



# Market Outlook

## 2016

Presented by:  
K. Sean Clark, CFA<sup>®</sup>  
Chief Investment Officer

# A Good First Half

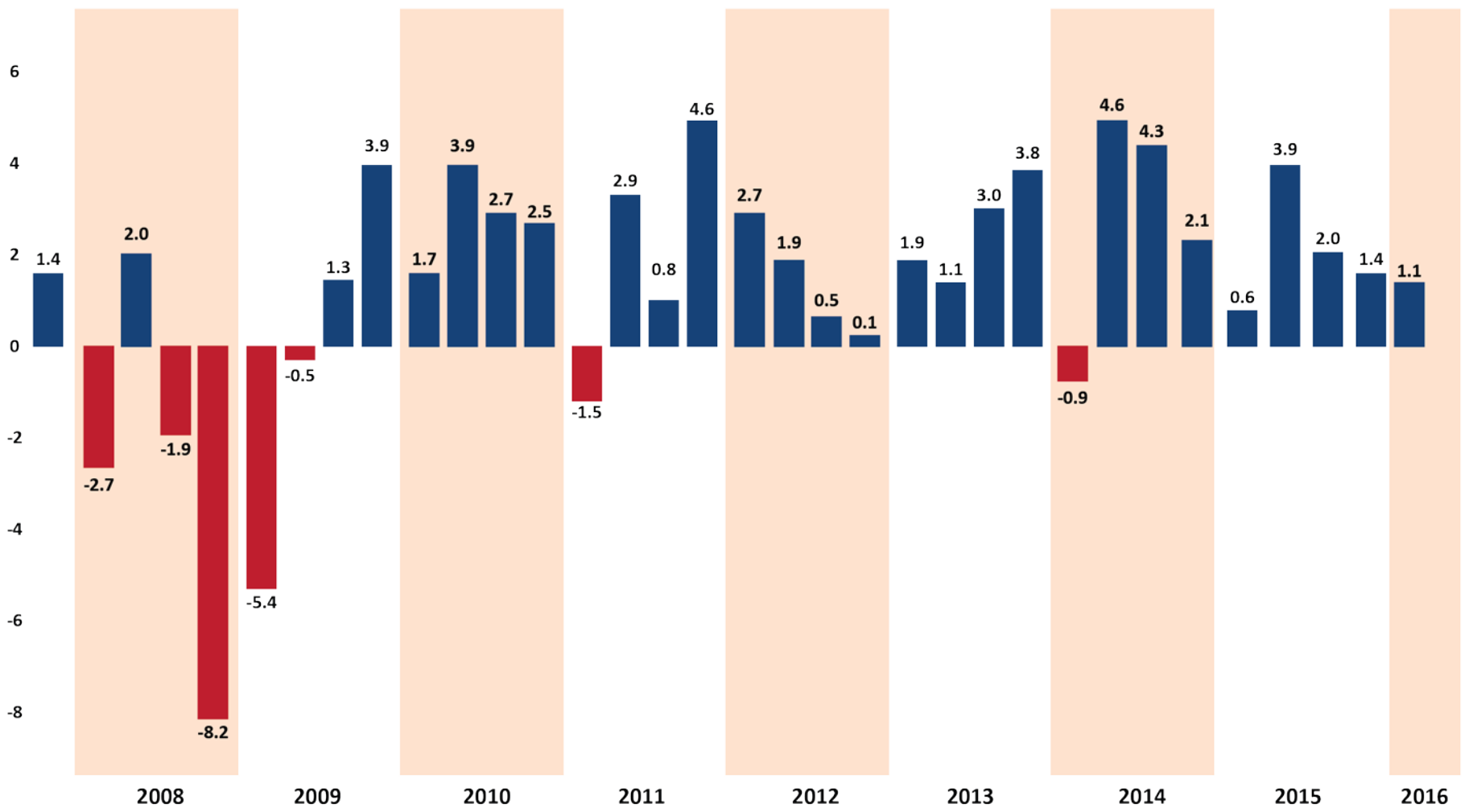


<b>Domestic Equity</b>		
	SPX	3.84%
	Russell 2000	2.22%
	Russell 3000	3.62%
	Value Line Arithmetic	6.94%
<b>International Equity</b>		
	MSCI EAFE	-4.42%
	MSCI Emerging Market	5.03%
	MSCI AC World	0.66%
<b>Fixed Income</b>		
	Barclays Aggregate Bond	5.31%
	Barclays High Yield	9.06%
	Barclays 10 Year Treasury	7.95%
	Barclays 30 Year Treasury	16.82%
<b>Currency &amp; Commodity</b>		
	US Dollar Index	-2.52%
	S&P GSCI Commodity Index	20.02%

Past performance is not indicative of future returns.

# United States GDP Growth Rate

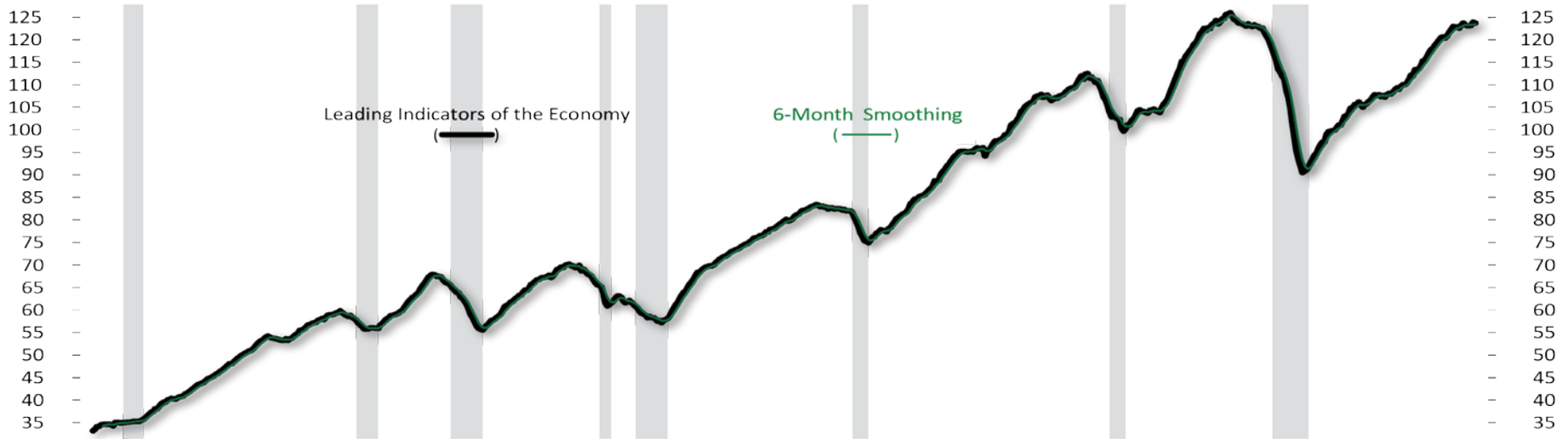
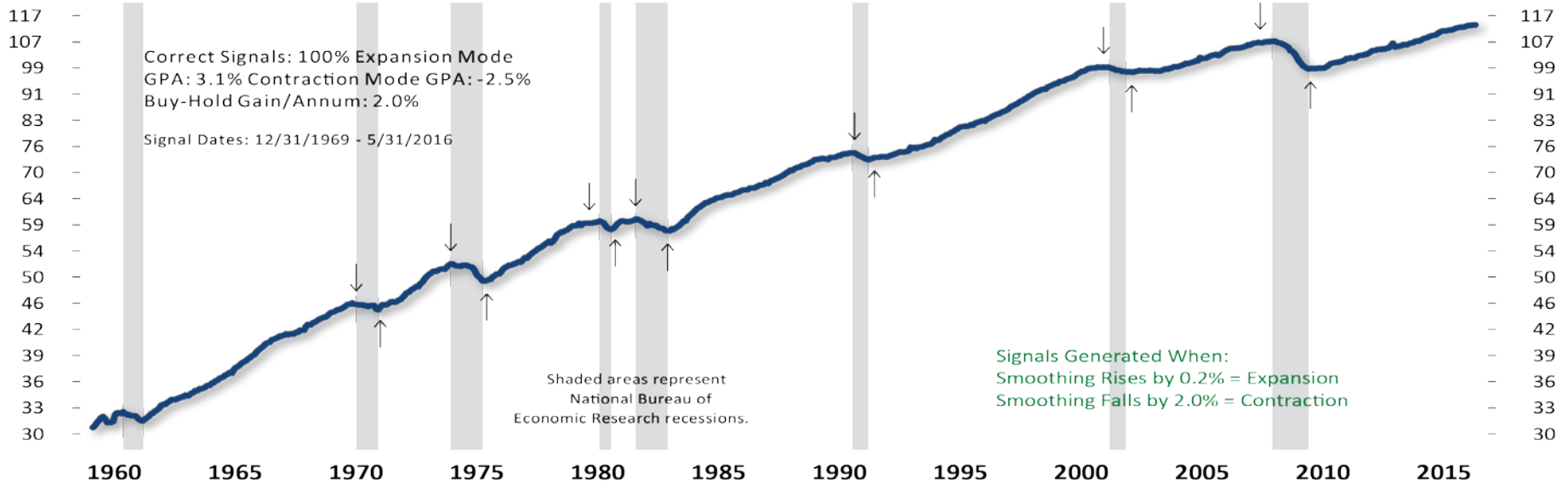
Percent Change in Gross Domestic Product



