



# MarketOutlook

*Mid Year* 2015

By K. Sean Clark, CFA<sup>®</sup>, Chief Investment Officer

Wednesday, July 22, 2015

## Past Predictions

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### 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 for 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.

# Narrow Ranges Have Tendency of Breaking Higher

We took a look at historical narrow range markets and found a tendency to break to the upside during the second half of the year.

## S&P 500 2nd Half of Year Returns When Market Trades in Narrow Range

The current year-to-date S&P 500 trading range ranks 9 most narrow over the first six months of the year since 1928.

We show how the other eight times traded into year-end.



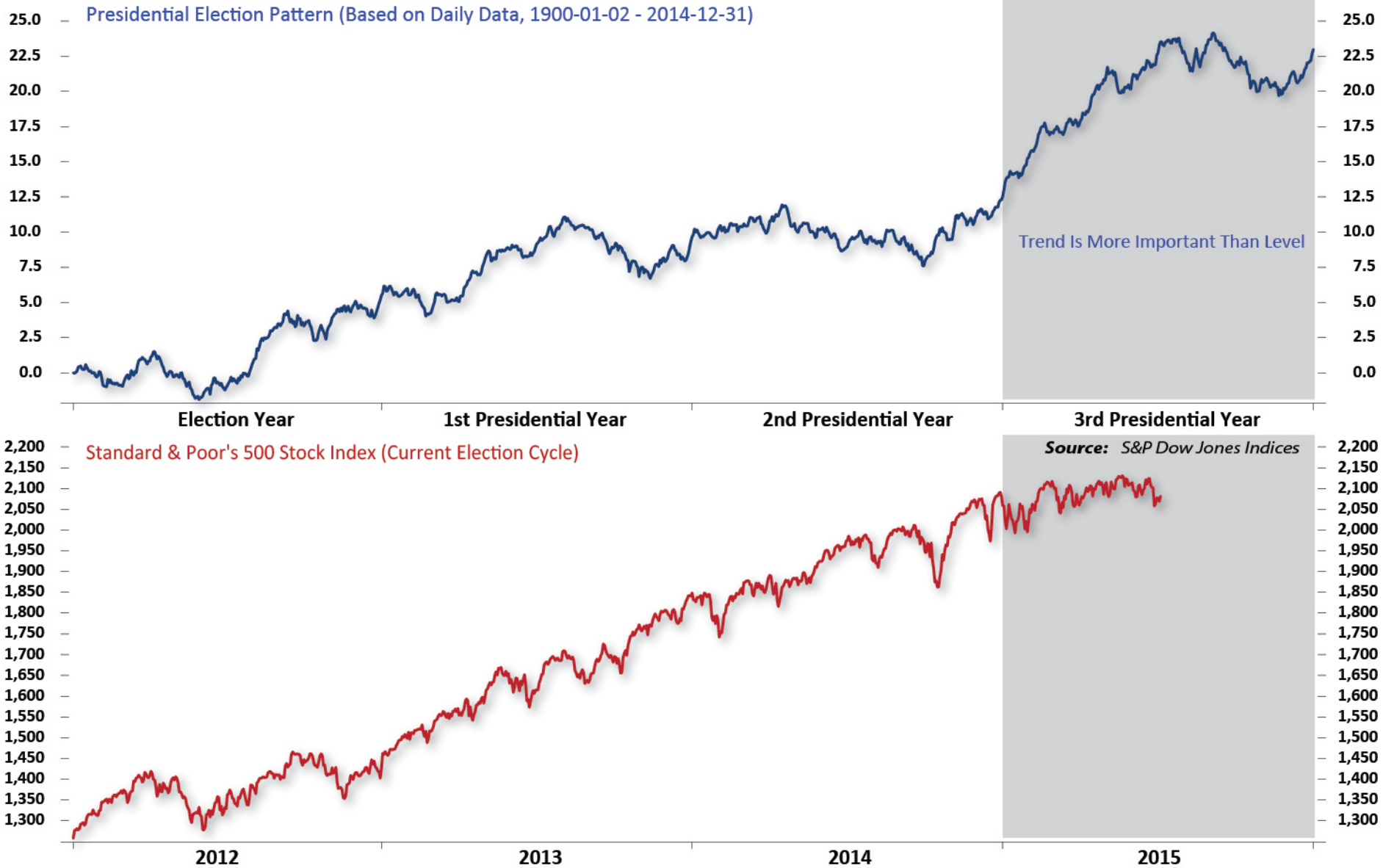
Source: Bloomberg Financial & FBN Securities

# S&P 500 Index vs. NDR Cycle Composite

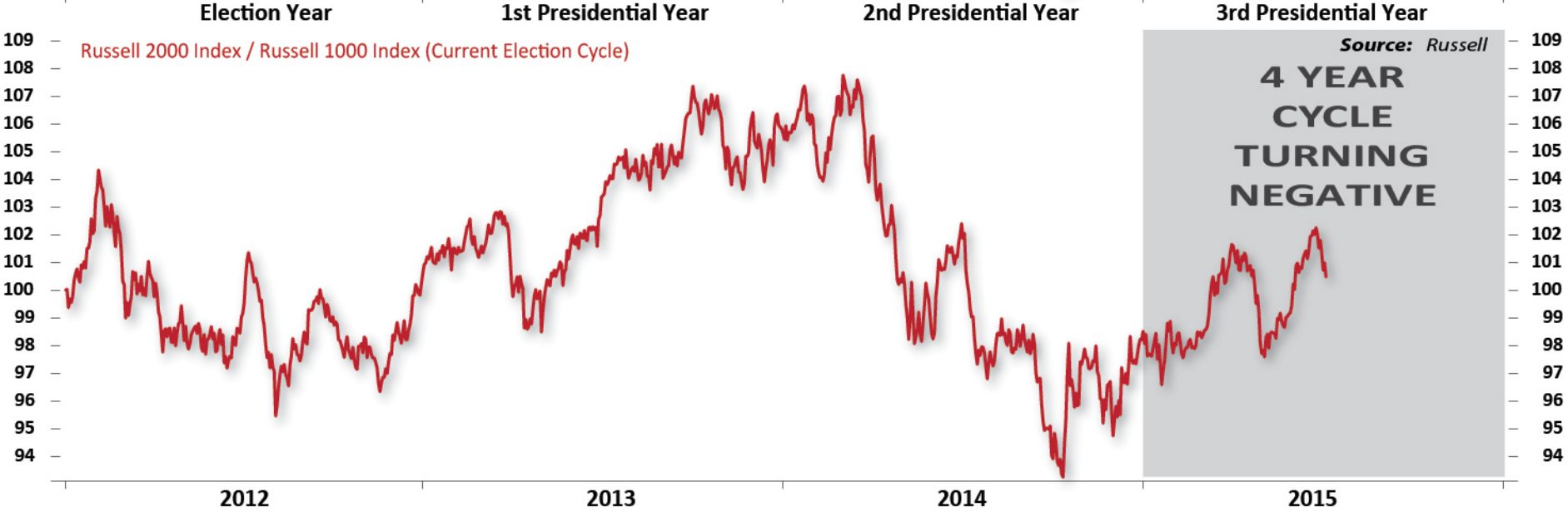
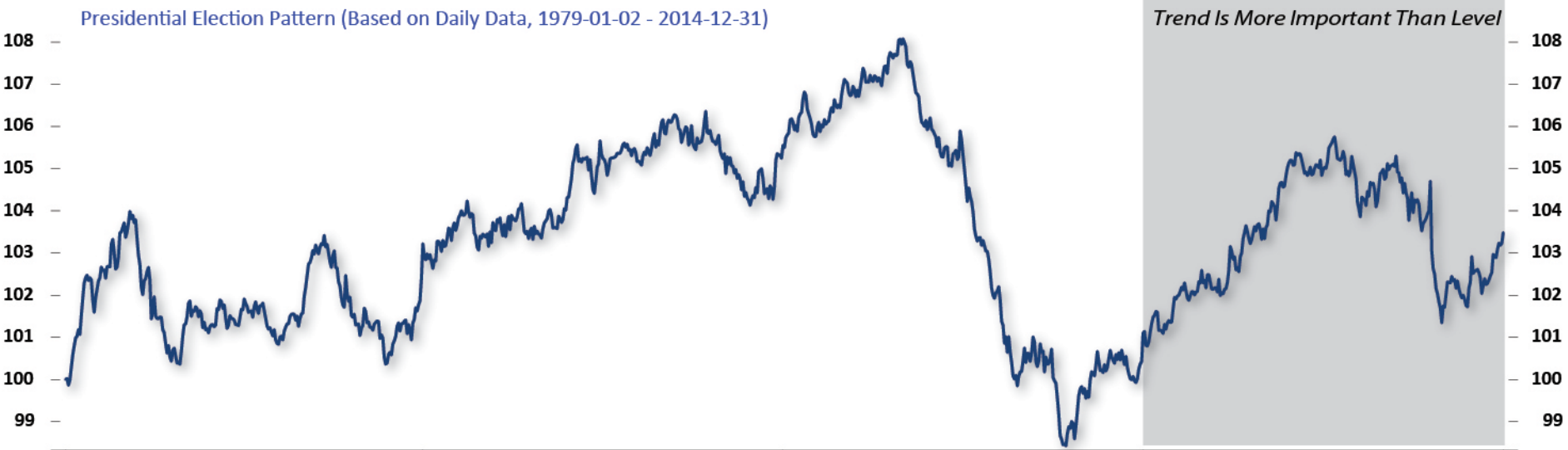
Daily Data 2009-12-31 to 2015-12-31 (Log Scale)



## Dow Industrials Four-Year Presidential Cycle vs S&P 500 Index Current Election Cycle

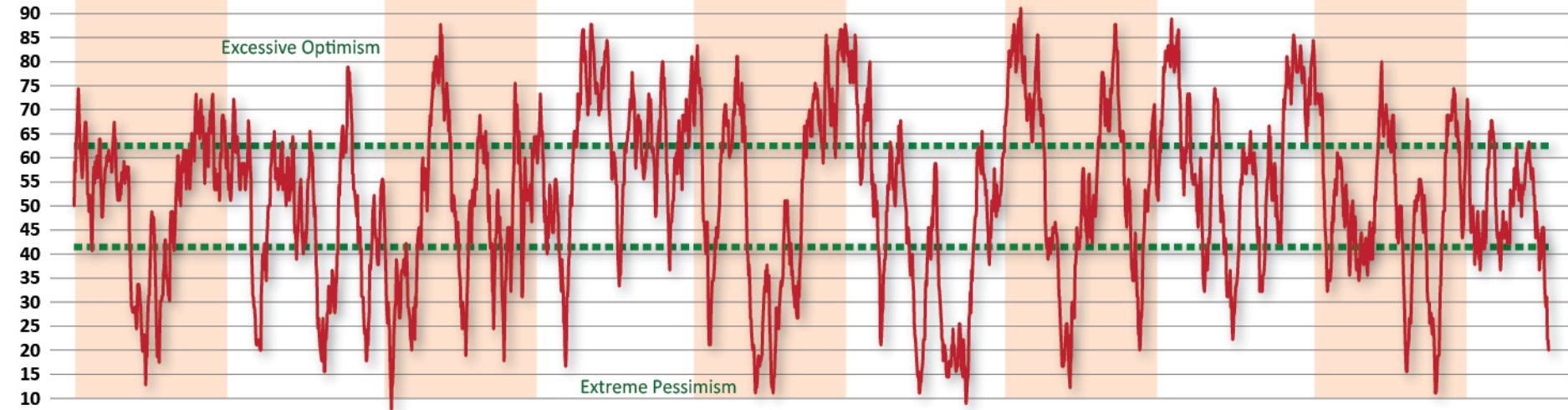


# Russell 2000 Index / Russell 1000 Index Four-Year Presidential Cycle vs. Current Election Cycle



# Standard & Poor's 500 Index

Daily Data 1/03/2006 - 7/09/2015 (Log Scale)

