ClarkCapital MANAGEMENT GROUP

Portfolio Perspectives

RACE TO THE BOTTOM

$5.5 TRILLION

FACE VALUE OF GLOBAL GOVERNMENT BONDS TRADING AT NEGATIVE YIELDS*

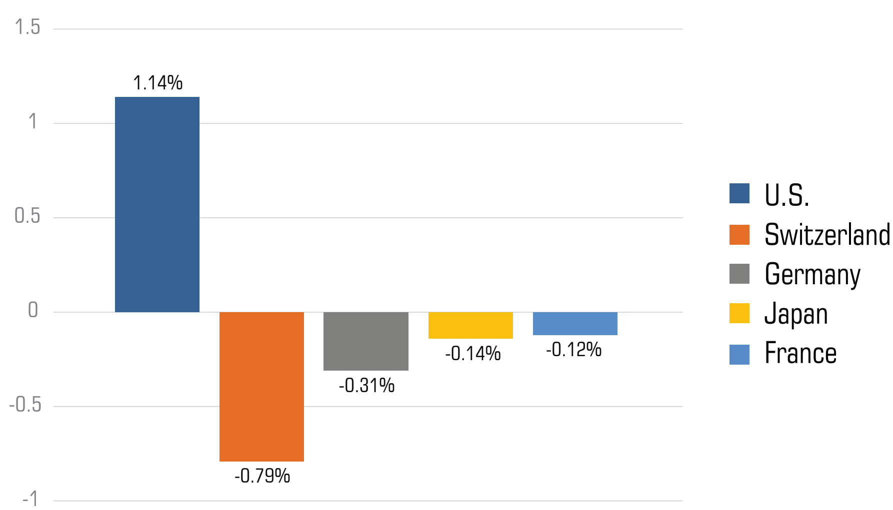
*Source: WSJ Market Data Group

A man walks into a bar and tells the bartender that he will lend him $1000 if the bartender would give him back $950 in five years. Sounds like a joke but that is exactly what is happening across the globe. On January 29th, the Bank of Japan adopted zero interest rates for the first time ever. Starting Feb 16th the Bank of Japan will apply a rate of negative 0.1% to excess reserves deposited at the bank.

This is not just happening in Japan but also across Europe. The 5-year bond rates are negative in France, Germany, Sweden, Netherlands, and Switzerland. Spain and Italy are on the verge of going negative as well. Currently, the 5-year U.S. Treasury is looking mighty attractive at 1.13%.

More astounding is that as you move further out on the yield curve it is a race to the bottom. The German 10 year is trading at 18 basis points and the Japanese 10 year at 1 basis point. It is like watching Pac-Man gobble yields and continue to move out the yield curve.

Five-Year Yield



Source: Bloomberg.

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

The effects have been startling and disruptive. U.S. Treasury yields are plummeting and equity markets are retreating. Negative rates are proving to be de-stabilizing. As oil moves lower sovereign wealth funds are liquidating assets. This is having a tightening effect in the market. It's a circuitous loop, more debt trades at negative yields, stocks go down, oil goes down, China forex reserves go down and sovereign wealth funds sell assets. And finally treasury rates go down because low returns are better than negative returns.

As with all turbulent markets, stocks will eventually find a bottom somewhere and treasuries will sell off. The question is: from where? Right now bulls are hoping for a double bottom on the S&P around 1810-1818. The stock market is "heavy" and the bearish case is gaining traction. We believe this will keep the bid for bonds strong but a tactical approach to fixed income will be needed to navigate this interest rate environment.

Jamie Mullen
Senior Portfolio Manager

As Senior Portfolio Manager, Jamie developed and manages the Navigator Global Opportunity portfolio and manages the Premier Fixed Income Strategies. In addition, Jamie manages covered call options deployed on individual stocks and exchange traded funds in the Premier Portfolio Group and implements collar strategies on individual blocks of stocks. He is a member of the Clark Capital Investment Committee. Jamie has over 25 years of experience with fixed income securities. He began in municipal credit research and worked in public finance before moving to a position in trading where his experience included trading municipal bonds and employing fixed income futures and futures options. He has extensive experience in dealing with mutual funds, and trust departments and money managers. He received his degree from St. Joseph's University.