Source: Ned Davis Research

# The Economy (The Index of Coincident Economic Indicators)

Monthly Data 1/31/1959 - 5/31/2016 (Log Scale)



The Index of Leading Economic Indicators

Source: Ned Davis Research



# 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

Source: Ned Davis Research



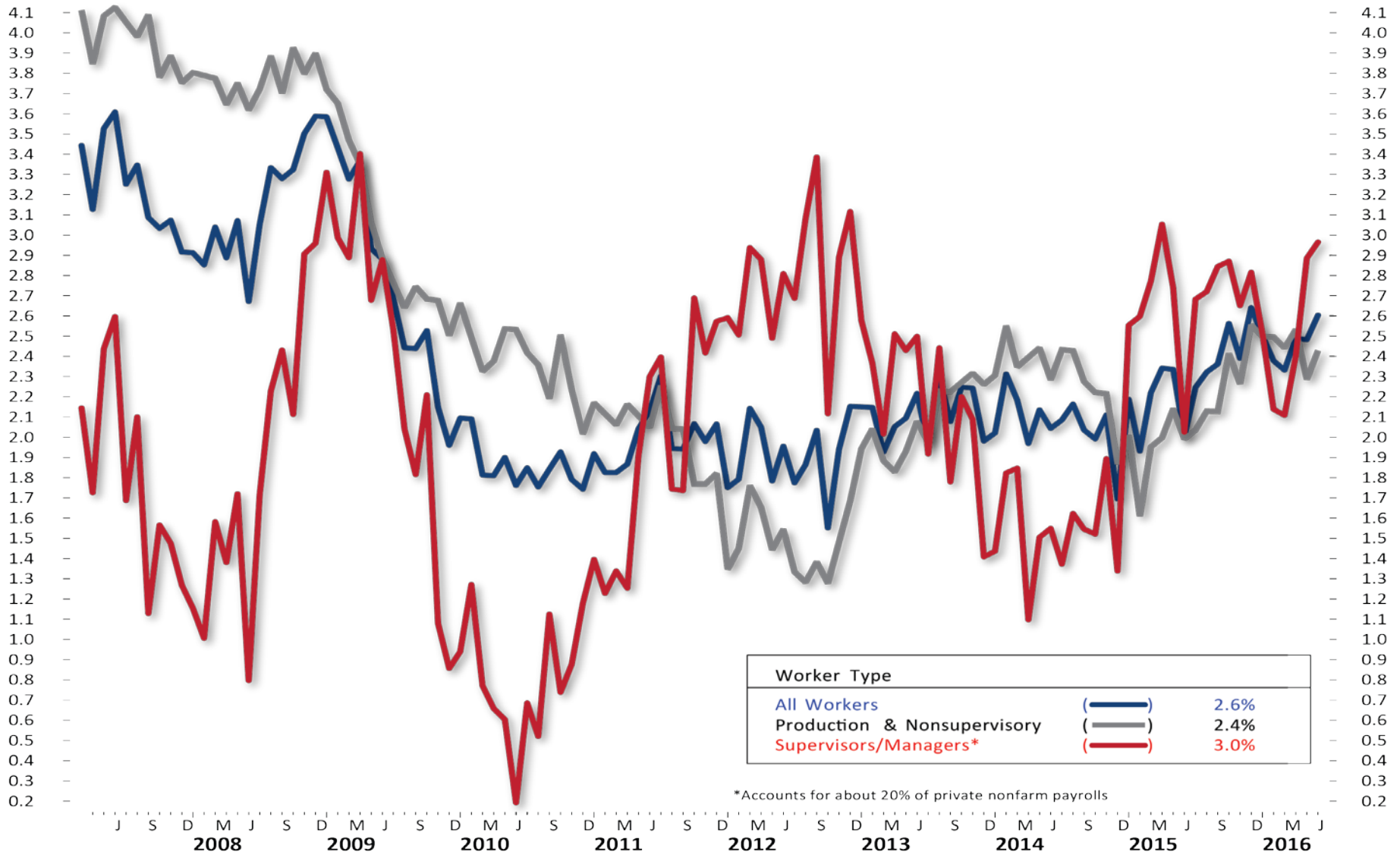
# Unemployment Claims



Source: InvesTech Research

# Average Hourly Earnings (Year-to-Year Change)

Monthly Data 3/31/2007 - 6/30/2016

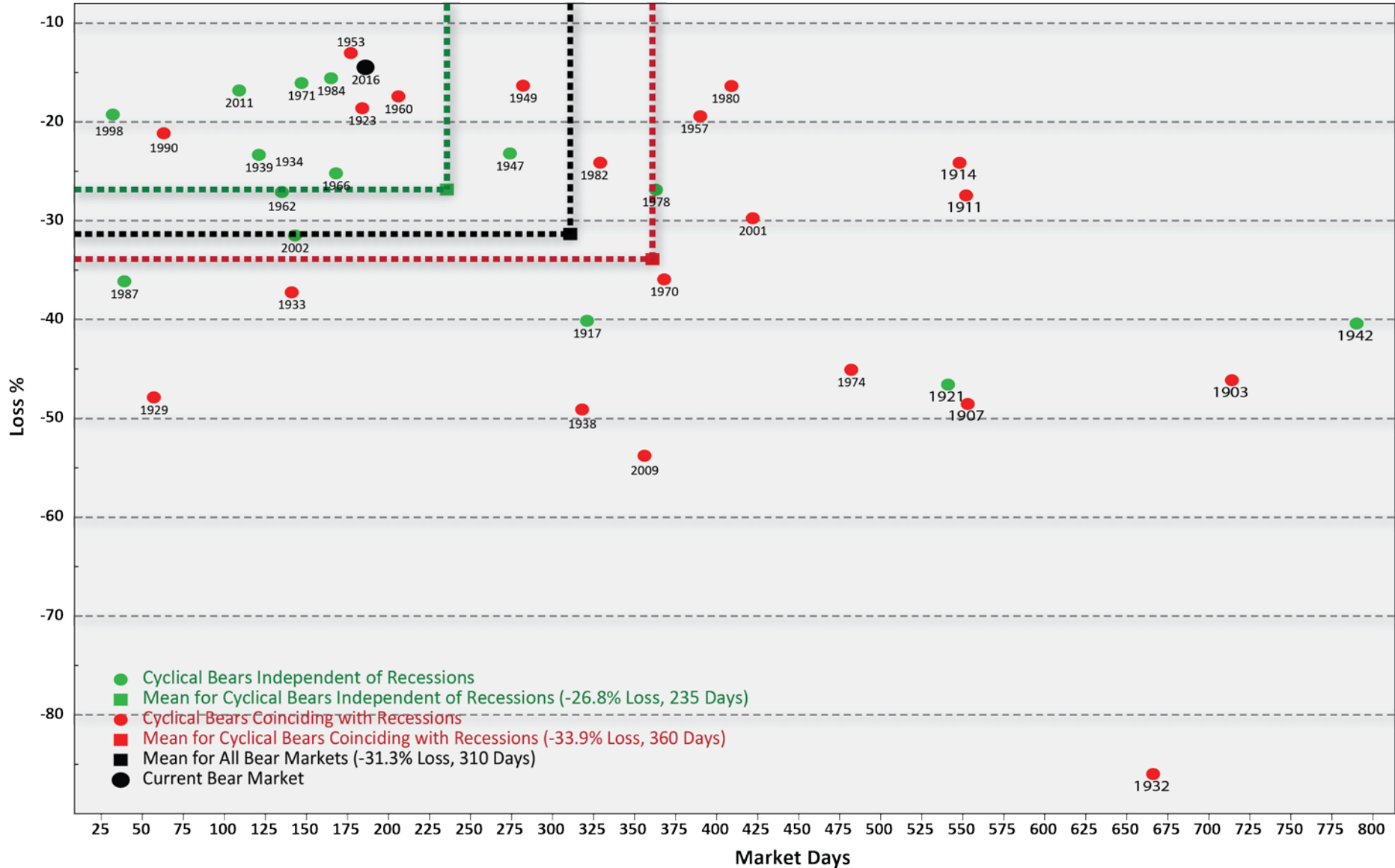


Worker Type		
All Workers	(Blue line)	2.6%
Production & Nonsupervisory	(Grey line)	2.4%
Supervisors/Managers*	(Red line)	3.0%