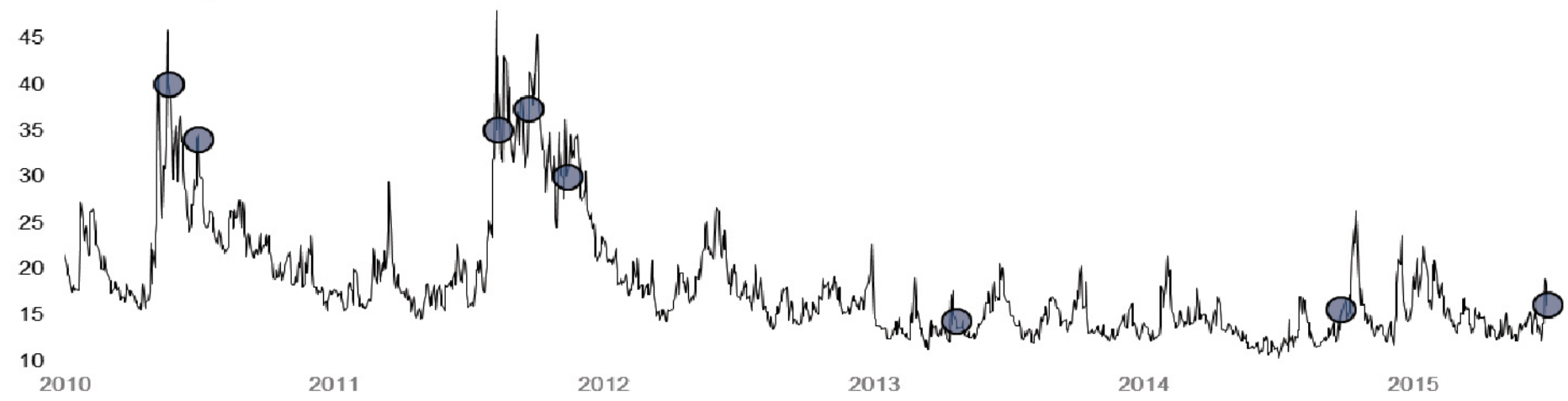


## NDR Daily Trading Sentiment Composite

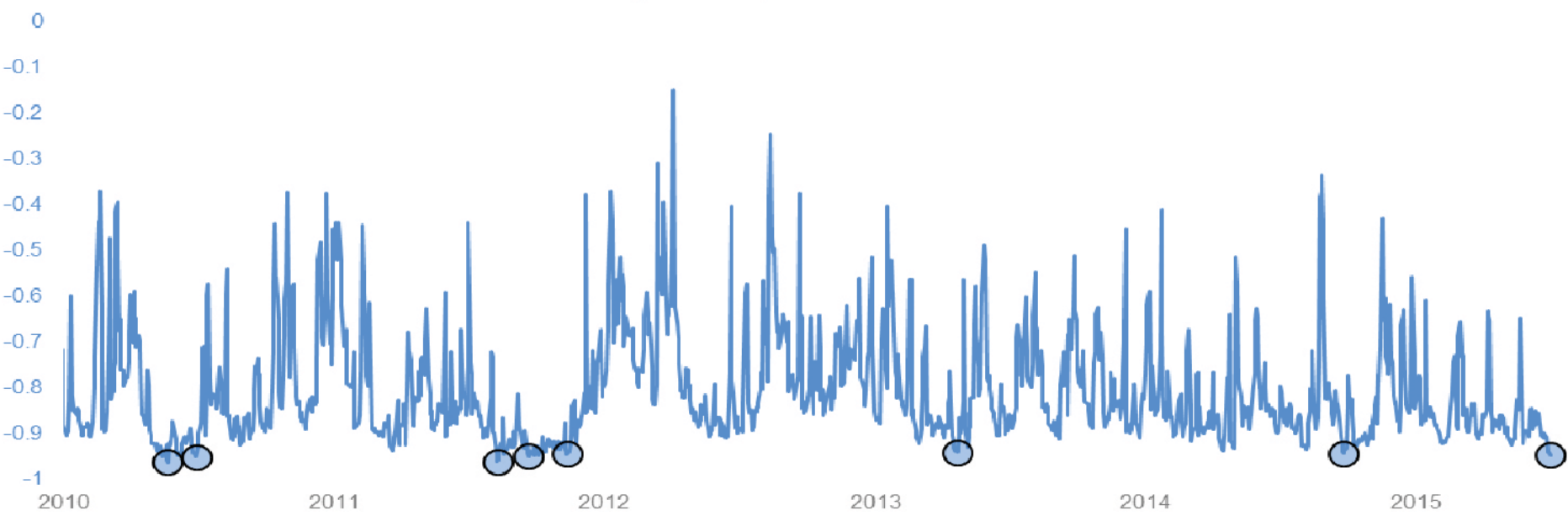
7/09/2015 = 20.0



# VIX "Fear Gauge"

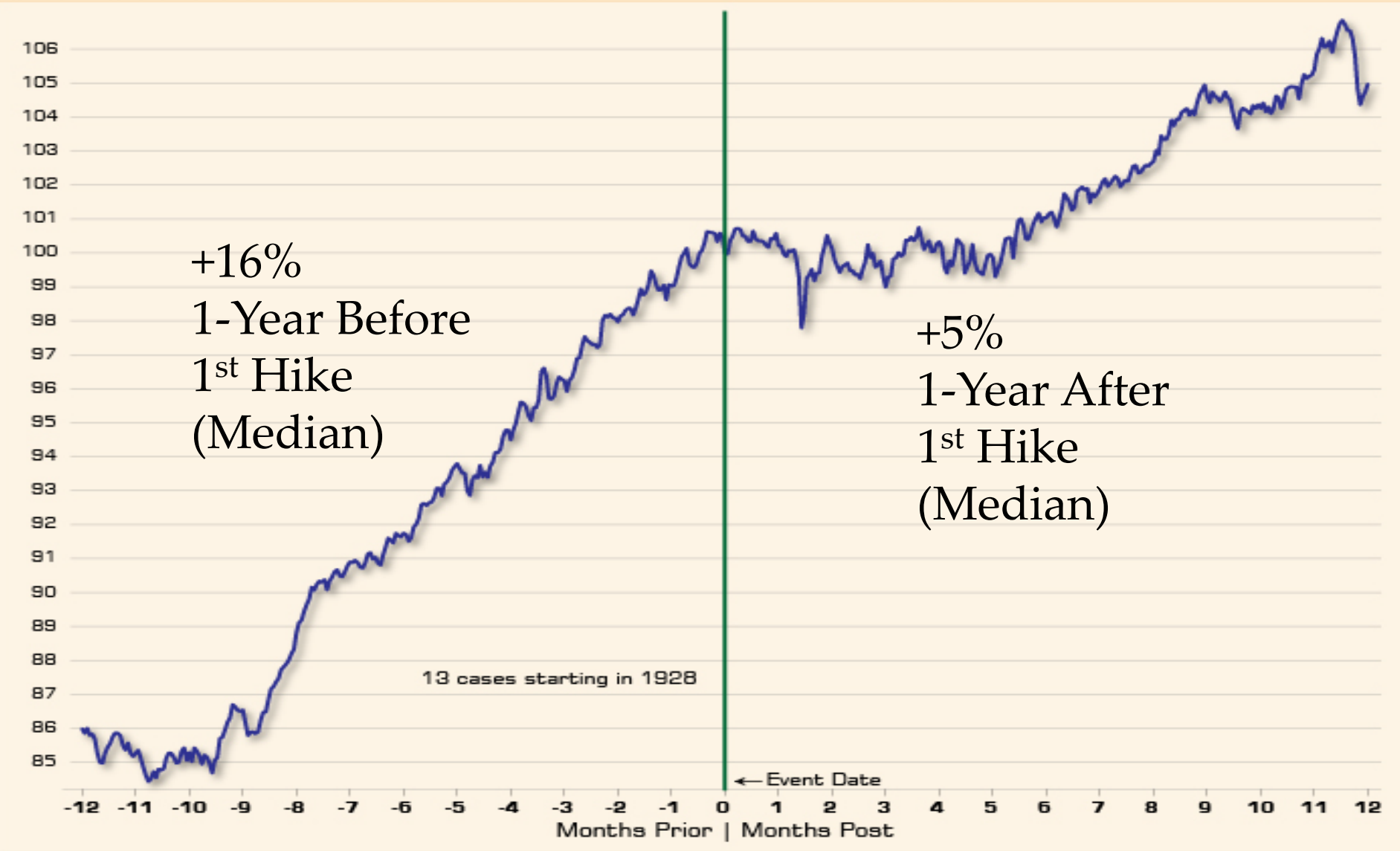


## Correlation Between VIX and S&P 500 *Average of 1 week, 1 month and 3 months*

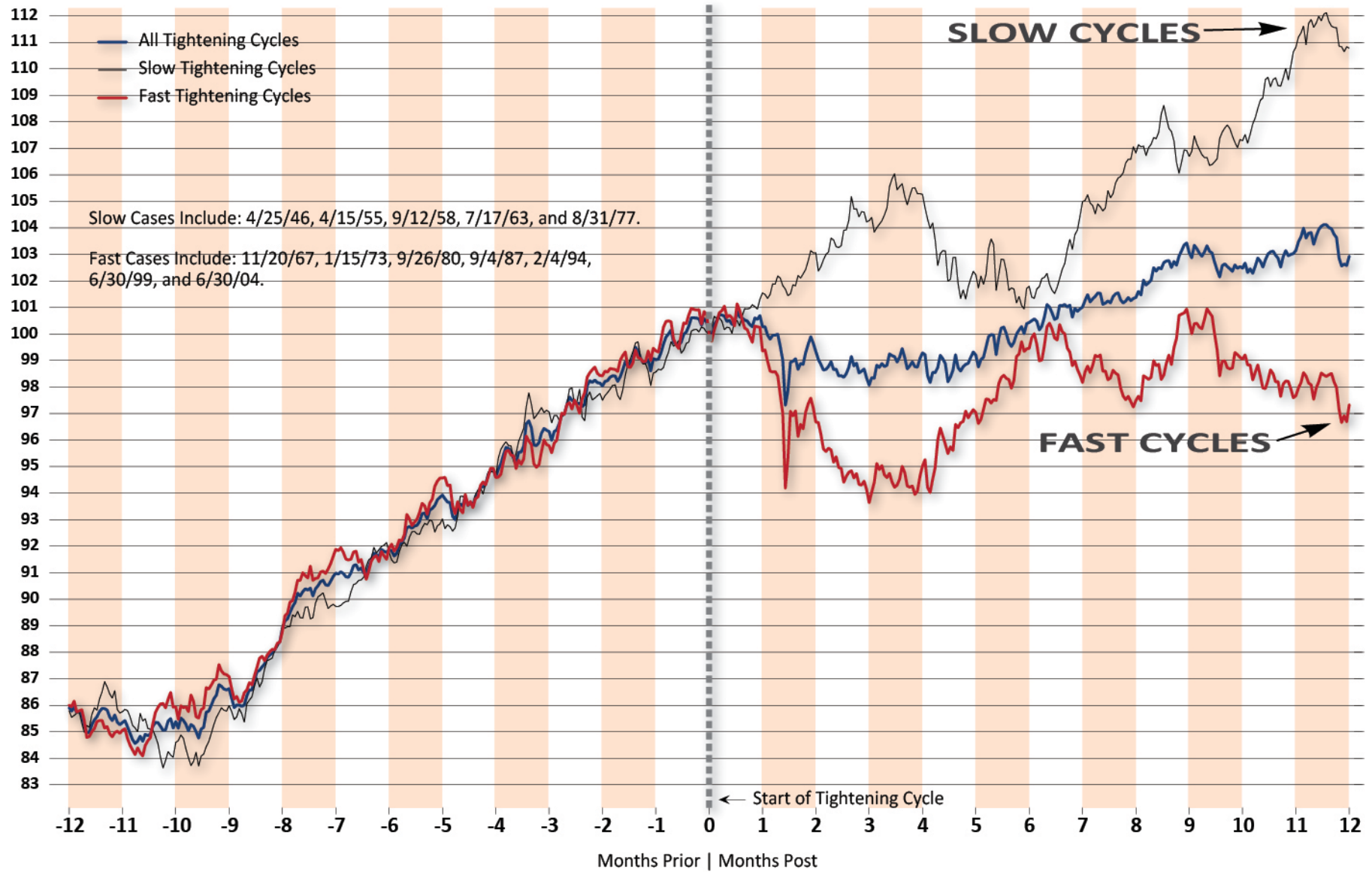


Source: CBOE, Bloomberg Finance LP Copyright © 2015 Sundial Capital Research [sentimenTrader.com](http://sentimenTrader.com)

# S&P 500 Around Starts of Fed Tightening Cycles

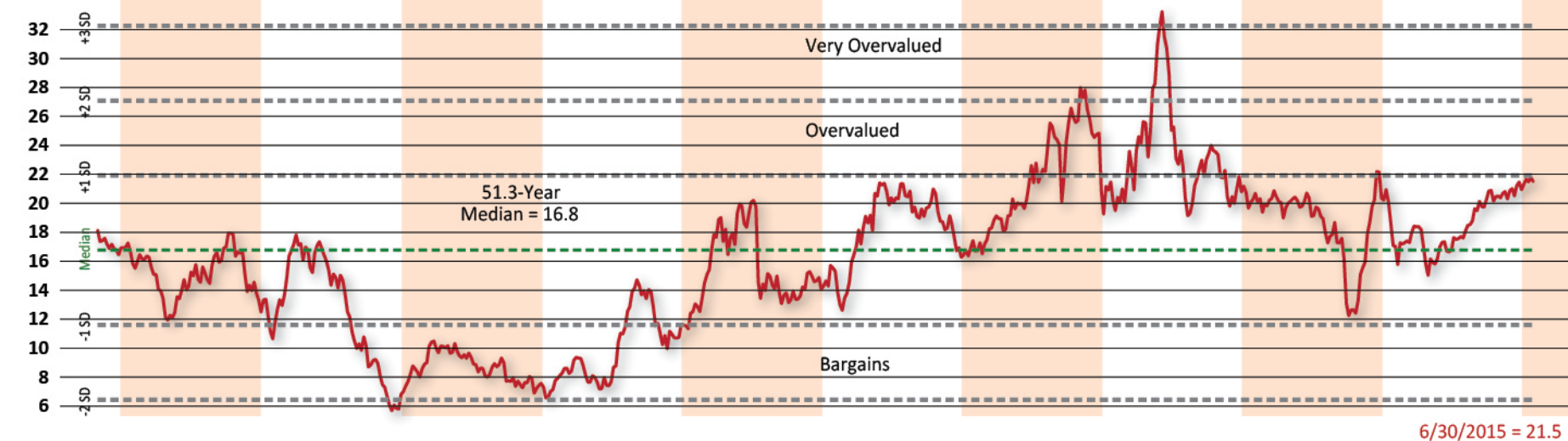
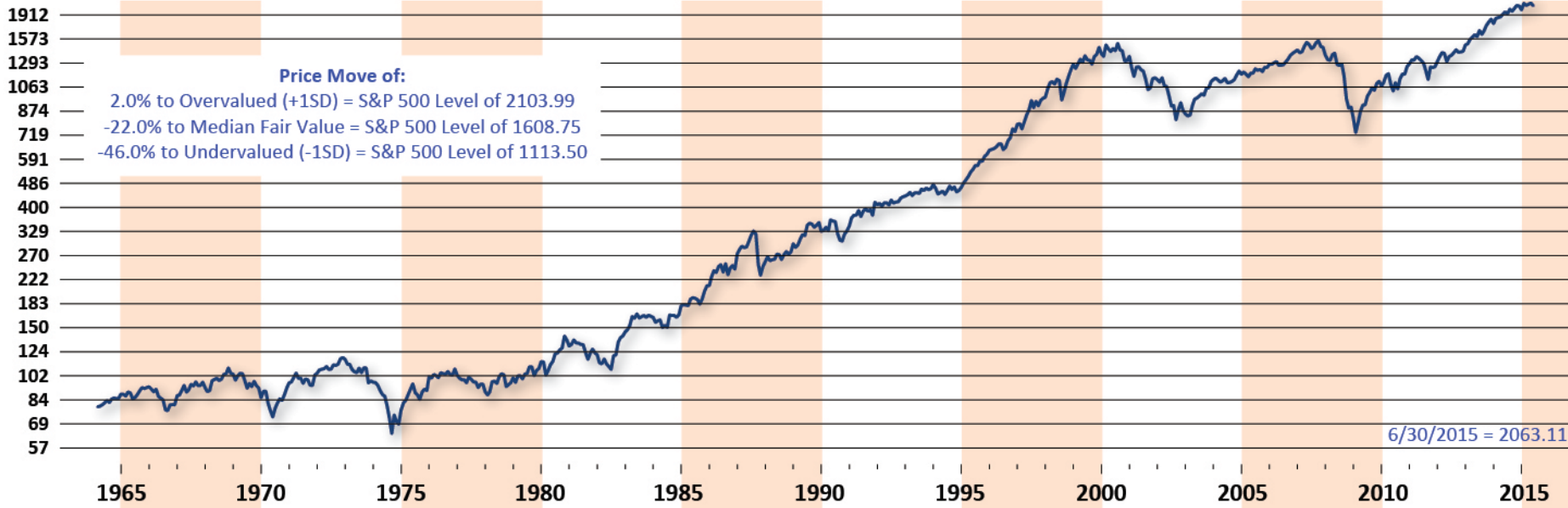


# S&P 500 Around Start of Fed Tightening Cycles



# Standard & Poor's 500 Stock Index

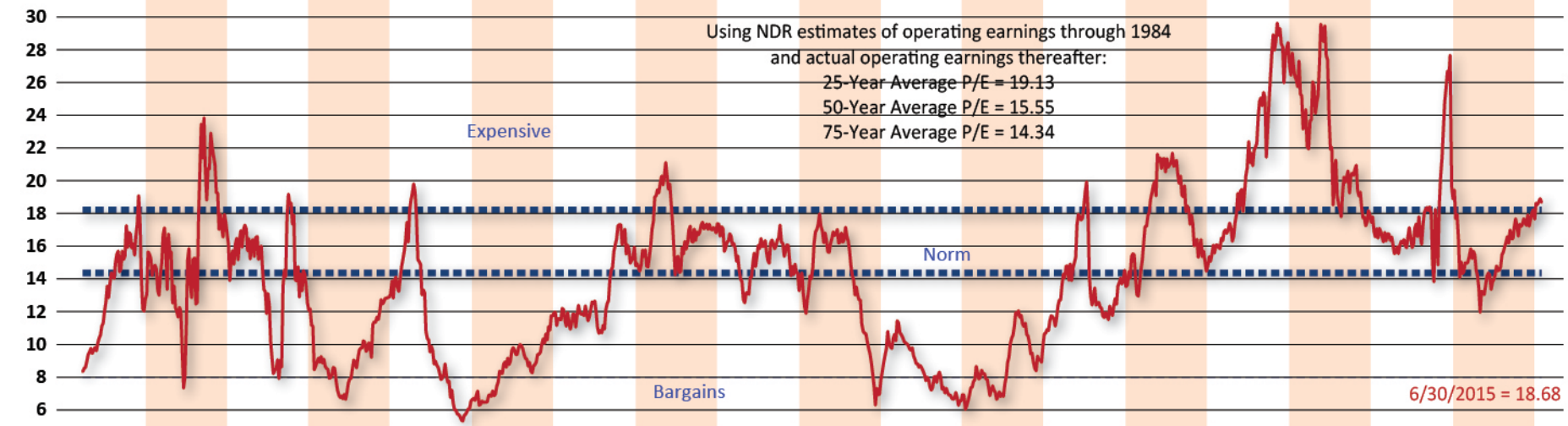
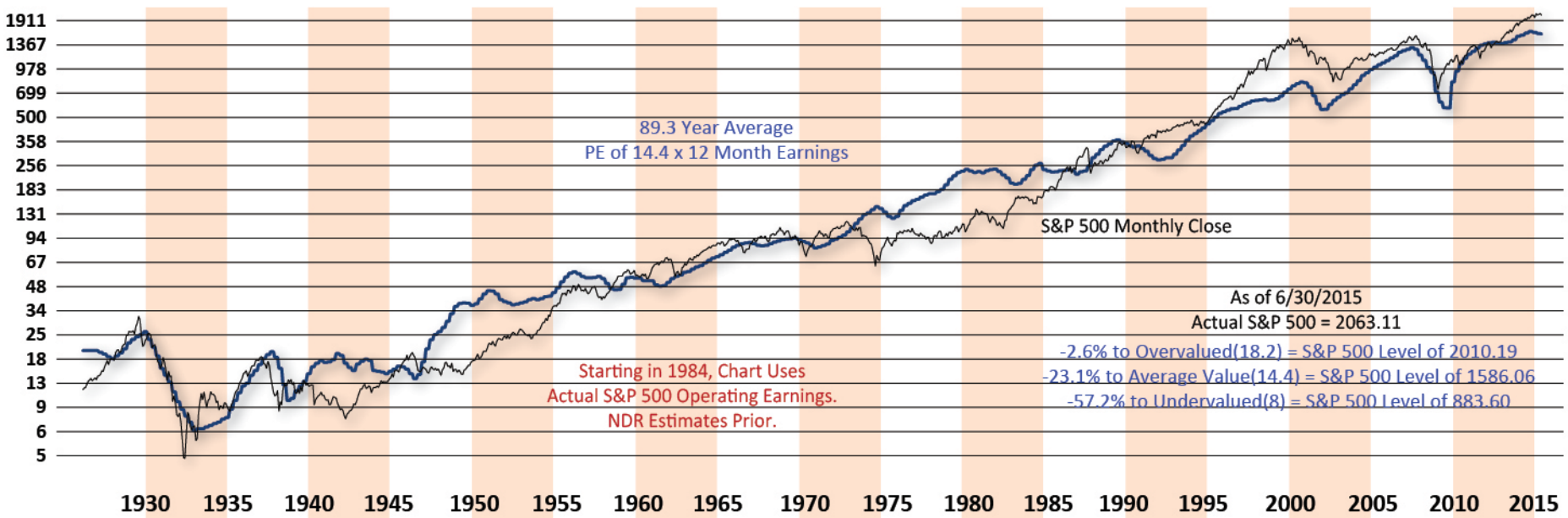
Monthly 3/31/1964 - 6/30/2015 (Log Scale)



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

# Standard & Poor's 500 Stock Index

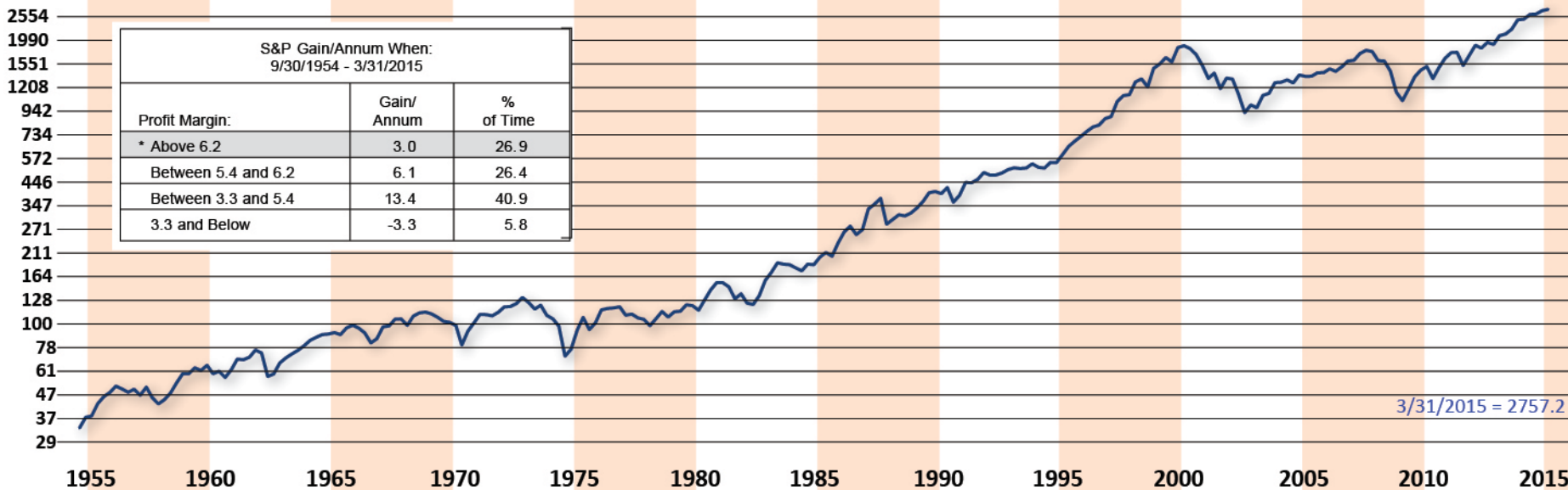
Monthly Data 3/31/1926 - 6/30/2015 (Log Scale)



