Increasing currency volatility remains a major source of macro risk in global markets today. While it remains to be seen if history will repeat itself, currency turmoil has often led to global equity declines due to the large leverage effect of currency trades.

In the U.S., as noted above, economic data consistently came in below expectations in the first quarter. However, even with the softer economic news, high yield bonds still outperformed with credit spreads narrowing from 444 basis points at the beginning of the year to 426 basis points at quarter end. High yield bonds rebounded nicely from their December energy crisis lows and are trading close to new highs on a total return basis. For the quarter, the Barclays High Yield Index gained 2.52% and the Barclays Aggregate Bond Index was 1.61% higher.

### Q1 Portfolio Analysis & Performance

#### Top Contributors

- BlackRock High Yield Bond
- iShares Barclays 7-10 Year Treasury ETF

#### Top Detractors

- AllianceBernstein High Income Adv
- Barclays Short-Term High Yield Bond SPDR

Coming into 2015, the Fixed Income Total Return portfolio was in a neutral position with regard to high yield bonds, cash, and U.S. Treasuries, owning roughly one third each. However, early in 2015 confidence in high yield credit surged, and on January 12th the portfolio allocated 100% towards high yield bonds, using a combination of high yield mutual funds and ETFs. The relative performance strength of high yield bonds was coincident with at least an end to the waterfall decline in U.S. Energy stocks. While Energy stocks (and the high yield bonds in the sector, which at 16% are the largest sector in the high yield bond universe) have yet to become performance leaders, their relative decline appears to have ended, and they are now simply trading within an admittedly volatile range. While we are allocated 100% towards high yield bonds and believe that their extra yield could lead to strong performance, particularly in a steady economic environment, we are also aware of the strong downward pressure on U.S. interest rates. This pressure is not at all attributable to the U.S. economy but to the low and negative interest rates in Europe and Japan. Foreign investors see U.S. bonds as extremely safe and as one

of their few sources of yield. As a result, the massive size of foreign inflows has boosted U.S. Treasuries in particular and U.S. fixed income overall. The relative strength moves between high yield bonds and U.S. Treasuries have been muted. While our models favor high yield, there is not a particularly strong trend towards either sector at this time. The top two contributors to return for the quarter were a strange pair indeed. First, BlackRock High Yield Bond (BRHYX) was our largest high yield bond holding, and it continues to fare well within the category. Second, even though we only held U.S. Treasuries until January 12th, their performance was strong and our positions were so large that the iShares Barclays 7-10 Year Treasury ETF (IEF) was also a top performer. AllianceBernstein High Income (AGDYX) and the Barclays Short-Term High Yield Bond SDPR (SJNK) were the top detractors.

### Outlook

Investors seem to have adopted a risk-on bias in the first quarter as high yield bonds outperformed investment grade credit and treasuries. This risk-on environment was partly in response to Fed Chair Yellen's semiannual testimony to the Senate Banking Committee in February in which she omitted language of bubbles forming in the high-yield market. Those recent comments were strikingly different from when she highlighted the risks in the high yield market that caused a sharp sell off in July 2014.

The U.S. economy is in a good position to rebound nicely in the second half. Employment growth is by far the best it has been in 15 years and there are some signs that meaningful wage growth, one of the factors that had been missing from this labor market recovery, may be on the horizon. With this in mind there is no reason for the Fed to keep rates at the lower bound. What does it mean if the Fed finally hikes rates later this year? For starters it will be the most telegraphed rate hike in the history of the Federal Reserve. So it should surprise nobody when it happens. A rate hike to begin normalization of policy should be tolerated by the economy and may actually have a positive impact. While some analysts believe that even a modest rate rise will disrupt markets, the Fed has made it clear that the trajectory of rate increases will be measured and gradual, a pace that should be well-anticipated by markets at this stage.

We continue to favor credit risk over duration risk. An improving economic landscape and a low interest rate environment should help support credit risk and keep default rates very low. History suggests that risk assets, such as high yield debt and equities, typically perform best in the aforementioned economic backdrop.

Past performance is not indicative of future results. This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

First Quarter — Portfolio Commentary

Given expectations that the Fed will hike interest rates later this year we thought it would be insightful to look at past rate hike cycles. Since 1980 there have been seven times that the Fed has embarked on a new rate hike cycle. The table at right from Ned Davis Research summarizes bond sector performance around first Fed rate hikes since 1980. From the summary data, it is clear that bonds tend to underperform and outright decline leading up to the first rate hike but then advance following the hike. The clear winners around the first rate hike are high yield and emerging market debt, likely due to their lower correlation to treasuries and leverage to the economic cycle. High yield and emerging market debt have posted only modest median losses three months prior to the rate hike and have posted the strongest gains six, nine, and twelve months later following the rate hike.

Sector Index	ALL NEGATIVE				ALL POSITIVE			
	MEDIAN PERFORMANCE OF SELECTED BOND SECTORS BEFORE AND AFTER INITIAL FED RATE HIKES SINCE 1980							
	% Gain X-Months Before				% Gain X-Months After			
	12	9	6	3	3	6	9	12
U.S. Aggregate	2.25	1.32	0.15	-1.82	2.54	4.18	3.68	6.80
Treasurys	3.12	3.72	-0.20	-1.13	2.62	3.74	3.73	7.06
Agencies	3.25	3.25	0.01	-1.06	2.11	3.33	3.44	5.72
MBS	2.73	1.71	1.28	-1.13	2.37	3.90	3.78	6.14
Investment Grade	0.30	0.32	-0.26	-3.32	2.90	5.66	4.47	8.16
High Yield	10.33	6.27	1.78	-0.31	0.95	7.99	9.02	11.49
Emerging Markets	15.16	15.09	5.93	-0.17	4.56	12.75	11.93	18.07
CMBS	0.90	-0.81	-0.91	-2.38	3.81	4.48	3.61	7.00
ABS	4.70	2.33	0.81	-0.03	1.64	1.97	2.56	4.48
Municipals	2.22	2.51	1.05	-1.76	1.08	3.94	5.16	8.24

*Fed Funds Target Rate used since 1989, Discount Rate used prior.  
 Data Source: Barclays  
 Ned Davis Research Group*

*BMF14\_11.1*

Past performance is not indicative of future results. This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

## First Quarter — Portfolio Commentary

The opinions expressed are those of Clark Capital Management Group Investment Team. 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. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. 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. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, 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 B of A Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S.

dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

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

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

The Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

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 Barclays U.S. Treasury Bond Index is an issuances-weighted index measuring the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world.

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.

Returns are presented gross of investment advisory fees and include the reinvestment of all income.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. For example, a 0.50% annual fee deducted quarterly (.125%) from an account with a ten year annualized growth rate of 5% will produce a net result of 4.4%. Actual performance results will vary from this example. The Firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request.

The relative strength measure is based on historical information and should not be considered a guaranteed prediction of market activity. It is one of many indicators that may be used to analyze market data for investing purposes. The relative strength measure has certain limitations such as the calculation results being impacted by an extreme change in a security price. Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.