\*Accounts for about 20% of private nonfarm payrolls

Source: Ned Davis Research

# A History of Bear Markets II: Dow Jones Industrial Average (1900-Present)



Source: Ned Davis Research



# S&P 500 Index vs. NDR Cycle Composite

Daily Data 2009-12-31 to 2016-12-30

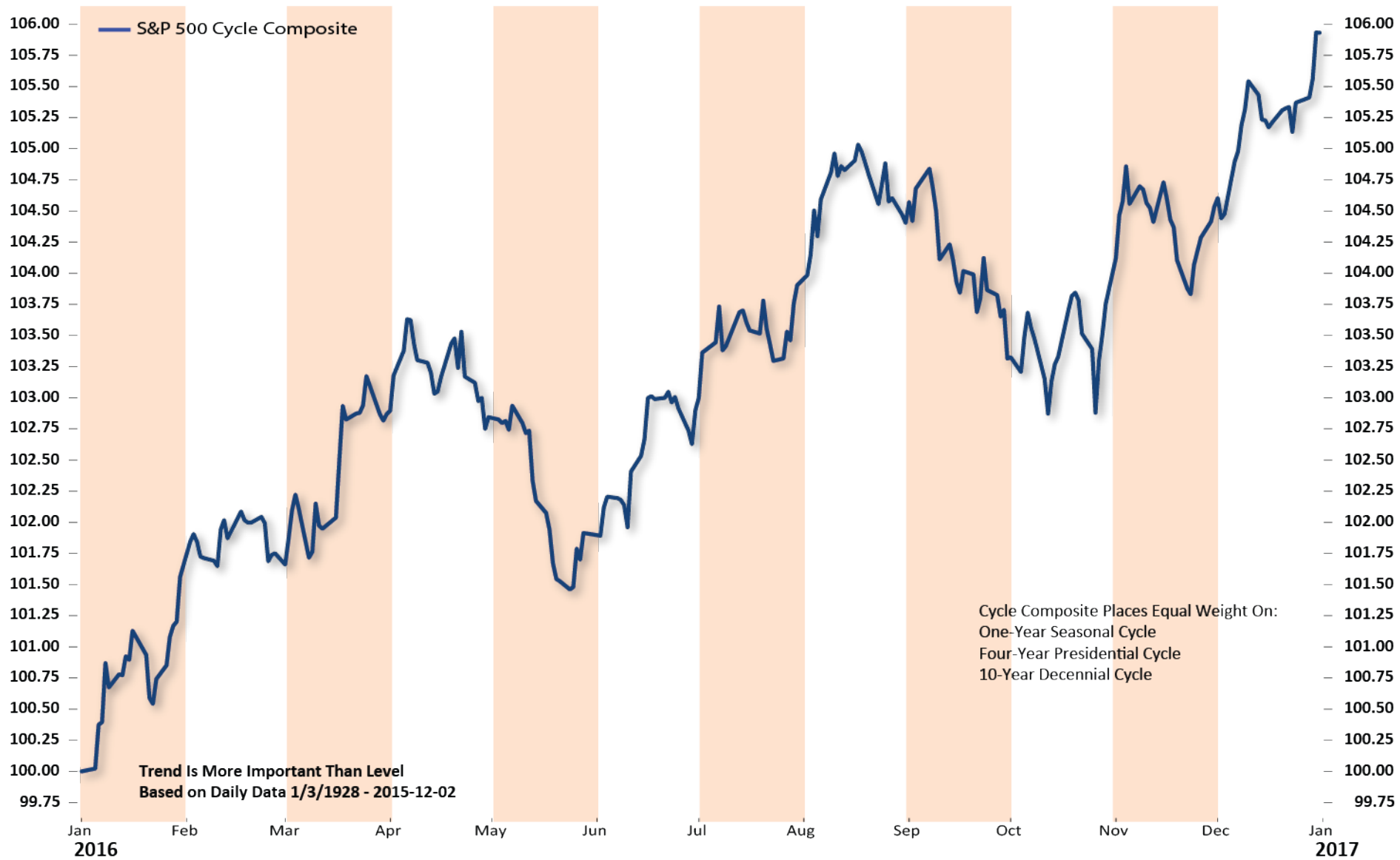


NDR Cycle Composite Places Equal Weight On: One-Year Seasonal Cycle, Four-Year Presidential Cycle, 10-Year Decennial Cycle  
Trend Is More Important Than Level