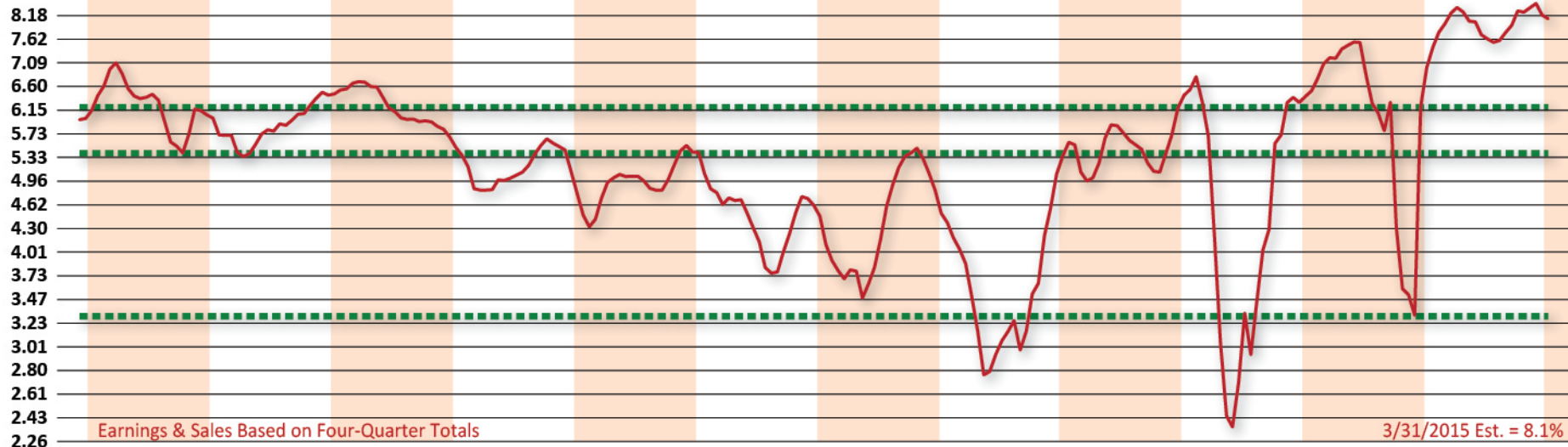
## S&P 500 Price/Operating Earnings Ratio (Historical Estimates)

# Standard & Poor's Industrial Average

Quarterly Data 9/30/1954 - 3/31/2015 (Log Scale)



S&P Gain/Annum When: 9/30/1954 - 3/31/2015		
Profit Margin:	Gain/ Annum	% of Time
* Above 6.2	3.0	26.9
Between 5.4 and 6.2	6.1	26.4
Between 3.3 and 5.4	13.4	40.9
3.3 and Below	-3.3	5.8

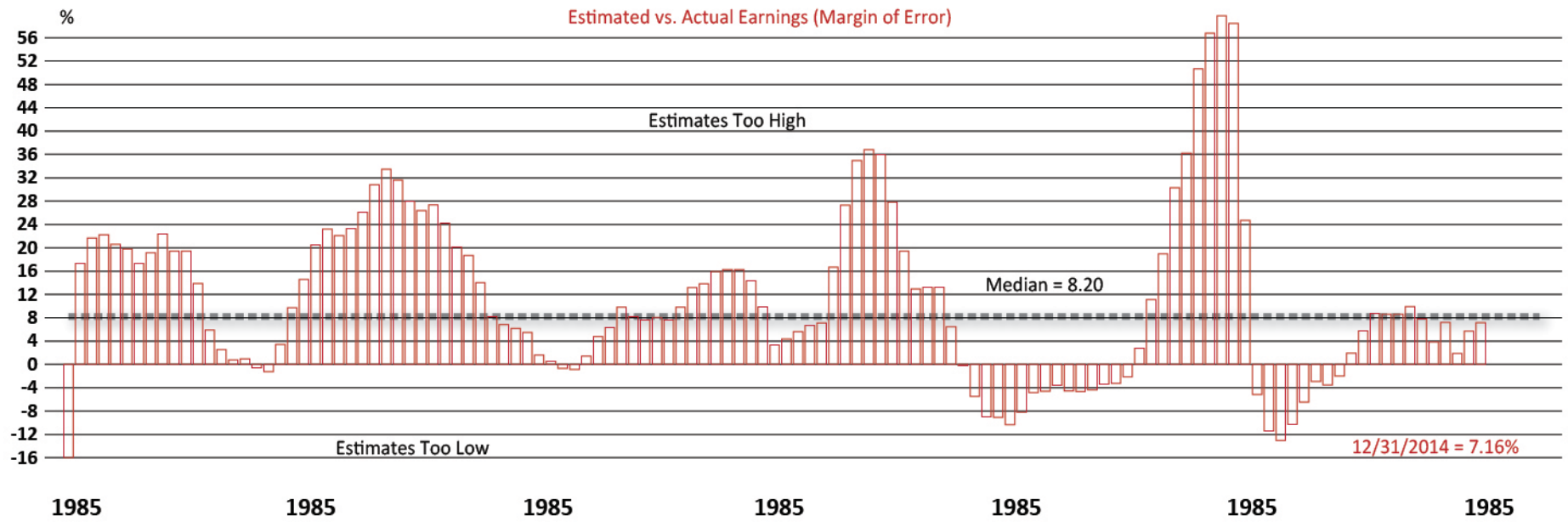
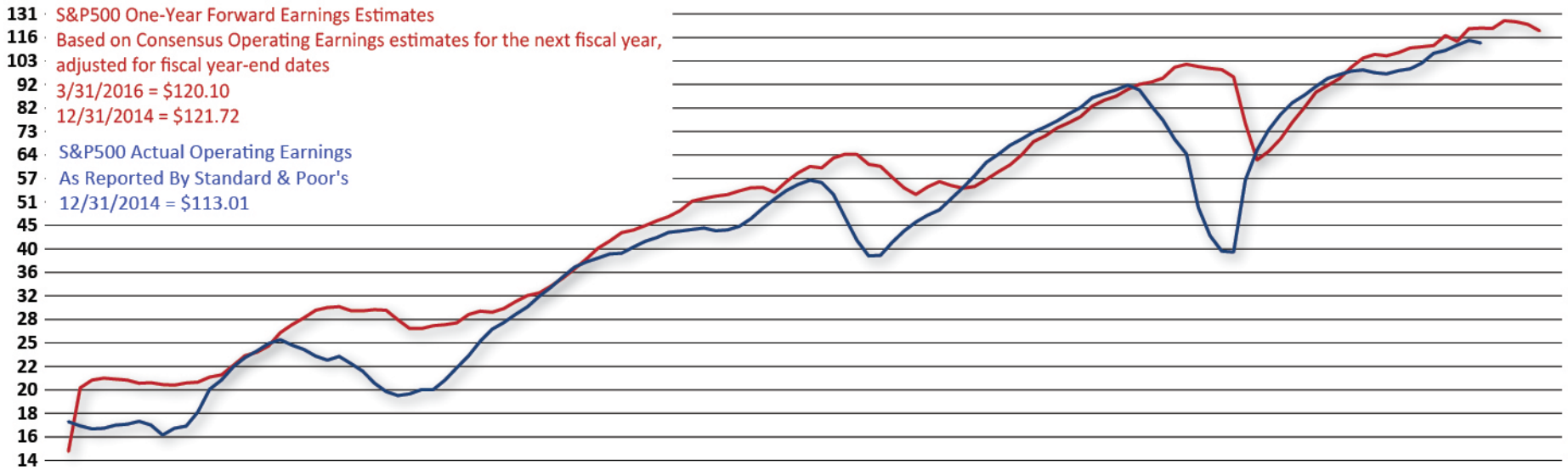


# Standard & Poor's Industrial Average Profit Margin (Earnings/Sales)

# S&P 500 Actual Operating Earnings vs Earnings Estimates

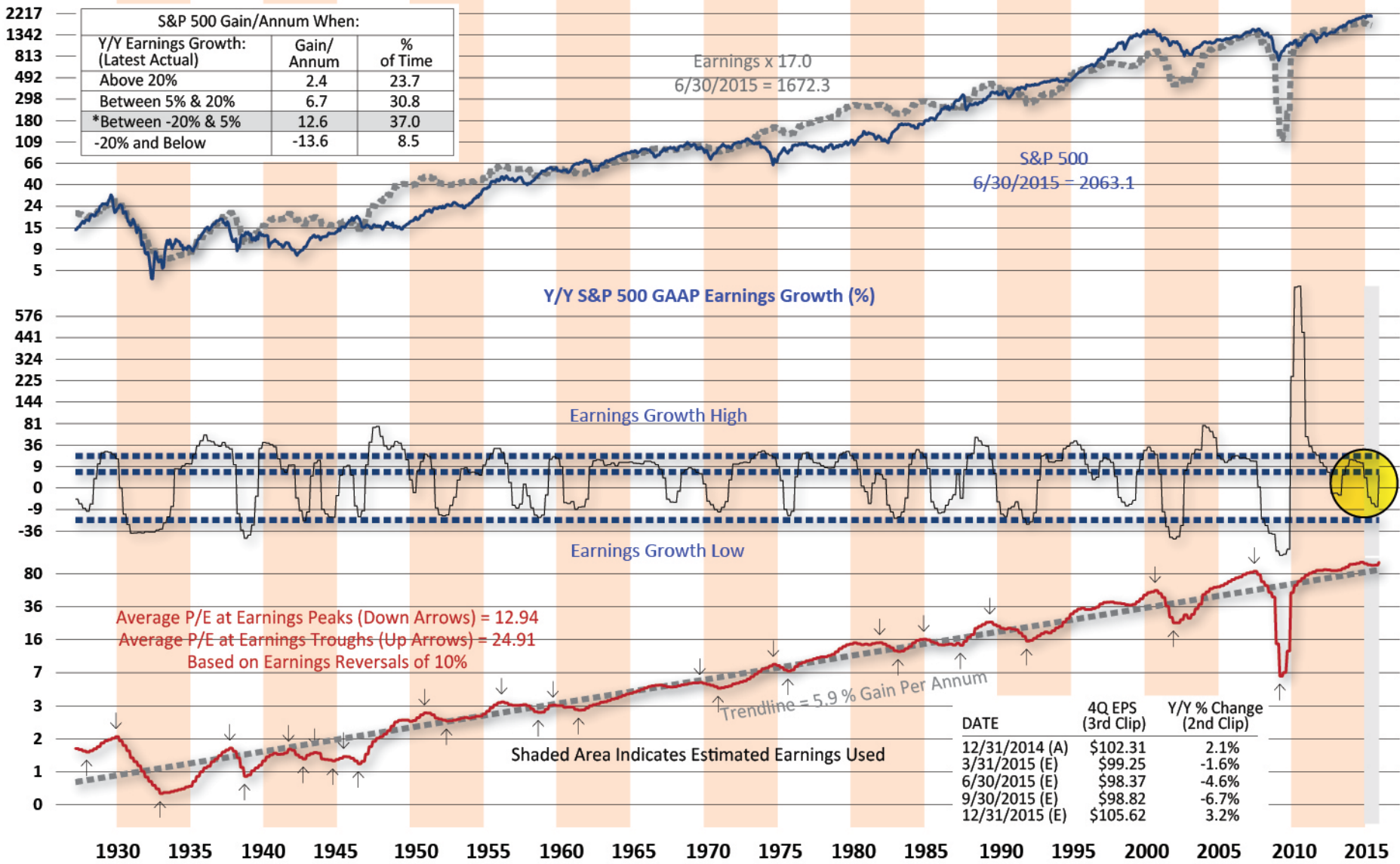
Quarterly Data 12/31/1984 - 3/31/2016 (Log Scale)

131 · S&P500 One-Year Forward Earnings Estimates  
 116 · Based on Consensus Operating Earnings estimates for the next fiscal year,  
 103 · adjusted for fiscal year-end dates  
 92 · 3/31/2016 = \$120.10  
 82 · 12/31/2014 = \$121.72  
 73 ·  
 64 · S&P500 Actual Operating Earnings  
 57 · As Reported By Standard & Poor's  
 51 · 12/31/2014 = \$113.01



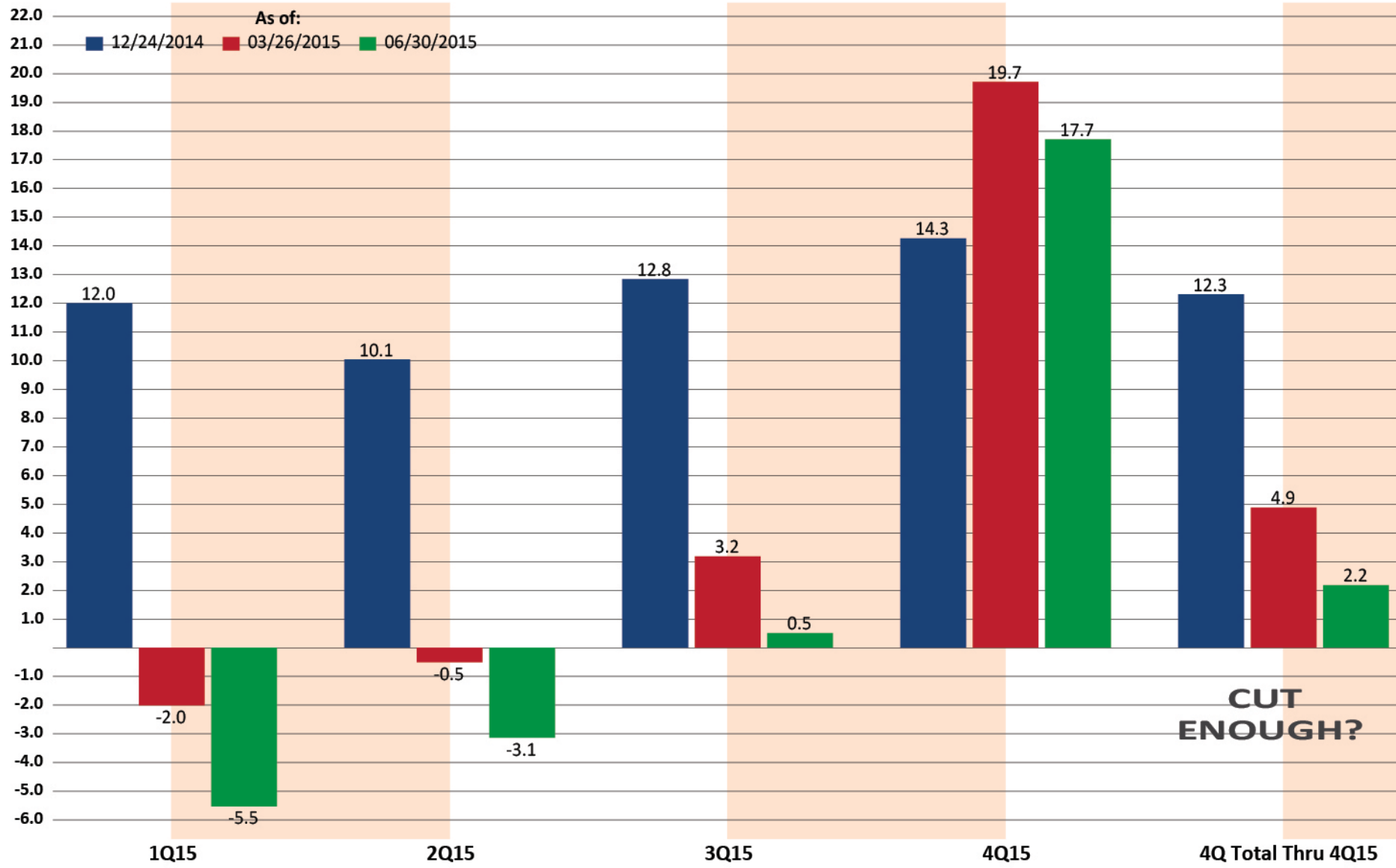
# S&P 500 GAAP Earnings Growth

Monthly Data 3/31/1927 - 12/31/2015 (Log Scale)