Source: Ned Davis Research

# S&P 500 Cycle Composite 2016

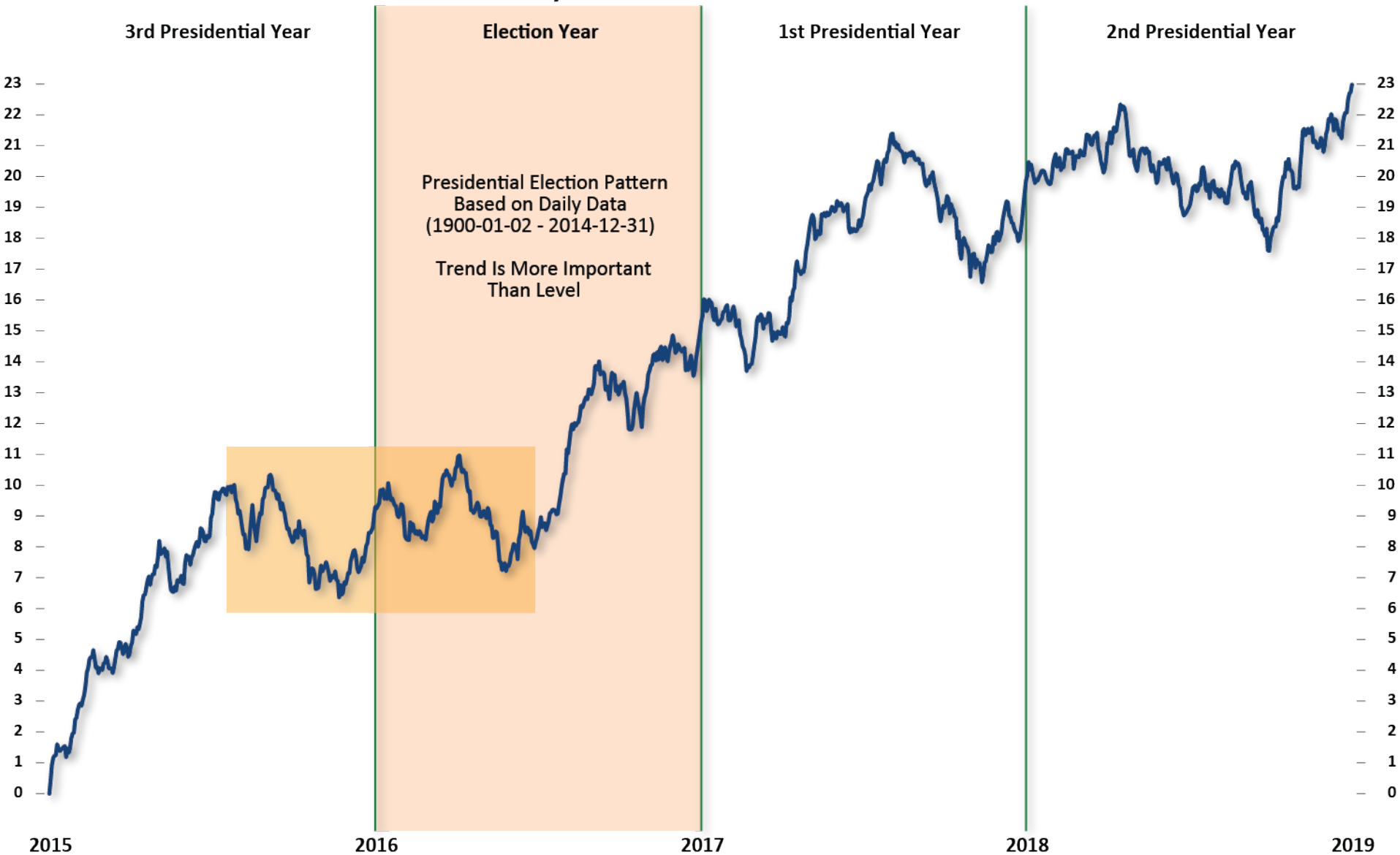
Daily Data 2015-12-31 to 2016-12-30



SSF15\_17B\_C

Source: Ned Davis Research

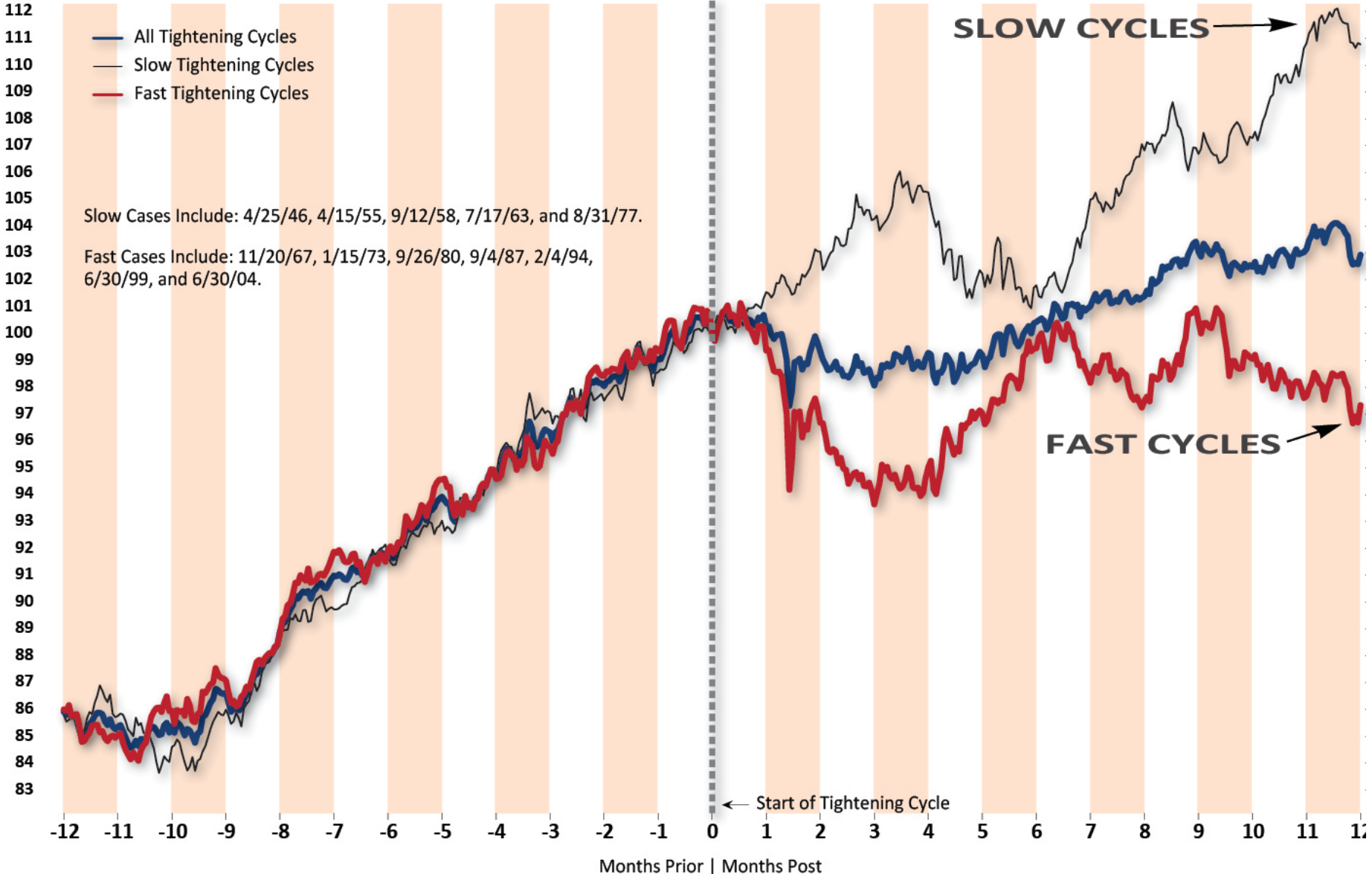
# Dow Industrials Four-Year Presidential Cycle



S01642

Source: Ned Davis Research

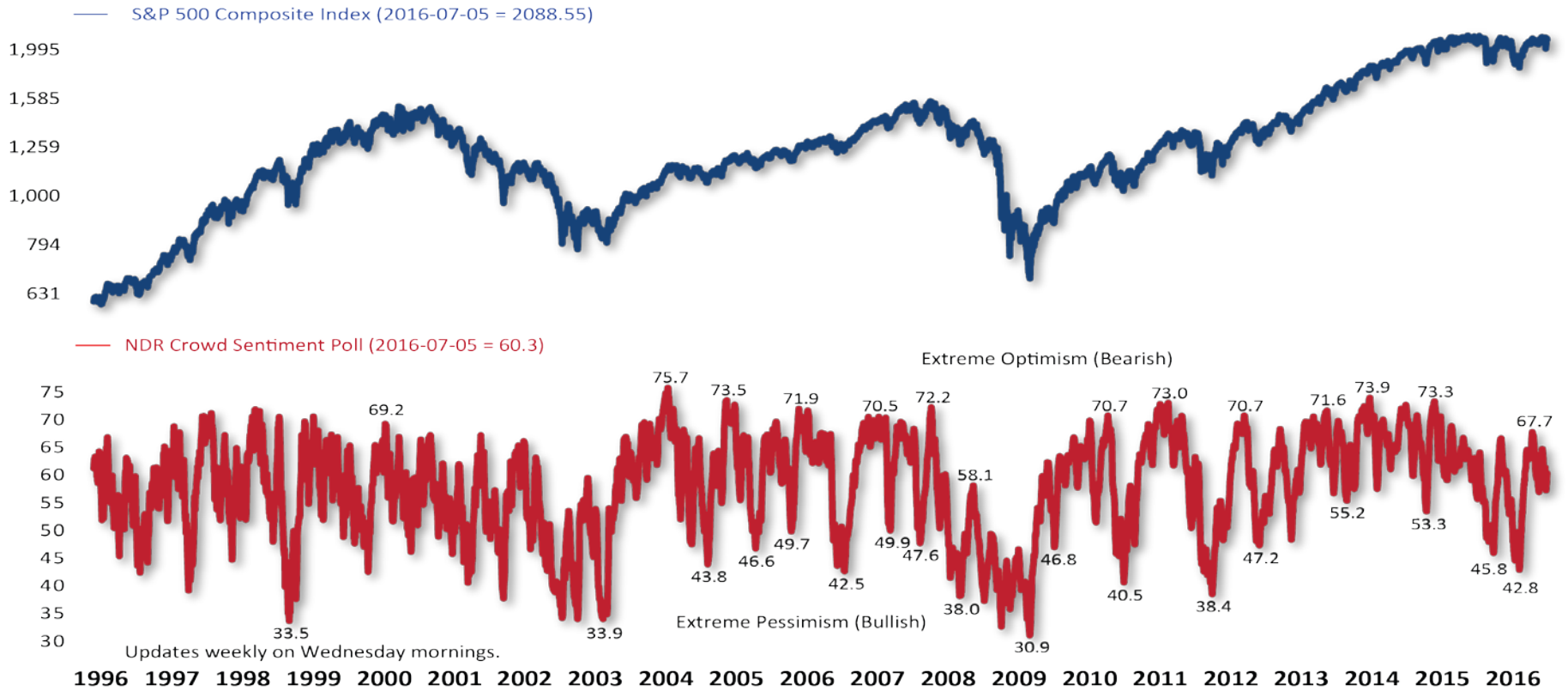
# S&P 500 Around Start of Fed Tightening Cycles



Source: Ned Davis Research

# S&P 500 Index vs. NDR Crowd Sentiment Poll - Transitional Mode Basis

Daily Data 1995-12-01 to 2016-07-05

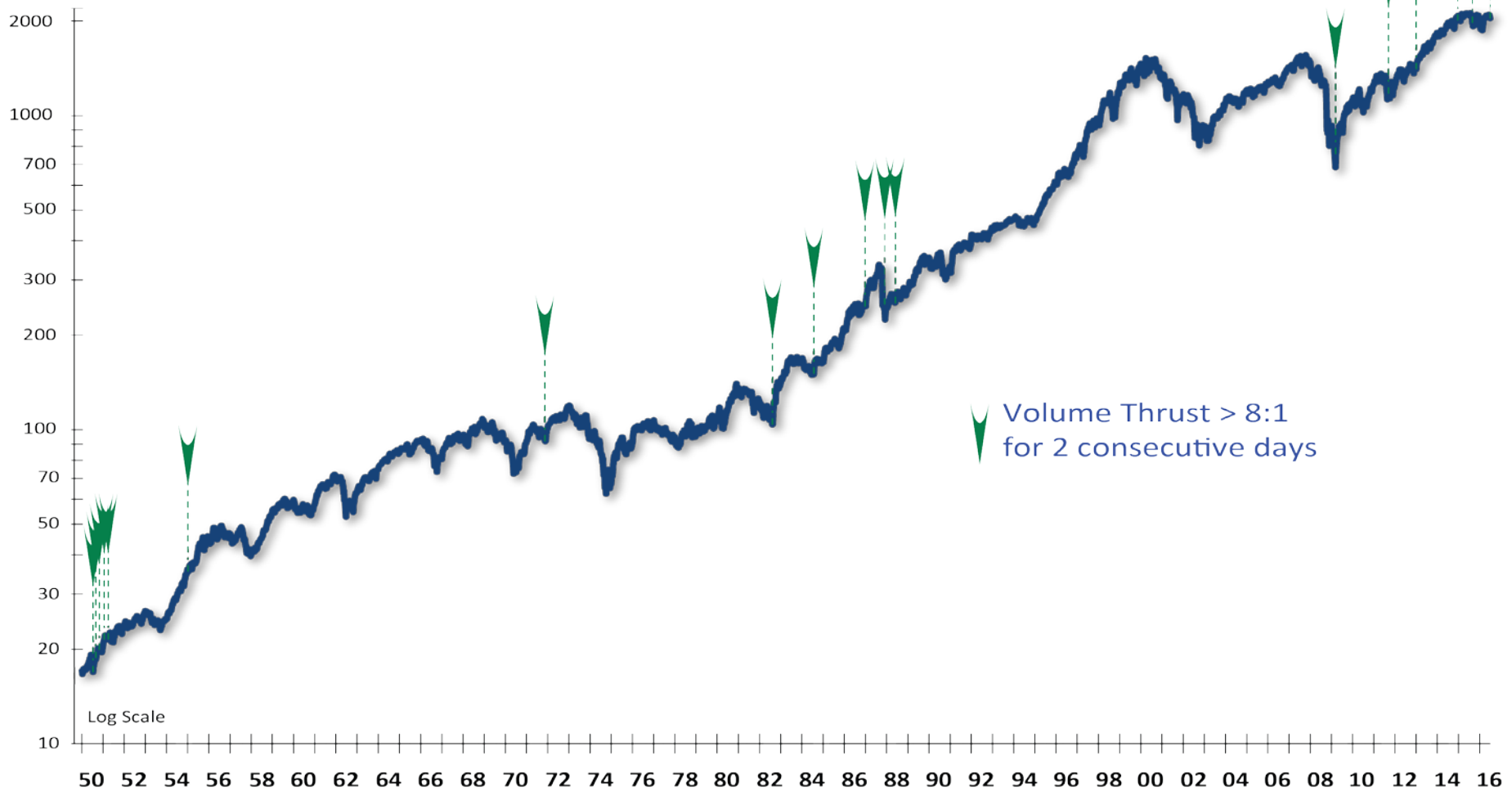


S&P 500 Index Performance Full History: 1995-12-01 to 2016-07-05		
NDR Crowd Sentiment Poll is	% Gain/Annum	% of Time
Above 66.0	-7.51	20.94
57.0 - 66.0 From Above	1.05	17.59
<b>57.0 - 66.0 From Below</b>	<b>19.89</b>	<b>19.98</b>
Below 57.0	<b>9.97</b>	40.96
<i>Buy/Hold = 6.18% Gain/Annum</i>		