# S&P 500 Consensus Operating EPS Estimates (Year/Year % Change)



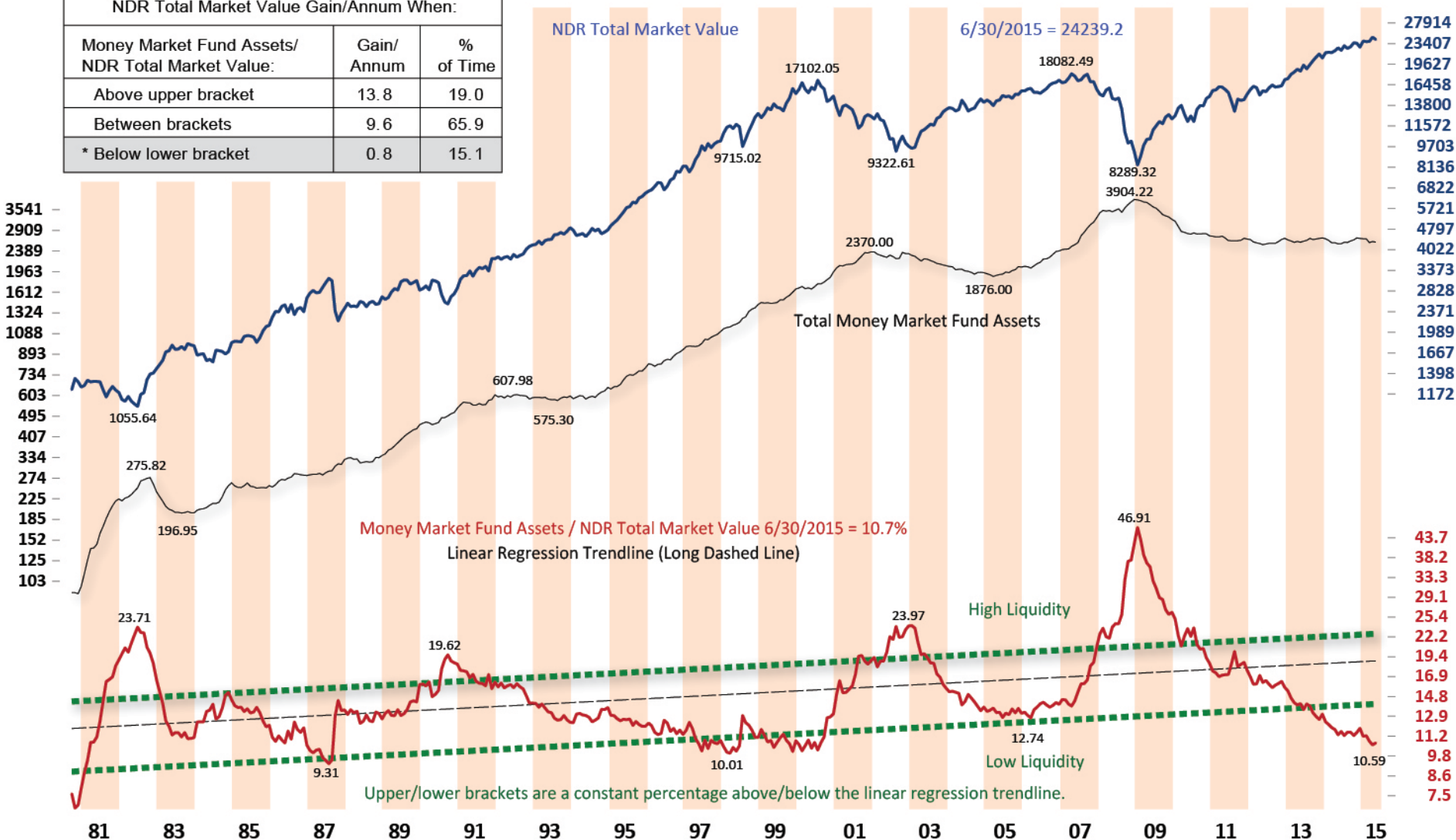
**CONSENSUS ESTIMATES FOR S&P 500 AND SECTORS (YEAR/YEAR % GROWTH)**

Sector	1H15 (%)	2H15 (%)		CY15 (%)
Telecommunication Services	1.6	282.3		58.8
Health Care	19.4	33.4		26.3
Information Technology	11.5	12.5		12.0
Consumer Discretionary	4.4	12.9	<b>8/10↑ IN 2H</b>	8.8
Industrials	4.0	10.0		7.1
Financials	3.6	8.0		5.7
Utilities	11.4	-2.5		3.8
Consumer Staples	-0.3	5.0		2.4
S&P 500	-4.3	<b>8.7</b>		<b>2.2</b>
Materials	-13.0	15.9		-0.4
Energy	-83.0	<b>-48.5</b>		<b>-67.5</b>

# NDR Total Market Value vs Money Market Fund Assets / NDR Total Market Value

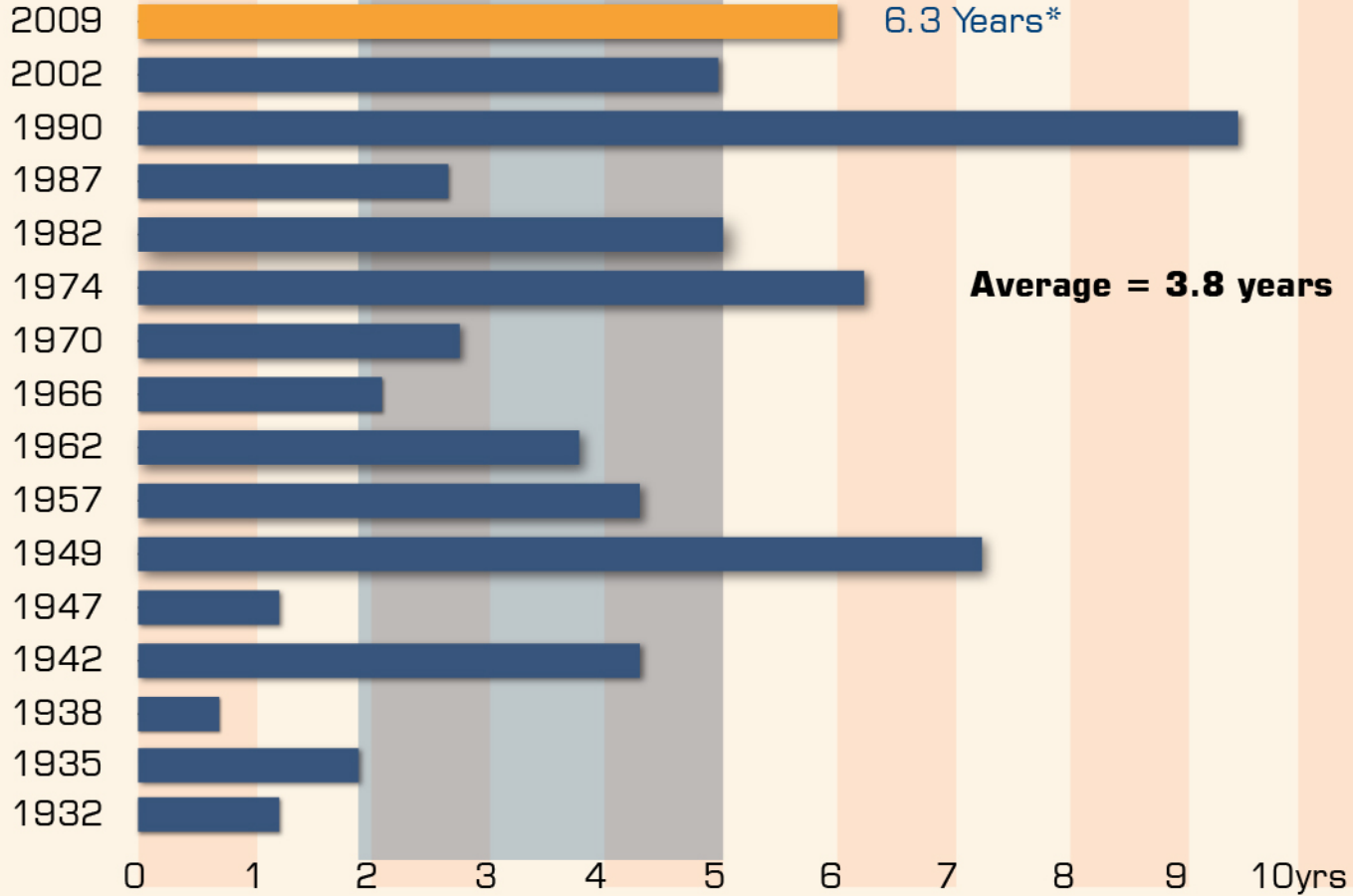
Monthly Data 10/31/1980 - 6/30/2015 (Log Scale)

NDR Total Market Value Gain/Annum When:		
Money Market Fund Assets/ NDR Total Market Value:	Gain/ Annum	% of Time
Above upper bracket	13.8	19.0
Between brackets	9.6	65.9
* Below lower bracket	0.8	15.1



# Bull Market Duration

## Bull Markets

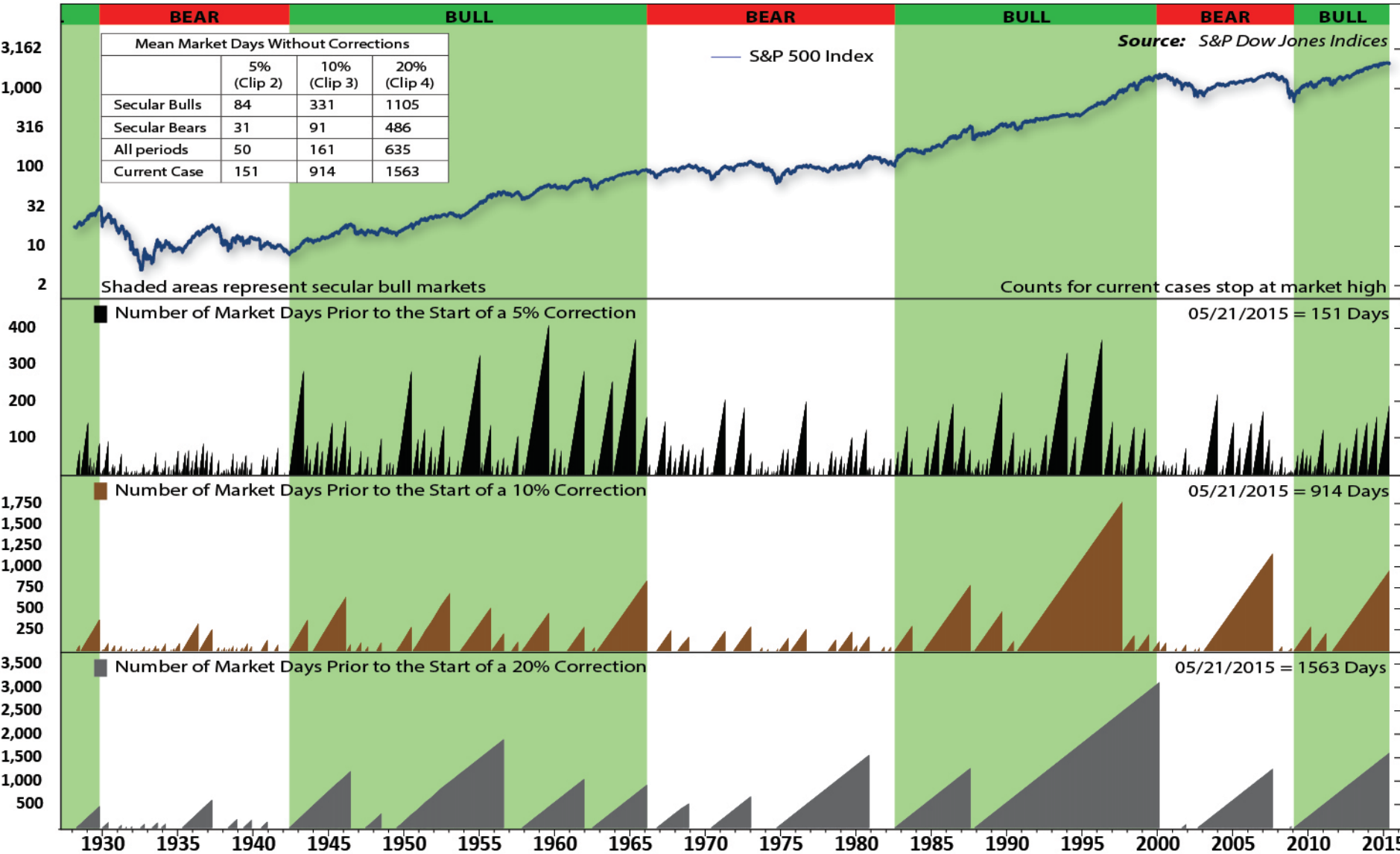


\*Through 6/30/2015

Source: Investech Research

# S&P 500: Number of Days Before the Start of 5%, 10%, and 20% Corrections

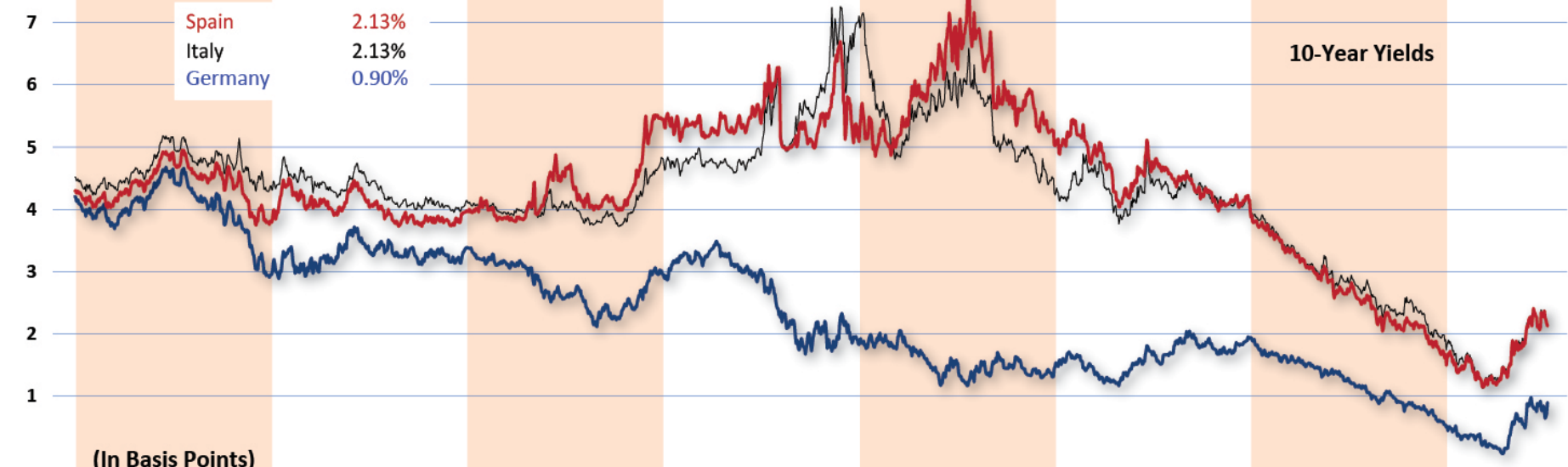
Daily Data 1928-01-03 to 2015-07-15 (Log Scale)



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

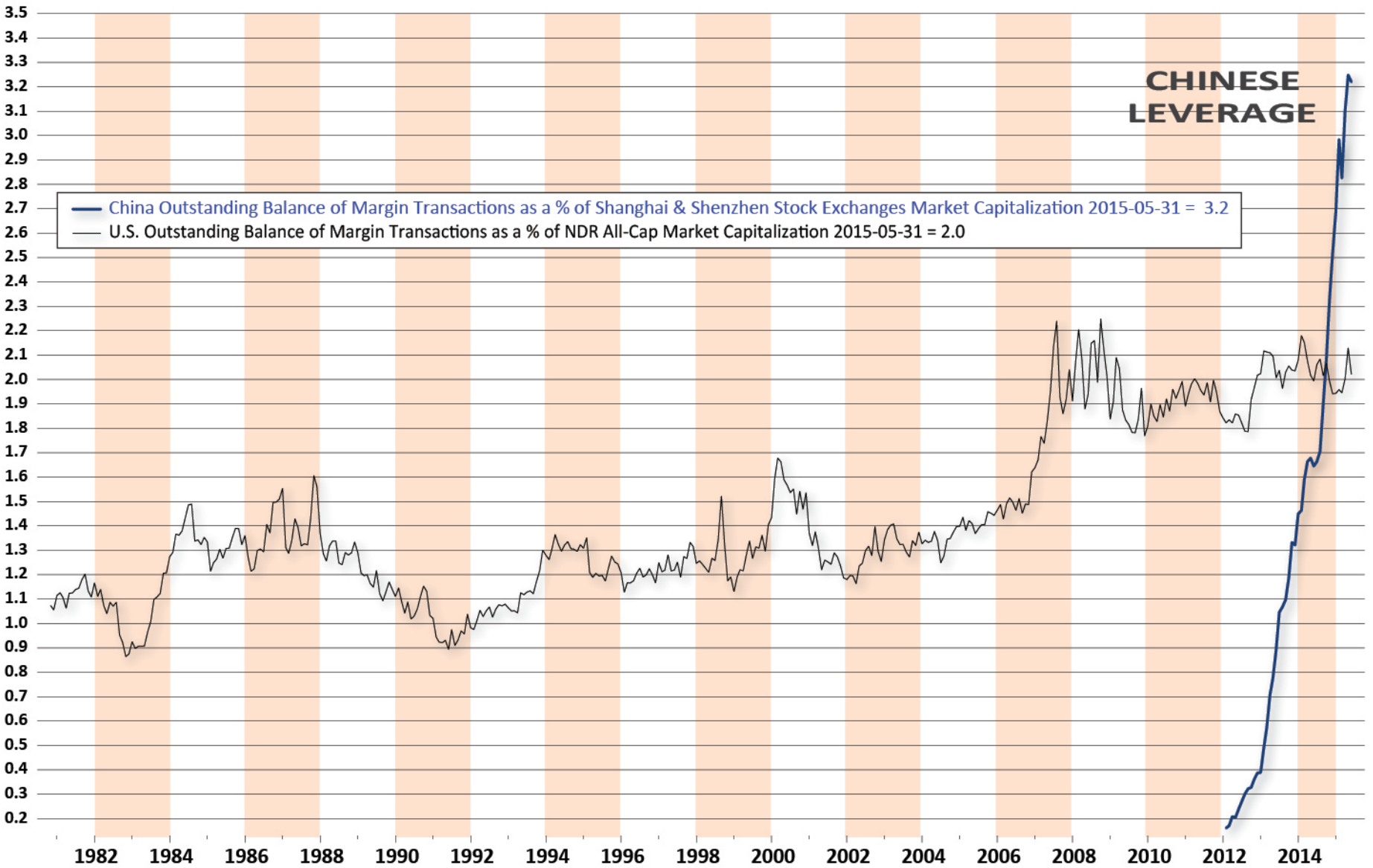
Daily Data 1/02/2008 - 7/10/2015 (Log Scale)

Spain	2.13%
Italy	2.13%
Germany	0.90%



# U.S. vs. China Margin Debt as a Share of Market Capitalization

Monthly Data 1980-10-31 to 2015-05-31



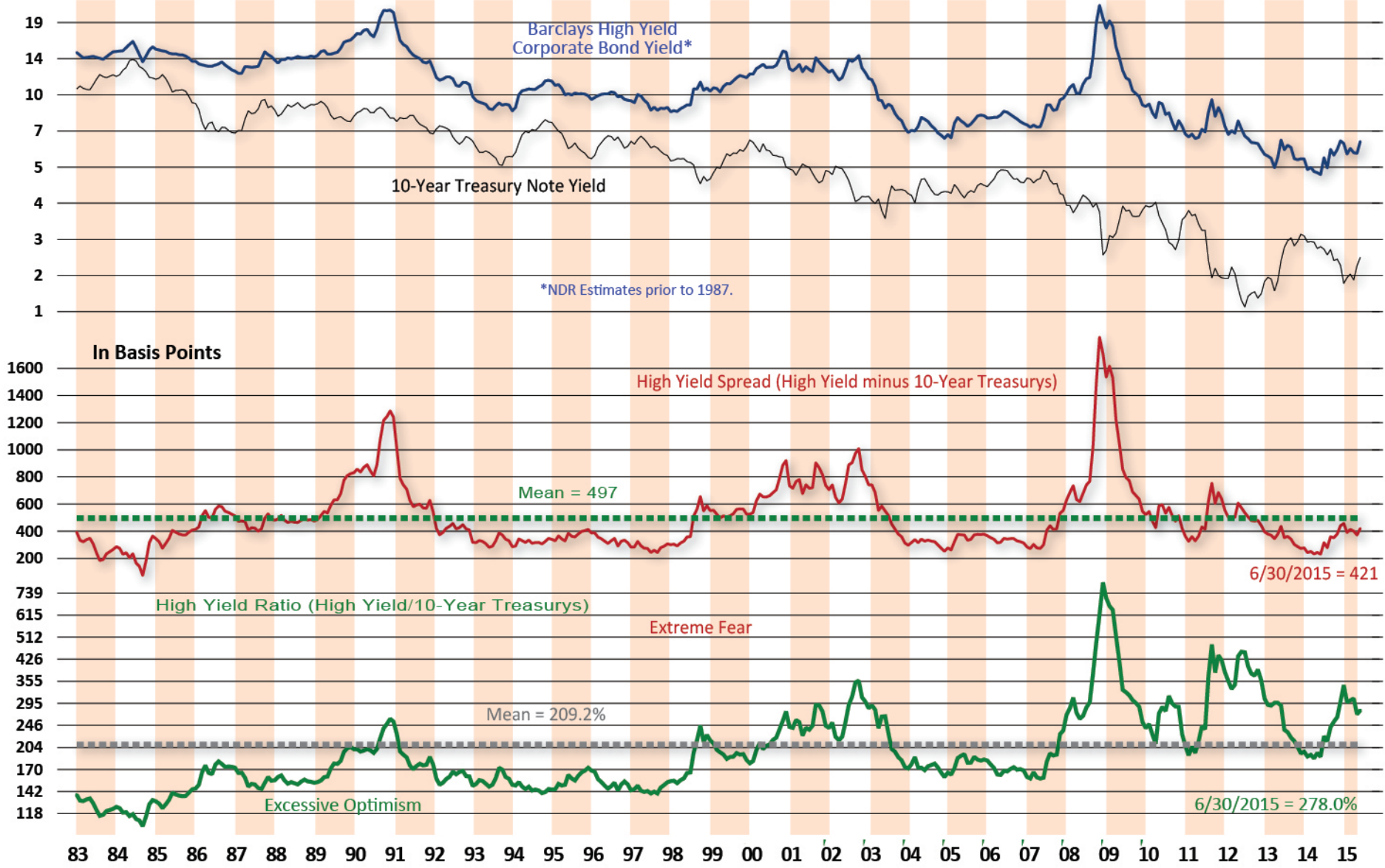
MEDIAN PERFORMANCE OF SELECTED BOND SECTORS BEFORE AND AFTER INITIAL FED RATE HIKES SINCE 1980								
Sector Index	ALL NEGATIVE				ALL POSITIVE			
	% Gain X-Months Before				% Gain X-Months After			
	12	9	6	3	3	6	9	12
U.S. Aggregate	2.25	1.32	0.15	-1.82	2.54	4.18	3.68	6.80
Treasurys	3.12	3.72	-0.20	-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*



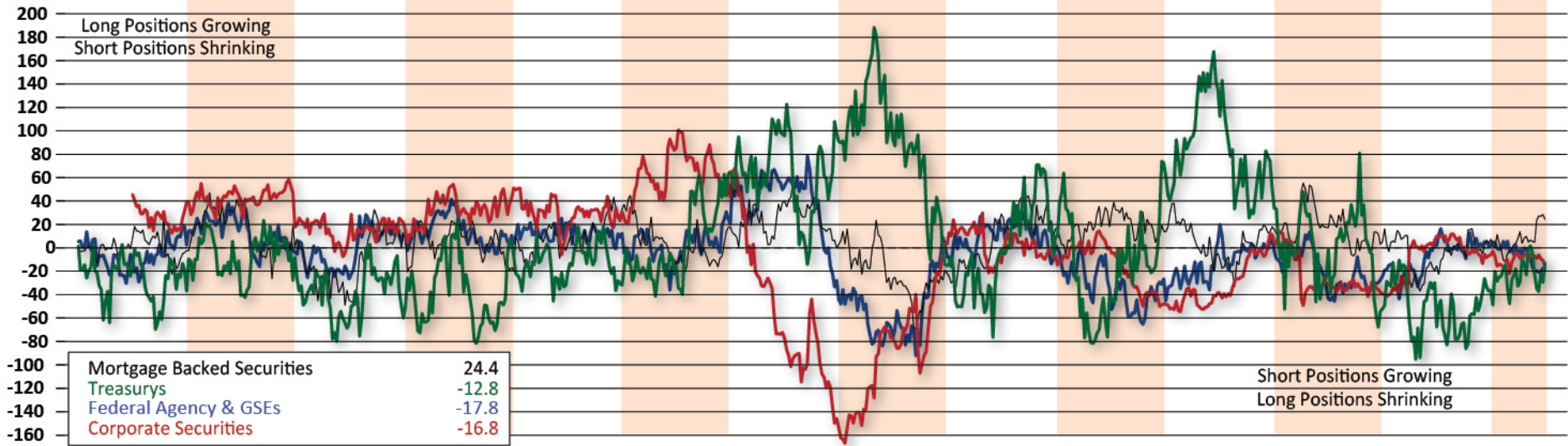
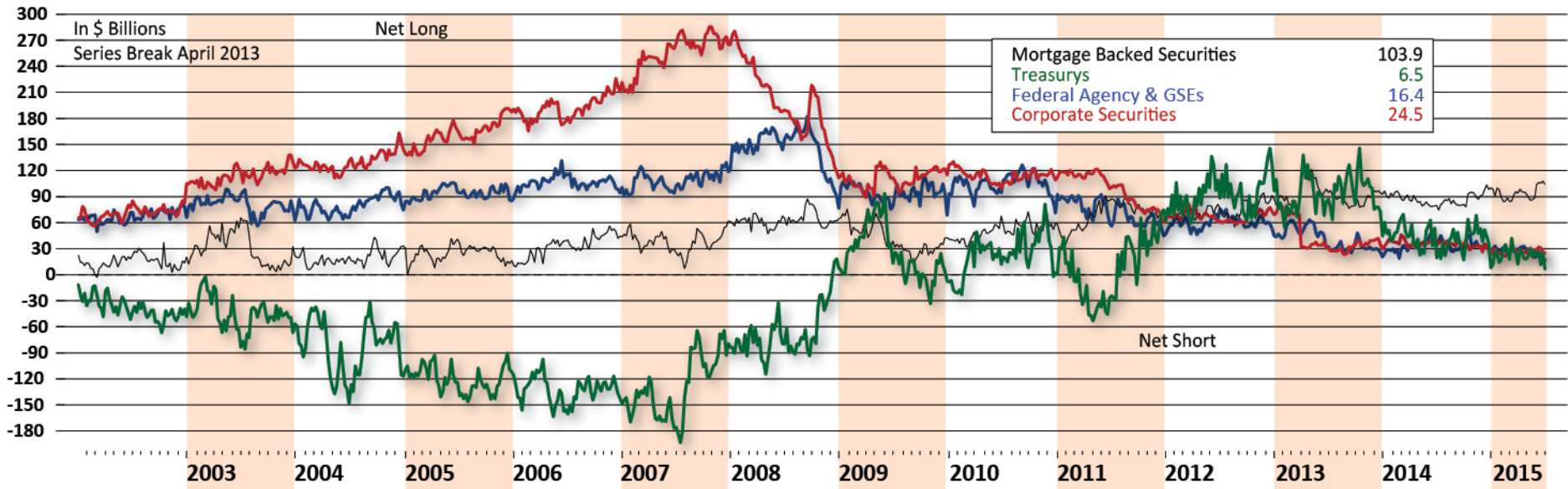
# High Yield Corporate Spreads (Relative to 10-Year Treasurys)

Monthly Data 1/31/1983 - 6/30/2015 (Log Scale)



# Primary Dealer Positions in Securities

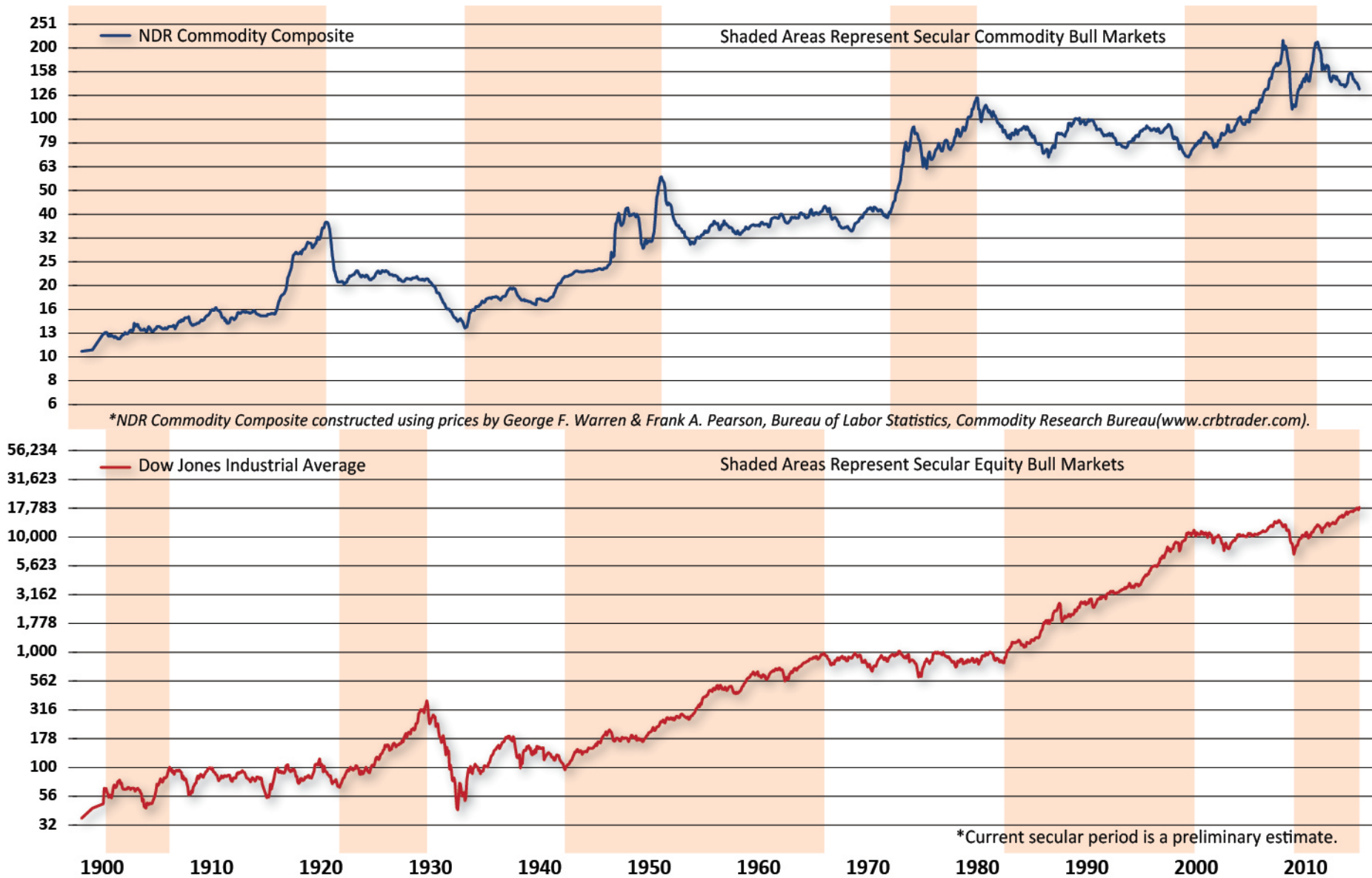
Weekly Data 1/04/2002 - 7/02/2015  
Data reflects Wednesday posting



## Year-to-Year Dollar Changes of Primary Dealer Positions

# Commodities & Stocks - Secular Bulls

Monthly Data 1897-12-31 to 2015-02-28 (Log Scale)



\*NDR Commodity Composite constructed using prices by George F. Warren & Frank A. Pearson, Bureau of Labor Statistics, Commodity Research Bureau(www.crbrtrader.com).

\*Current secular period is a preliminary estimate.

# Continuous Commodity Index (CCI) - Long-Term Trends

Daily Data 2001-01-02 to 2015-07-09 (Log Scale)



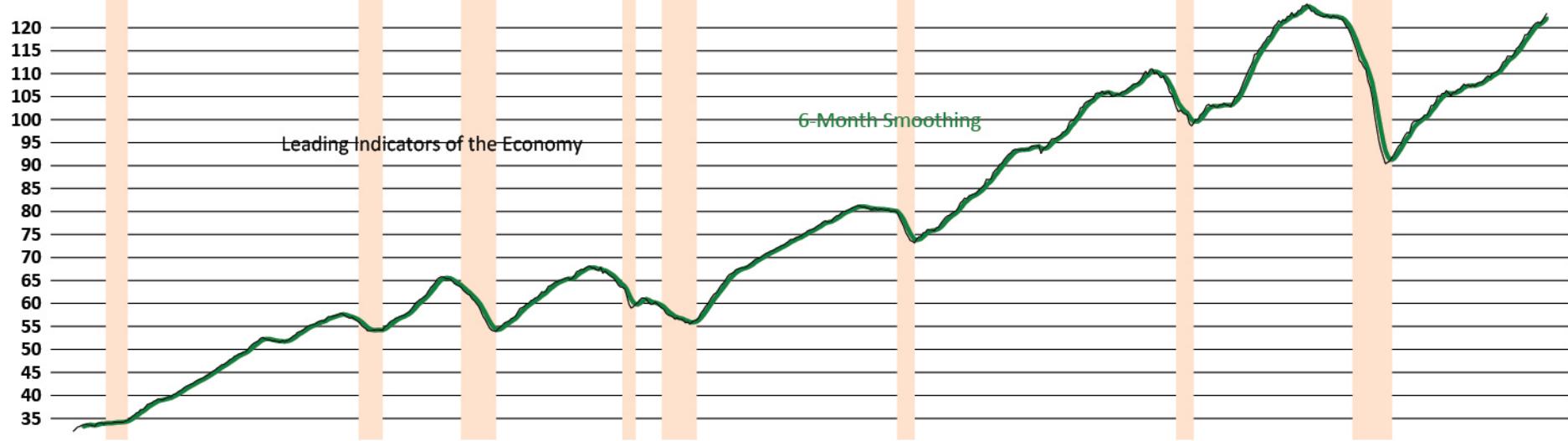
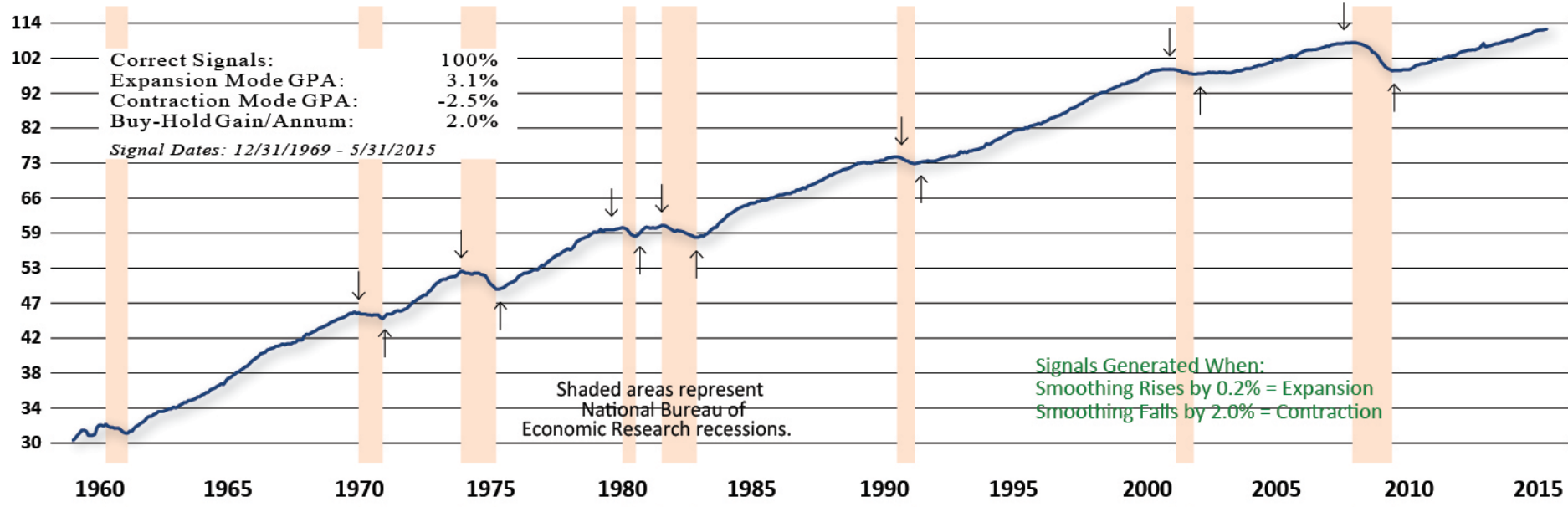
Source: Commodity Research Bureau, [www.crbtrader.com](http://www.crbtrader.com)