Source: Ned Davis Research



# S&P 500 INDEX



Source: InvestTech

Source: InvesTech Research

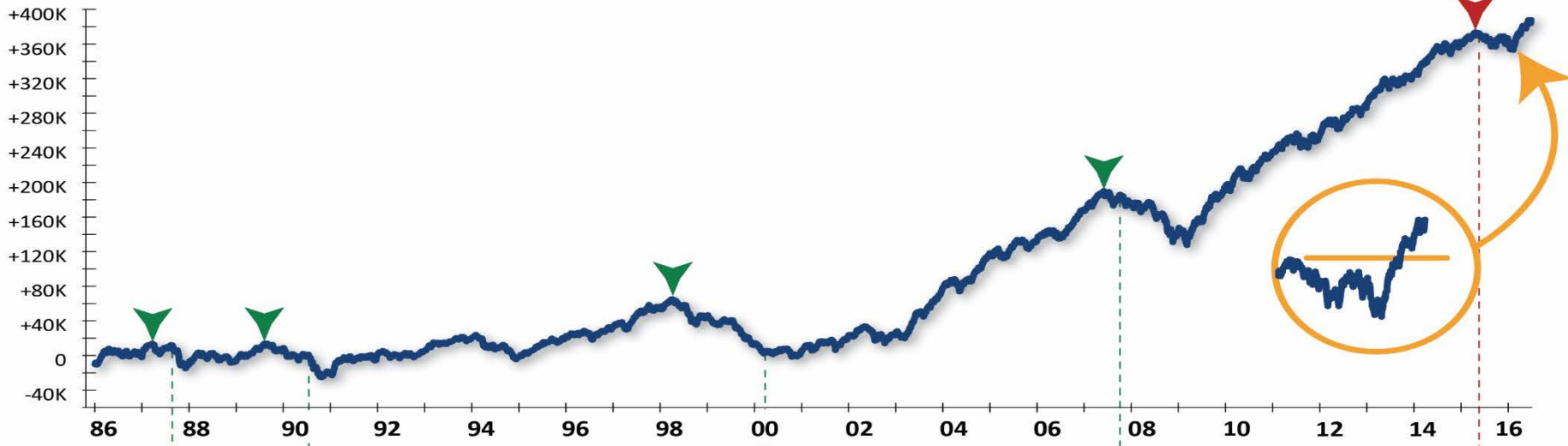


	S&P 500 Gain/Loss			
Date	1mo later	3mo later	6mo later	12mos later
07/20/1950	6.1%	13.3%	21.6%	24.2%
09/13/1950	4.0	3.0	12.2	24.2
11/09/1950	-1.5	12.0	14.4	15.0
01/27/1951	1.1	4.0	4.6	14.1
04/13/1951	0.6	-0.5	7.7	9.3
01/10/1955	3.6	4.3	19.1	23.4
11/29/1971	9.4	14.1	18.5	24.7
08/23/1982	6.6	14.5	26.4	40.2
08/03/1984	2.7	3.1	10.0	17.9
01/05/1987	11.5	19.1	21.2	2.6
10/30/1987	-7.9	2.1	3.8	10.6
06/01/1988	2.4	-2.6	2.7	21.3
03/18/2009	9.5	15.6	34.5	46.8
08/29/2011	-4.1	-1.2	12.9	16.6
01/02/2013	3.5	7.4	10.4	25.3
12/18/2014	-2.0	1.9	2.9	-2.7
08/27/2015	-2.8	5.2	-2.0	?
06/29/2016	?	?	?	?
<b>Average:</b>	<b>2.5%</b>	<b>6.8%</b>	<b>13.0%</b>	<b>19.6%</b>

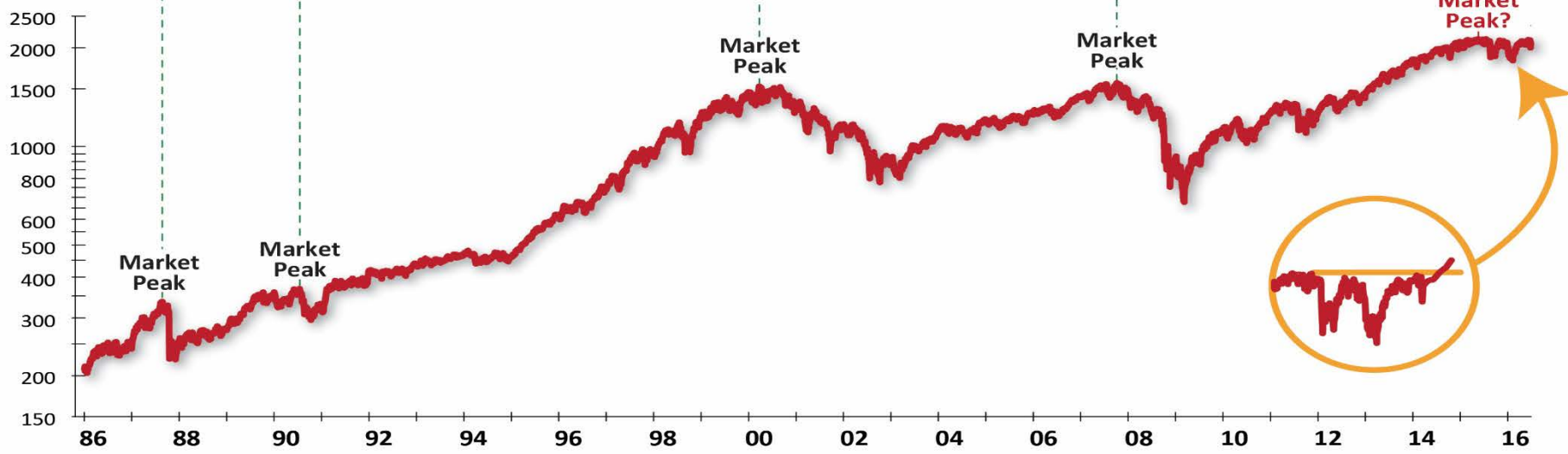
Source: InvesTech Research



### Advance-Dcline Line



### S&P 500

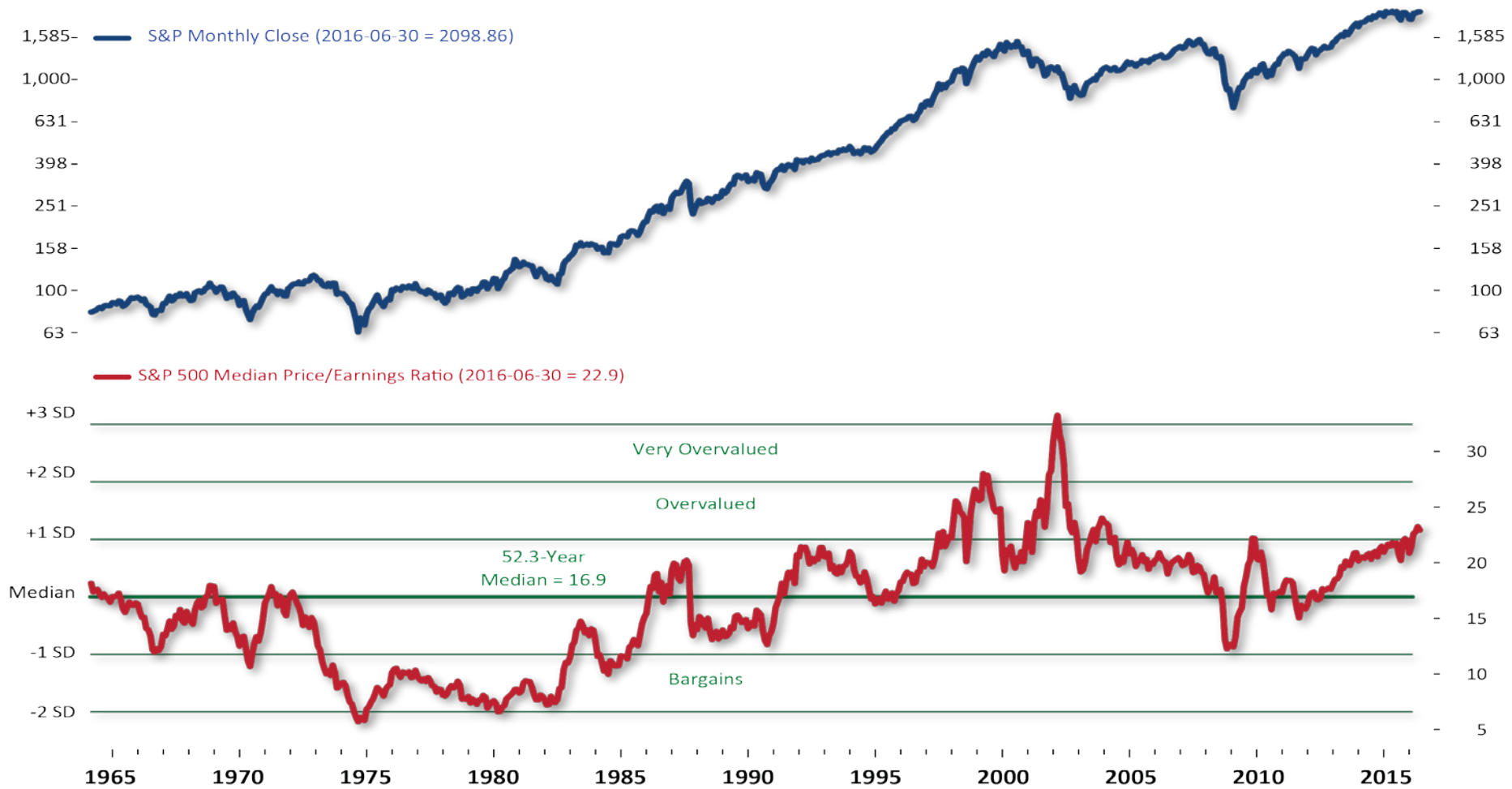


Source: InvesTech Research



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

Monthly Data 1964 03 31 to 2016 06 30

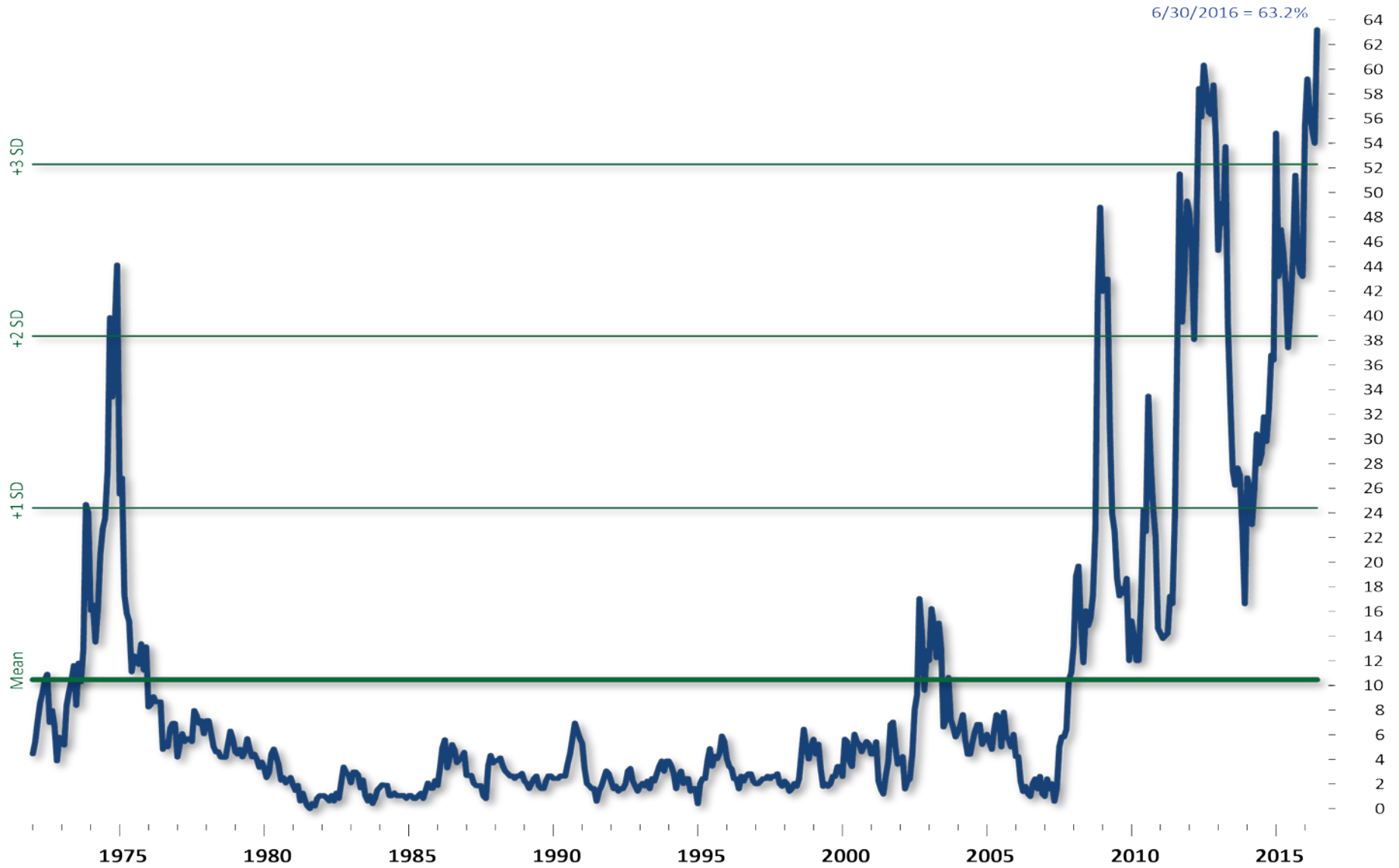


Price Move Of:  
 -3.6% to Overvalued (+1SD) = S&P 500 Level of 2023.30  
 -26.2% to Median Fair Value = S&P 500 Level of 1548.96  
 -48.7% to Undervalued (-1SD) = S&P 500 Level of 1076.72

Source: Ned Davis Research

# Percentage of S&P 500 Stocks with Dividend Yields Greater than 10-Year Treasury Yields

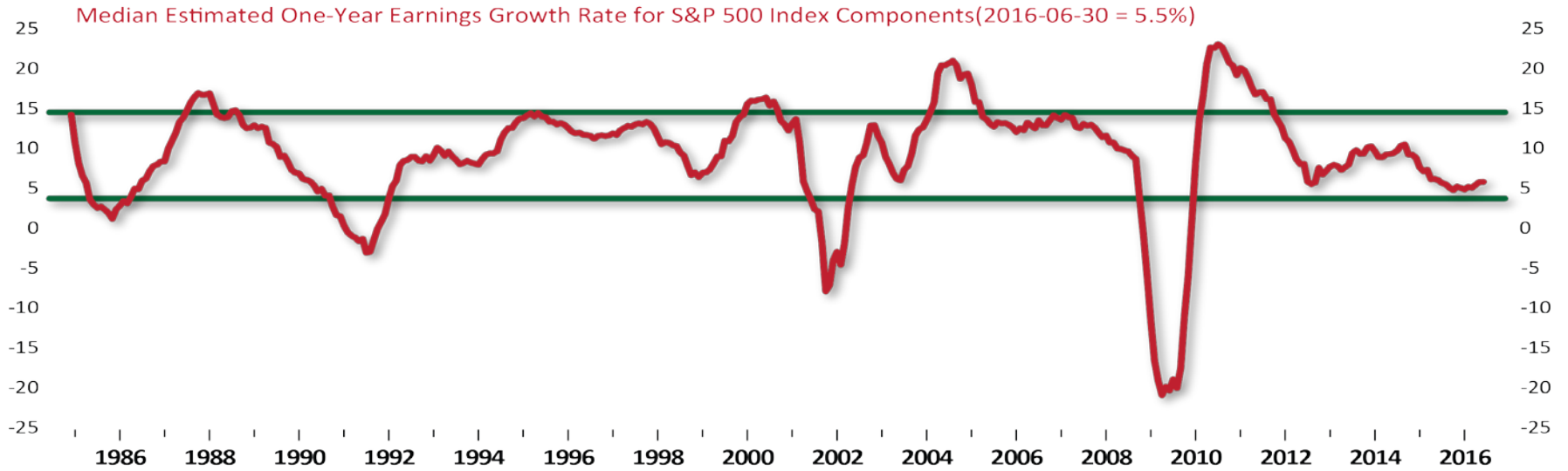
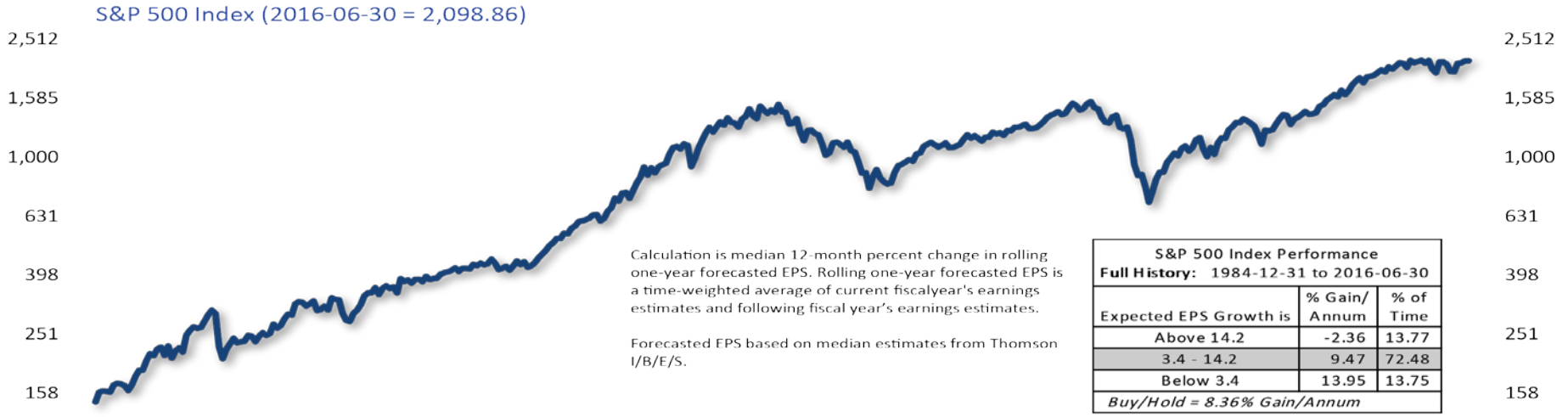
Monthly Data 1/31/1972 - 6/30/2016