# Unemployment Claims



# The Economy (The Index of Coincident Economic Indicators)

Monthly Data 1/31/1959 - 5/31/2015 (Log Scale)



# The Index of Leading Economic Indicators

# 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

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

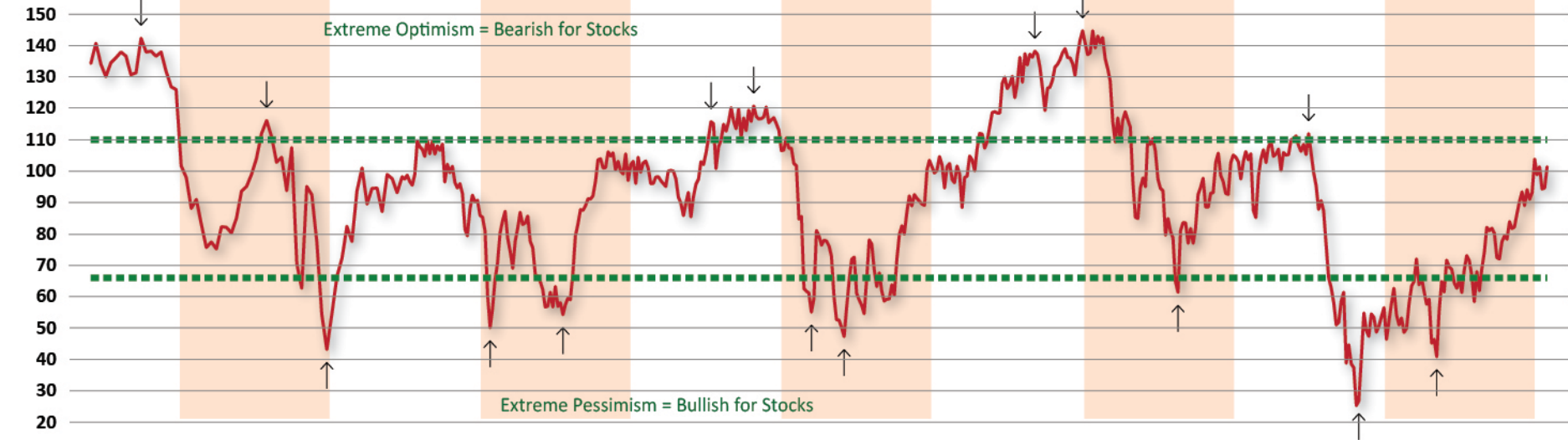
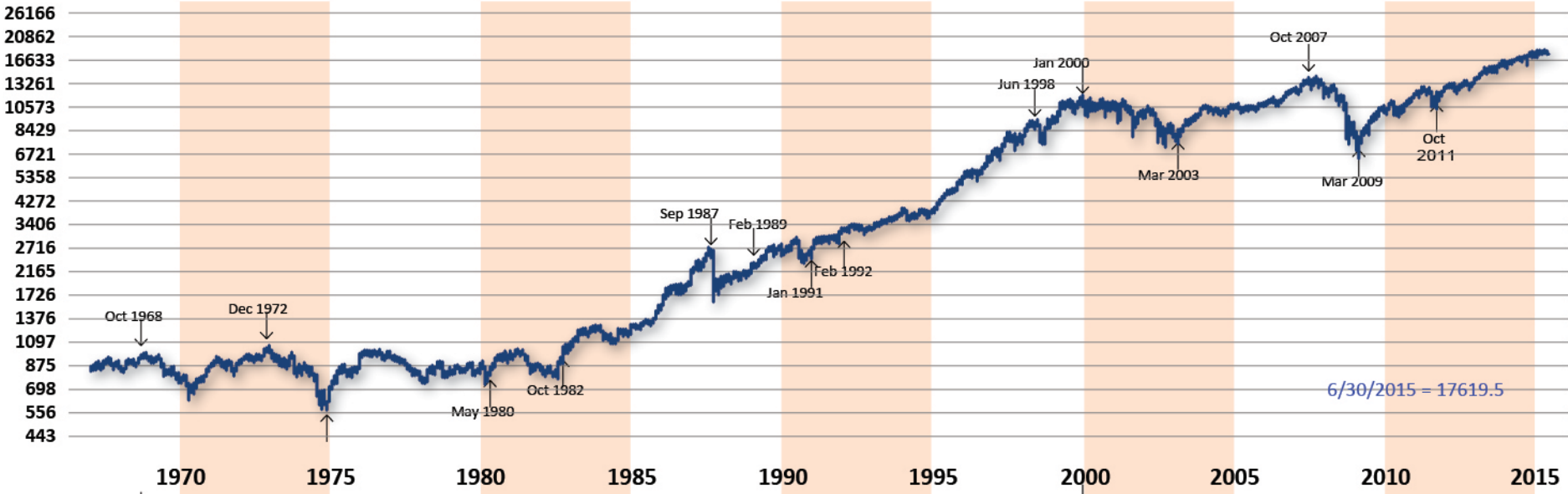
Monthly Data 1966-01-31 to 2015-06-30





# Dow Jones Industrial Average

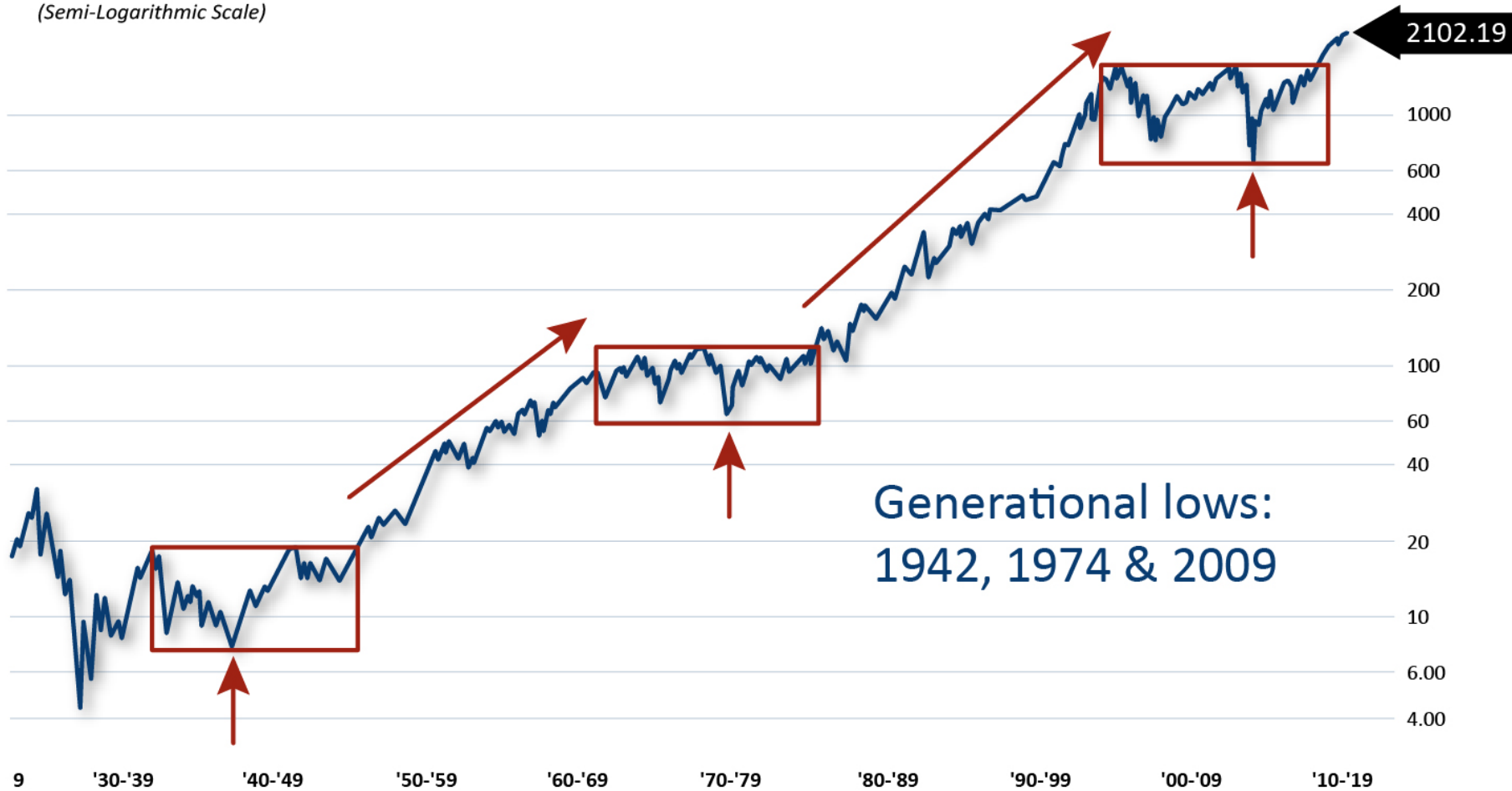
Monthly Data 2/28/1967 - 6/30/2015 (Log Scale)



# Consumer Confidence (Conference Board)

# S&P 500 Monthly Closing Price

(Semi-Logarithmic Scale)



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.

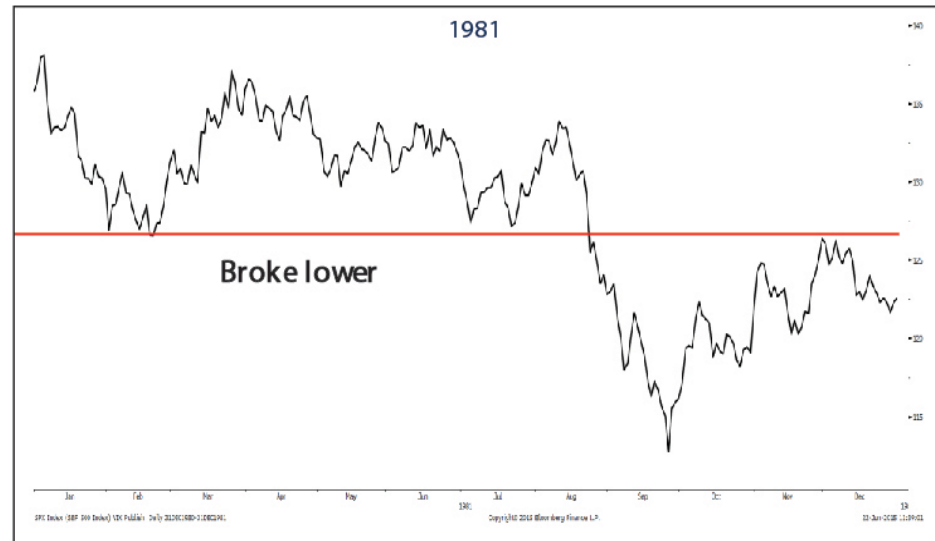
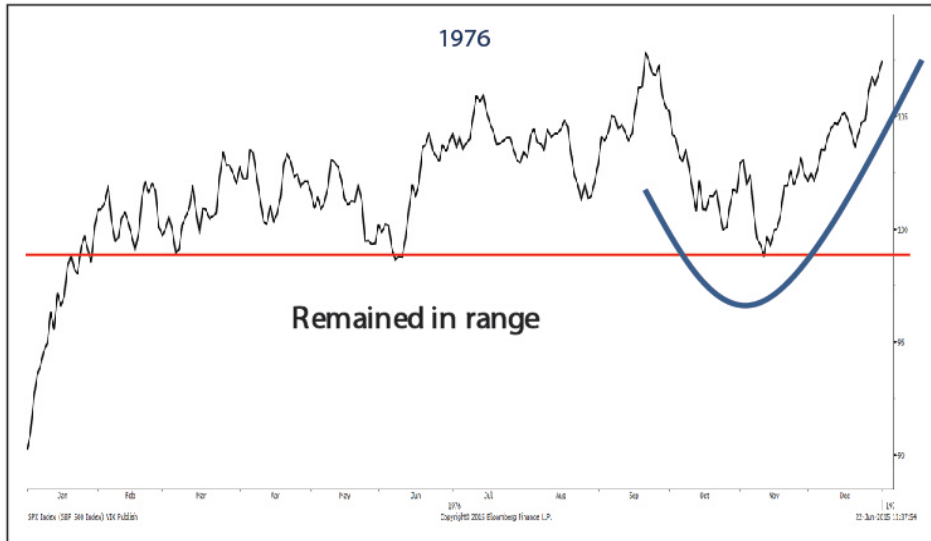
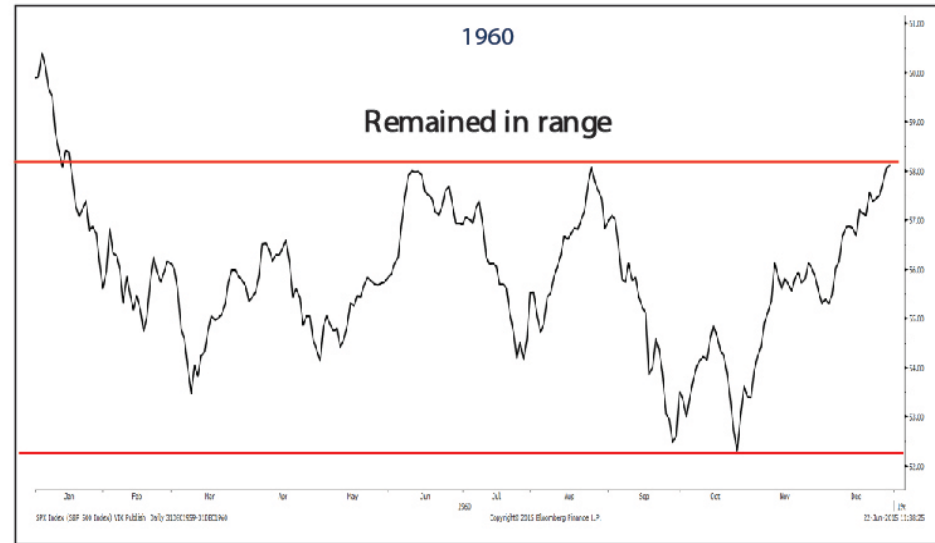
The iPath® S&P 500 Dynamic VIX ETN is designed to provide investors with exposure to the S&P 500® Dynamic VIX Futures™ Total Return Index.

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.

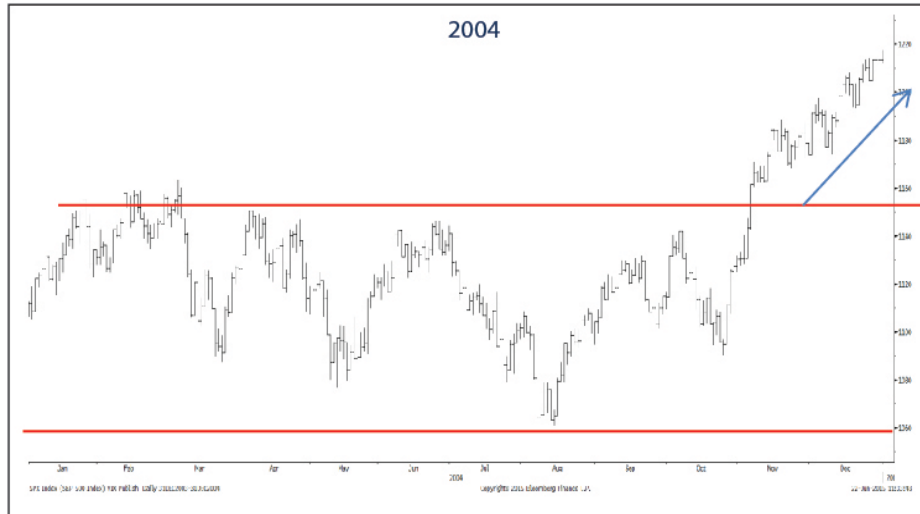
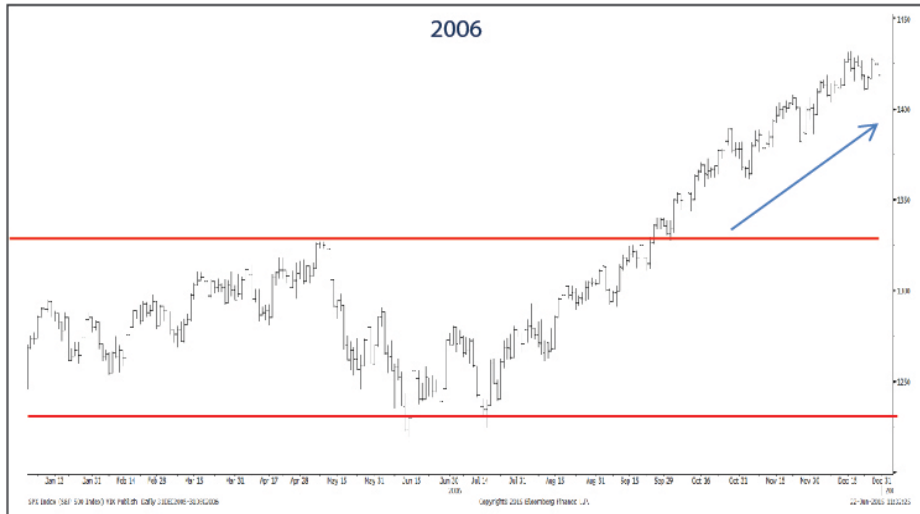
# Historical Examples of Narrow Range Markets

Historical examples:



# Historical Examples of Narrow Range Markets

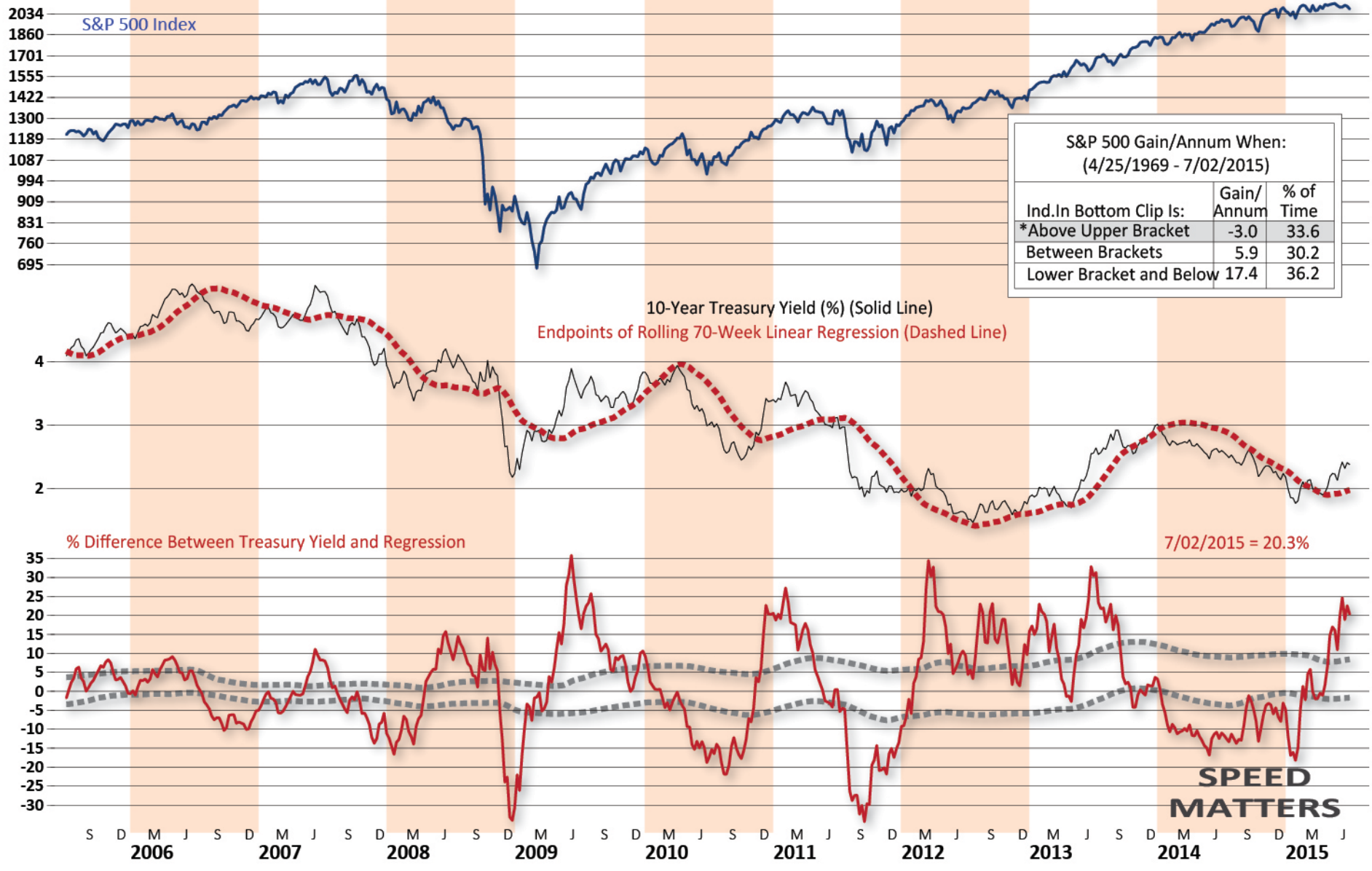
Historical examples:



Source: Bloomberg Financial & FBN Securities

# S&P 500 vs. 10-Year Yield Deviation-From-Trend

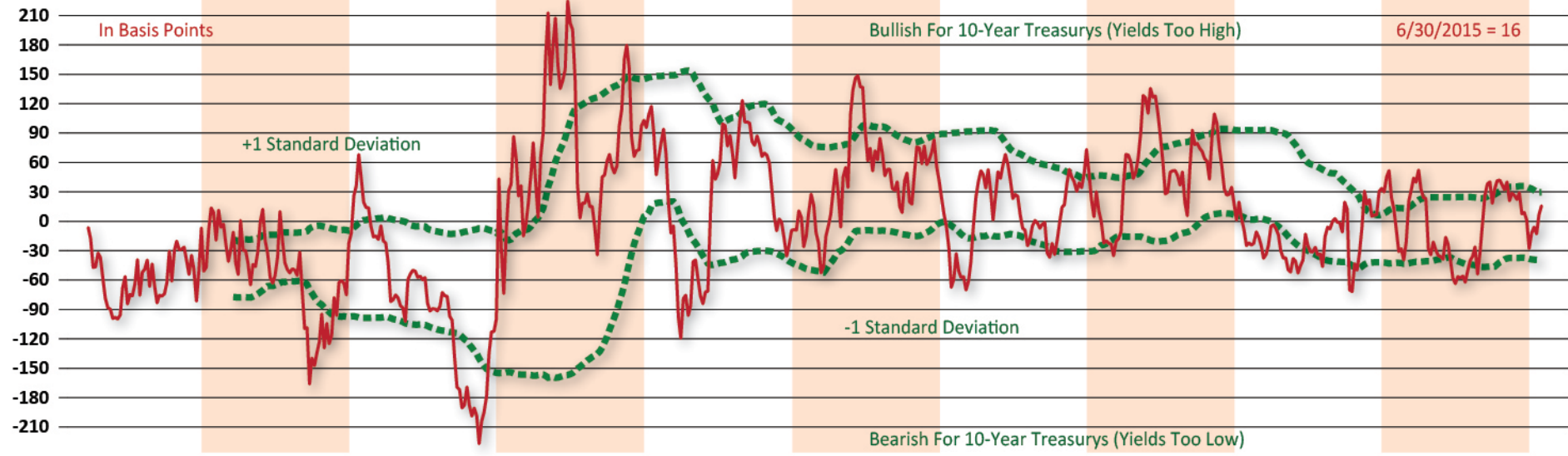
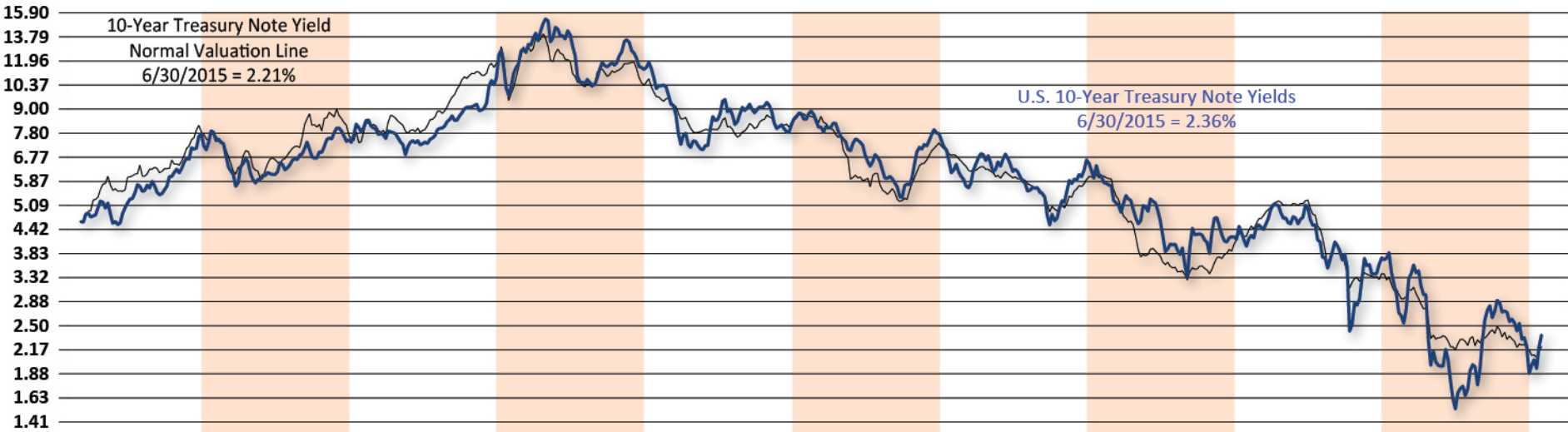
Weekly Data 7/08/2005 - 7/02/2015 (Log Scale)



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MATTERS**

# 10-Year Treasury Note Yield Normal Valuation Line

Monthly Data 12/31/1965 - 6/30/2015 (Log Scale)

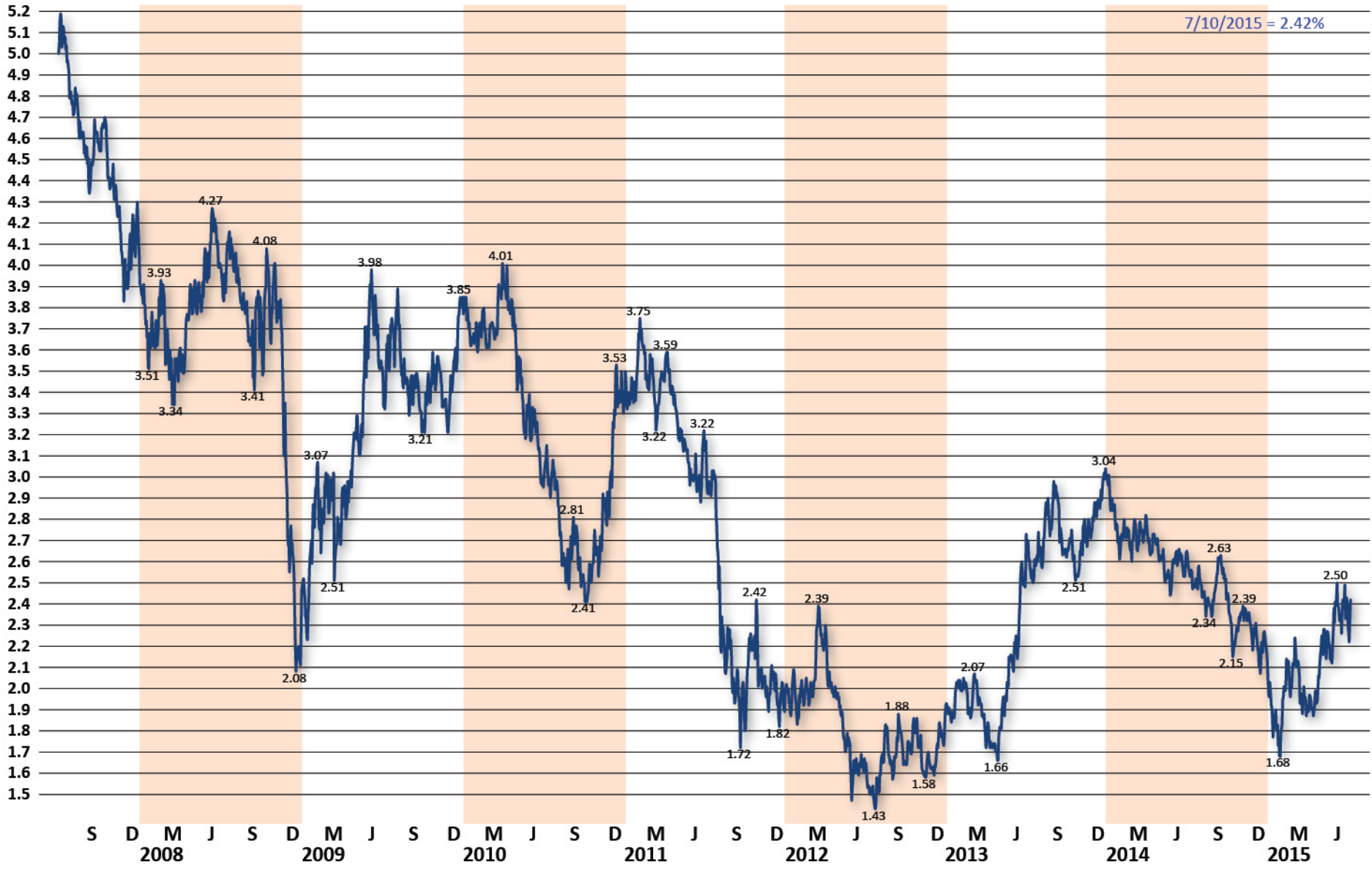


## 10-Year Note Yields Over or Under Valued



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

Daily Data 7/02/2007 - 7/10/2015

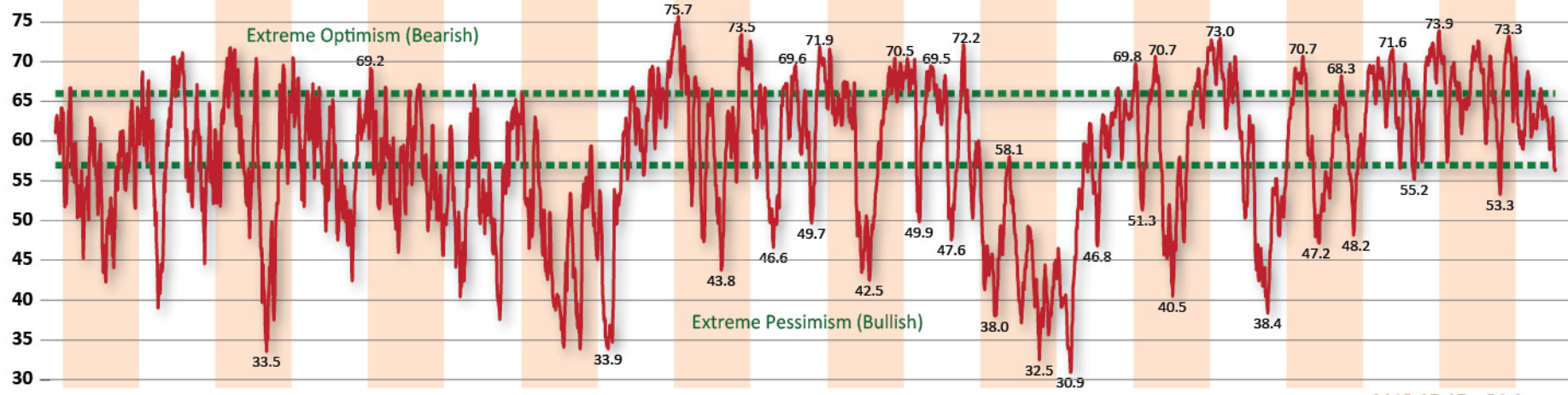


# S&P 500 Composite Index

1995-12-01 to 2015-07-07 (Log Scale)  
(Updated weekly on Wednesday mornings)



S&P 500 Index Gain/Annum When:		
NDR Crowd Sentiment Poll is:	% Gain/Annum	% of Time
Above 66	-7.4	21.8
57 - 66 from Above	2.7	17.7
57 - 66 from Below	18.5	19.8
* Below 57	10.7	40.8