Source: Ned Davis Research

# S&P 500 Index vs. Median Expected Earnings Growth

Monthly Data 1984-12-31 to 2016-06-30

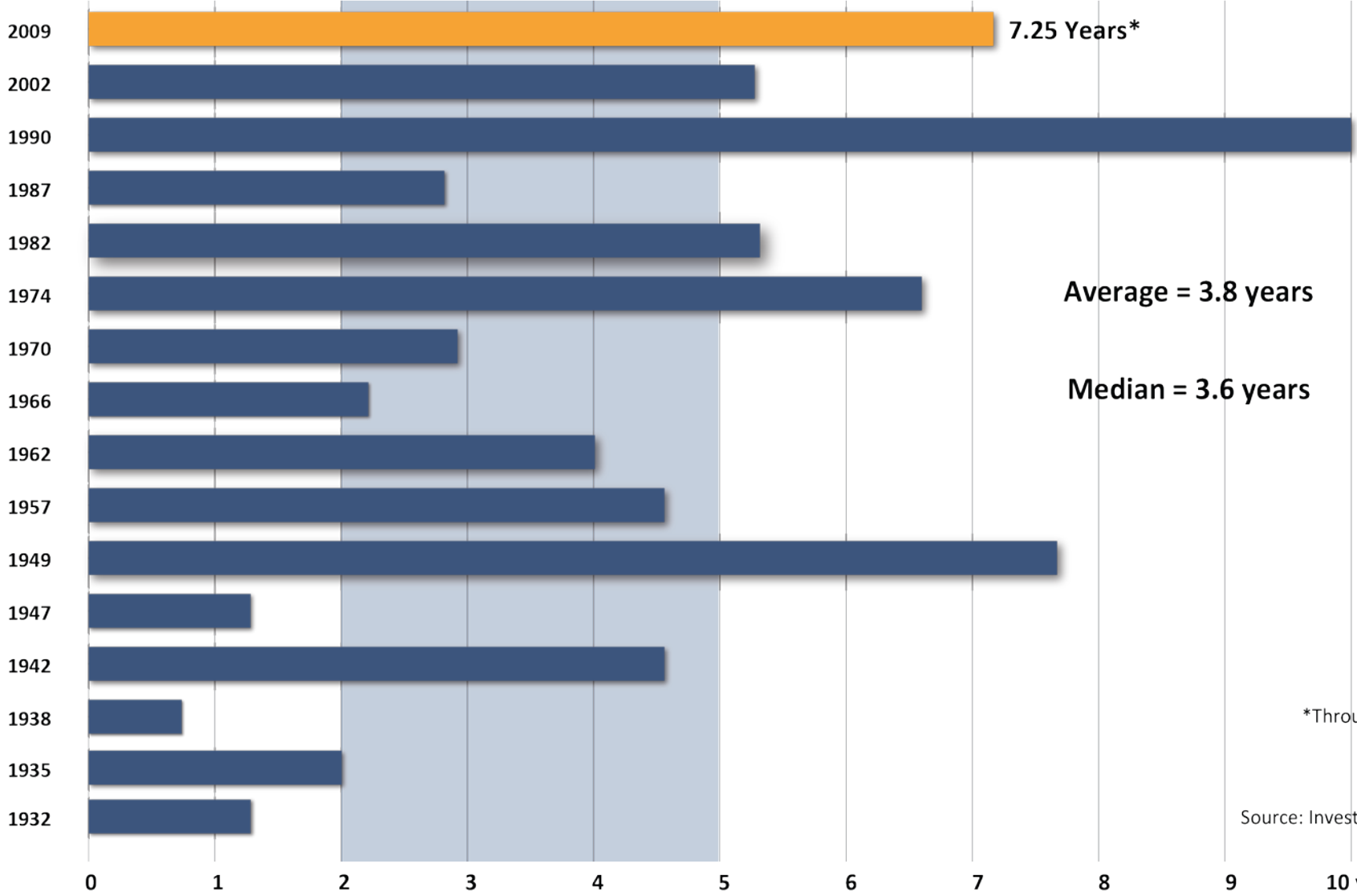


Source: Ned Davis Research



# Bull Market Duration

Time from Market Bottom to Bull Market Peak (S&P 500)