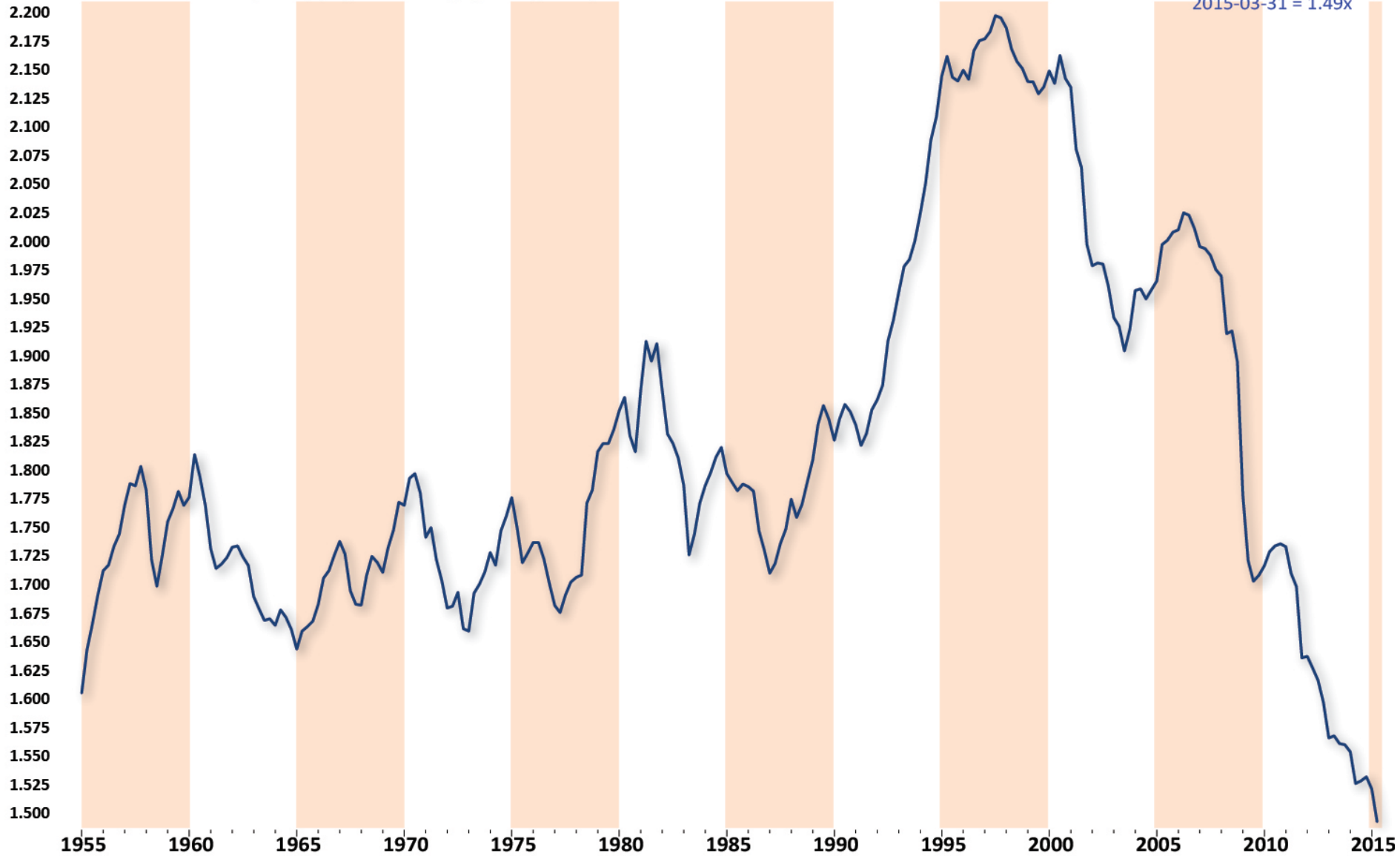


## NDR Crowd Sentiment Poll — Transitional Mode Basis

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

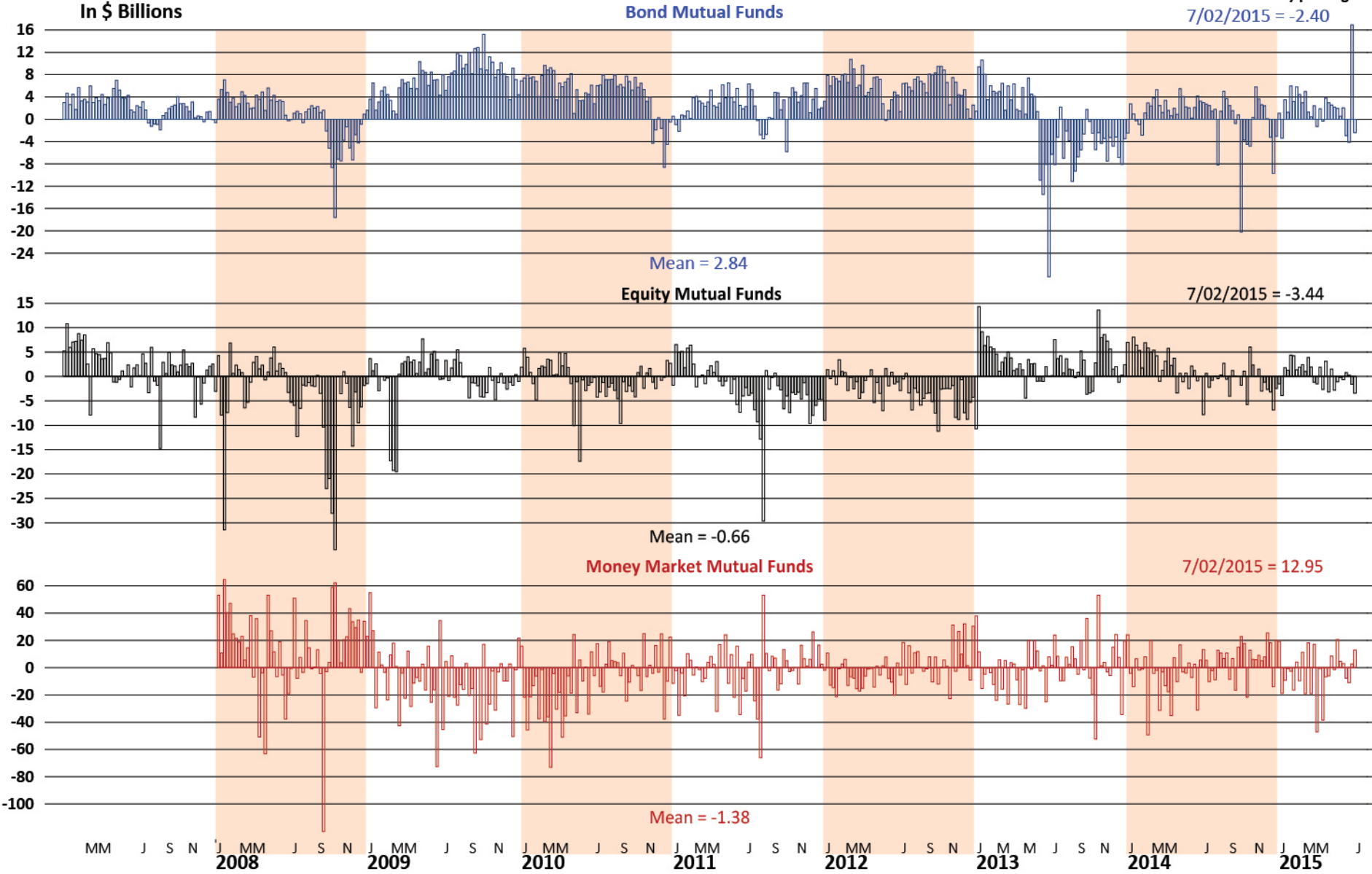
Quarterly Data 1954-12-31 to 2015-03-31

2015-03-31 = 1.49x



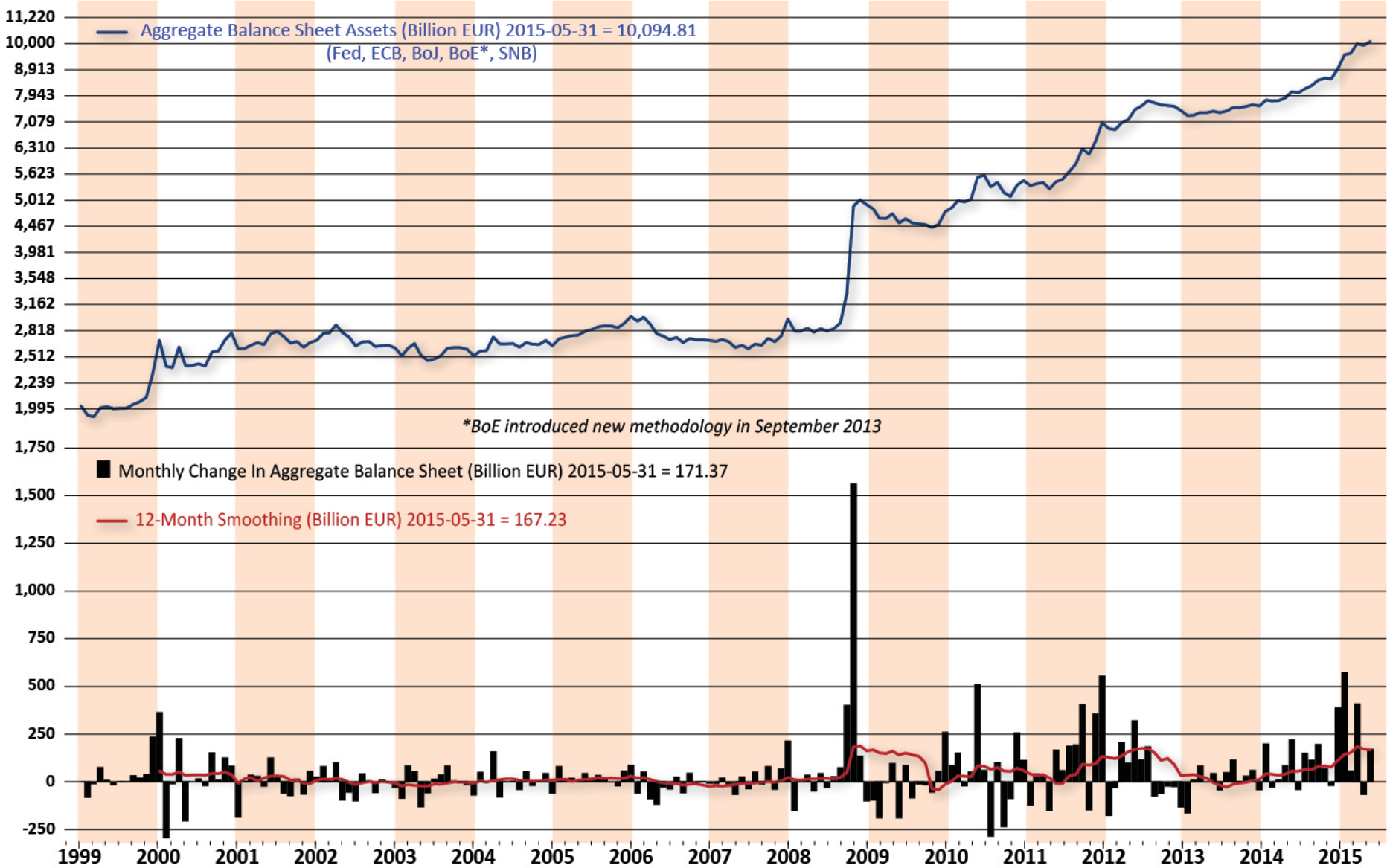
# Estimated Net Inflows to Bond, Equity, and Money Market Mutual Funds

Weekly Data 1/05/2007 - 7/02/2015  
Data reflects Wednesday posting  
7/02/2015 = -2.40



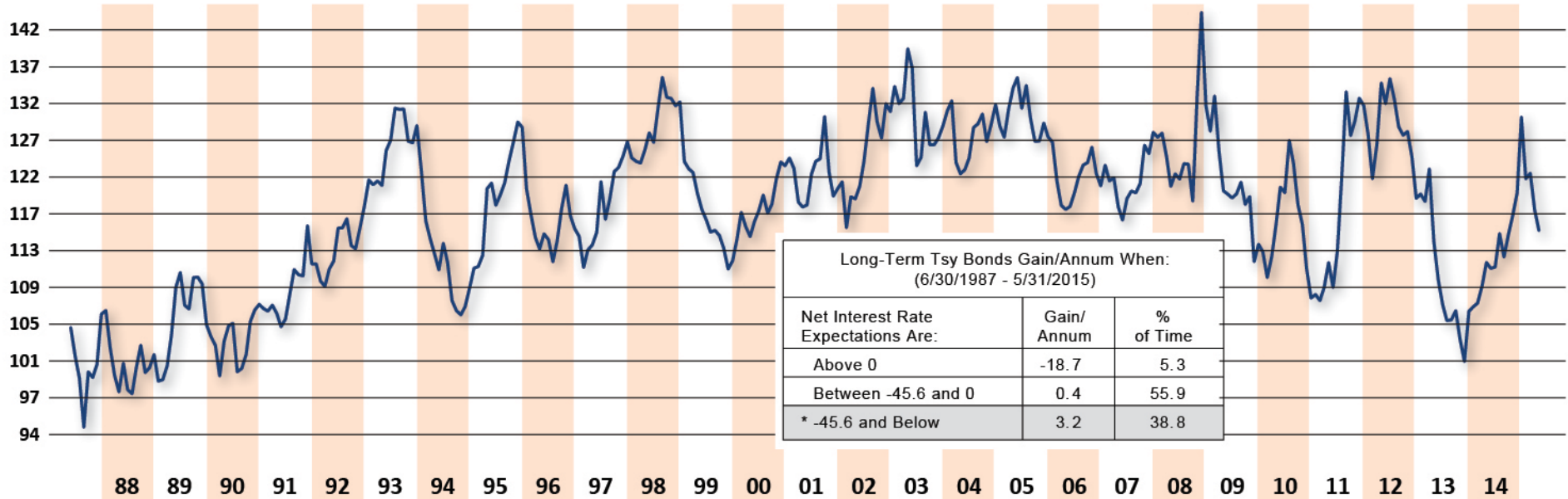
# Aggregate Balance Sheet of Central Banks Implementing QE (in Euro)

Monthly Data 1998-12-31 to 2015-05-31 (Log Scale)

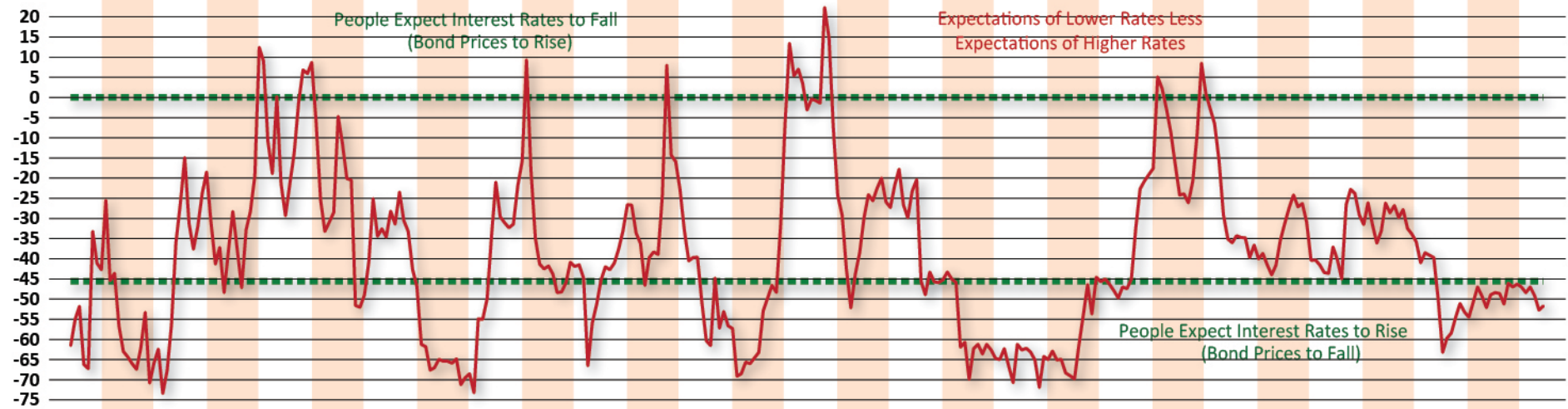


# Barclays Long-Term Treasury Bond Price Index

Monthly Data 6/30/1987 - 6/30/2015 (Log Scale)



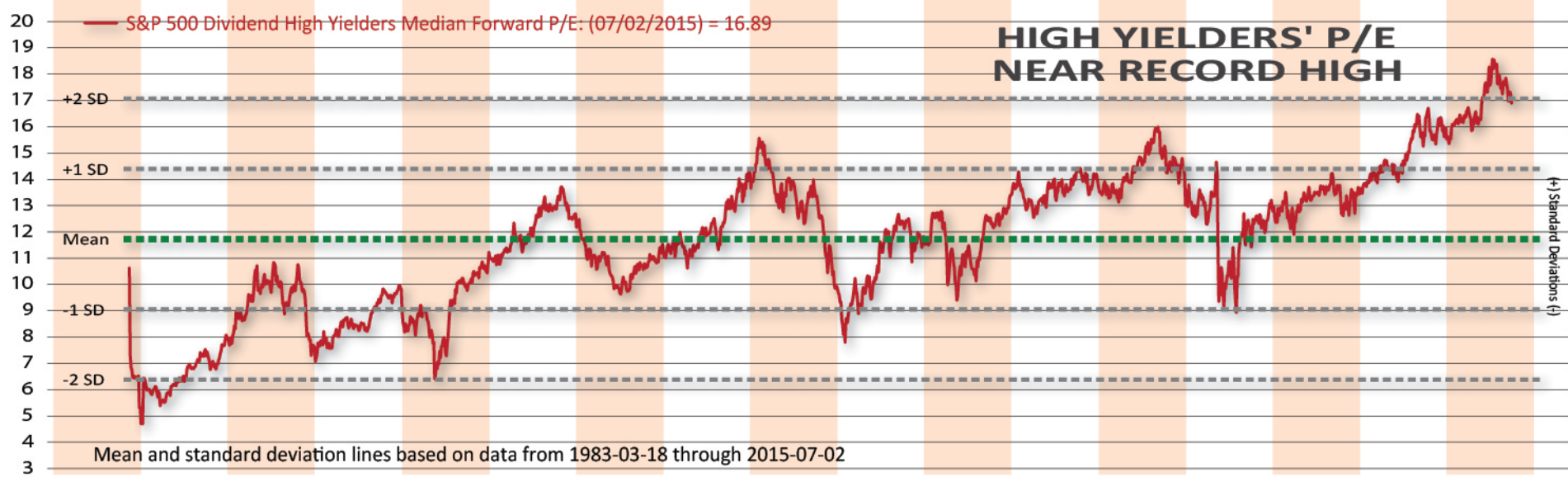
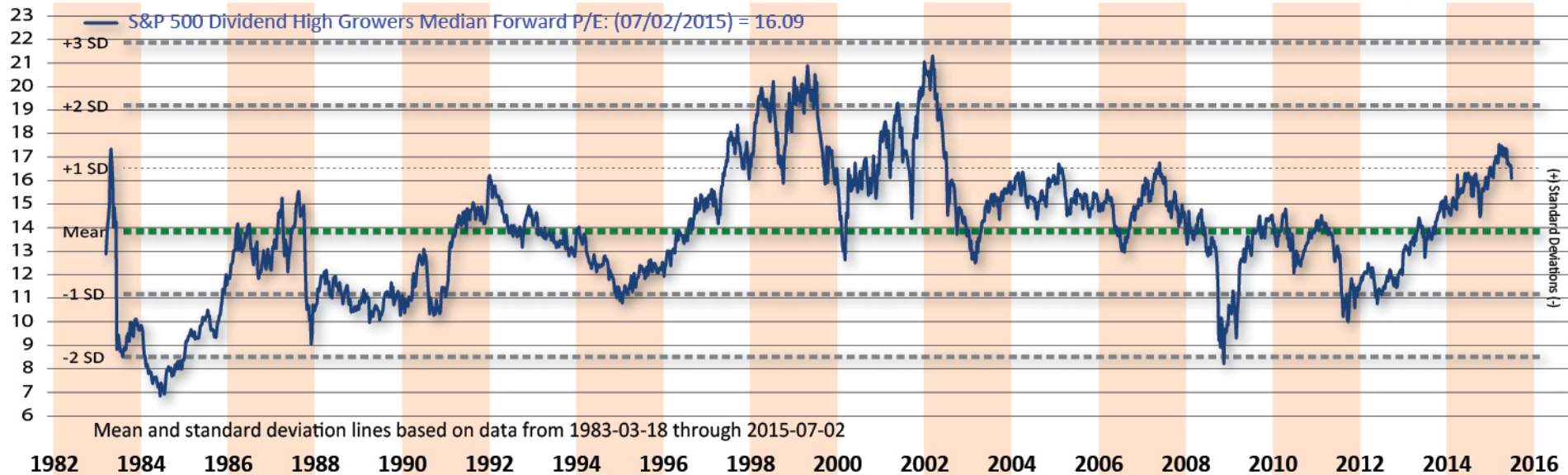
Long-Term Tsy Bonds Gain/Annum When: (6/30/1987 - 5/31/2015)		
Net Interest Rate Expectations Are:	Gain/Annum	% of Time
Above 0	-18.7	5.3
Between -45.6 and 0	0.4	55.9
* -45.6 and Below	3.2	38.8



## Conference Board's Interest Rate Expectations Survey

# S&P 500 Dividend High Growers Median Forward P/E

Weekly Data 1983-03-18 to 2015-07-02



# S&P 500 Dividend High Yielders Median Forward P/E