Average = 3.8 years

Median = 3.6 years

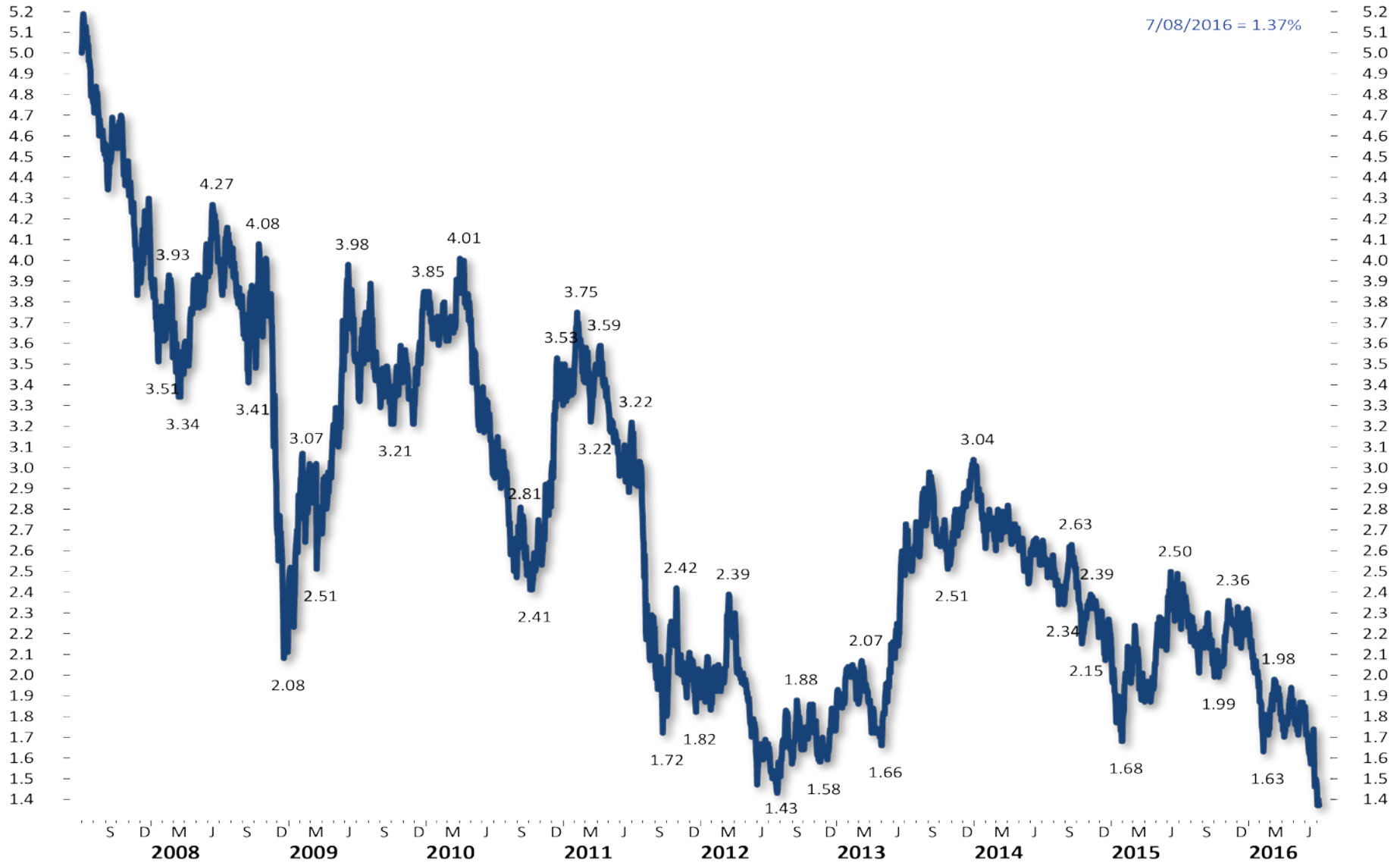
\*Through 3/31/2016

Source: Investech Research

Source: InvesTech Research

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

Daily Data 7/02/2007 - 7/08/2016



Source: Ned Davis Research



ALL NEGATIVE

ALL POSITIVE

## MEDIAN PERFORMANCE OF SELECTED BOND SECTORS BEFORE AND AFTER INITIAL FED RATE HIKES SINCE 1980

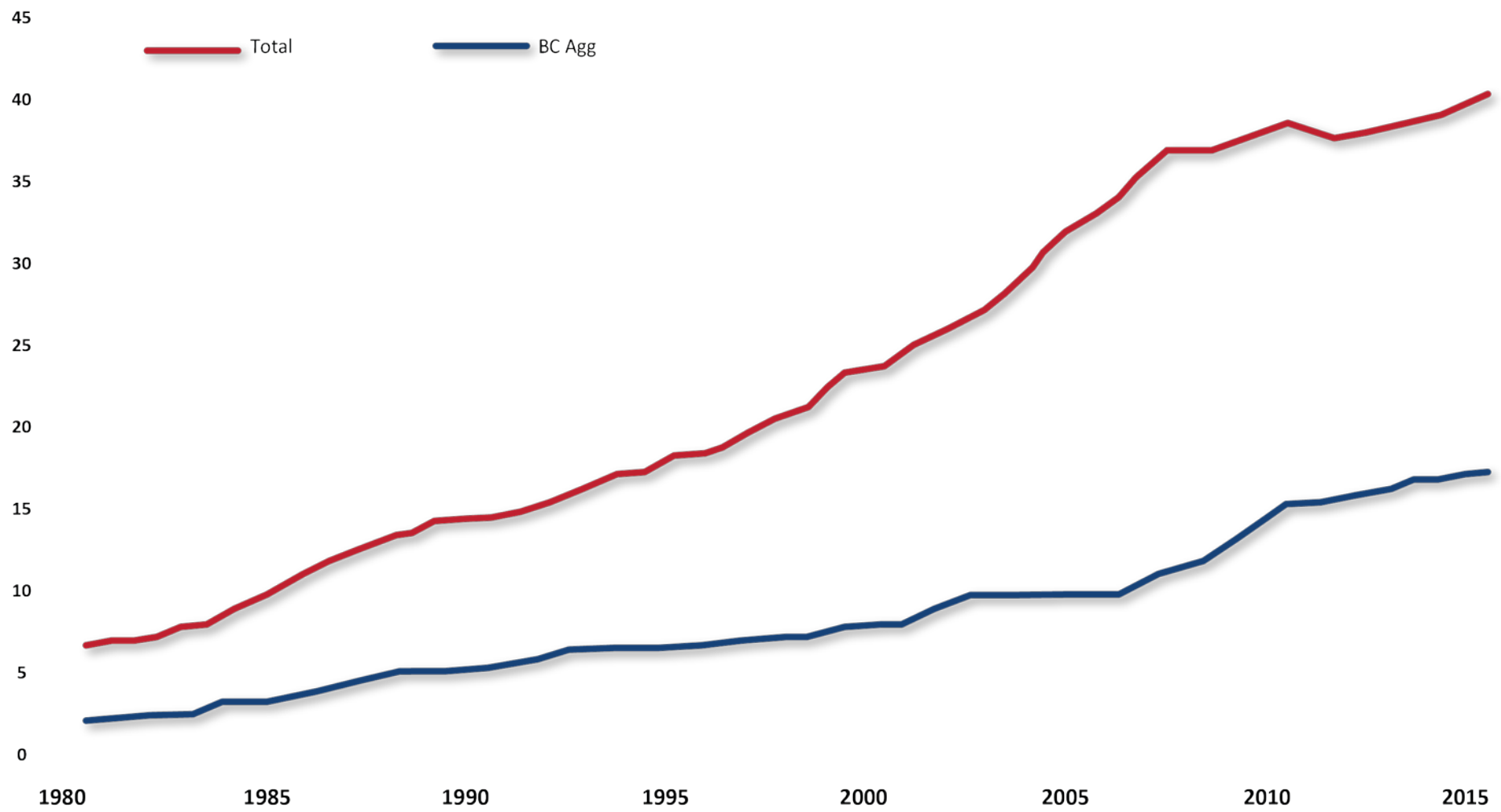
Sector Index	% Gain X-Months Before				% Gain X-Months After			
	12	9	6	3	3	6	9	12
U.S. Aggregate	2.25	1.32	0.15	-1.82	2.54	4.18	3.68	6.80
Treasurys	3.12	3.72	-0.20	-1.13	2.62	3.74	3.73	7.06
Agencies	3.25	3.25	0.01	-1.06	2.11	3.33	3.44	5.72
MBS	2.73	1.71	1.28	-1.13	2.37	3.90	3.78	6.14
Investment Grade	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*

# Bond Market Debt Outstanding Has Grown Significantly in Inflation-Adjusted Terms

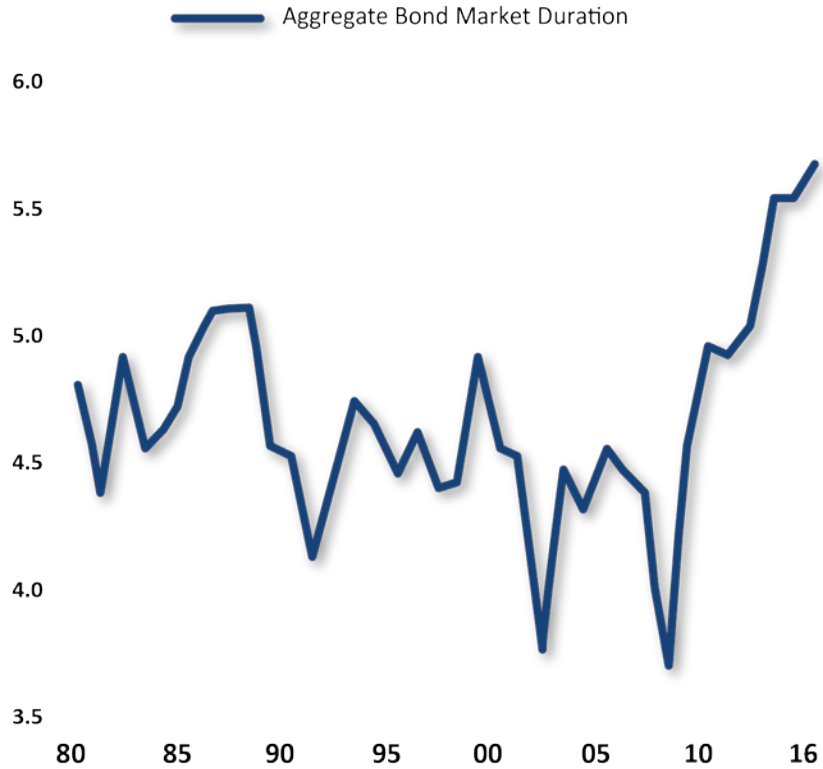
Total bond market face value, 2015 Dollars (CPI-U deflator)



Source: Ned Davis Research

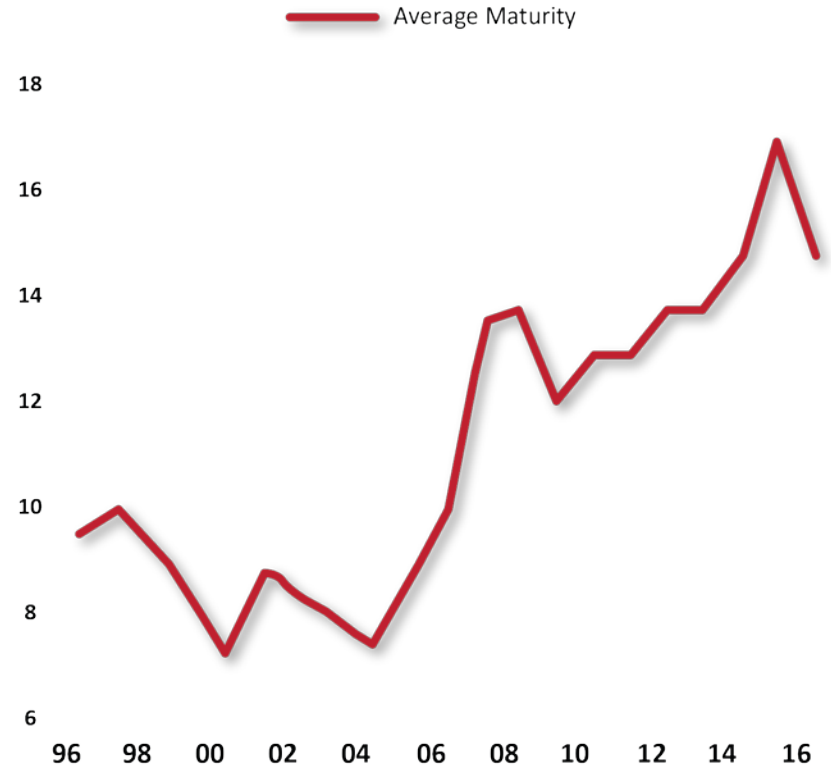
## Interest Rate Duration Has Increased

Modern Duration, Barclays US Aggregate Bond Index



## Maturities of Corporate Bonds Have Increased

Average Maturity of US Corporate Bonds, by Issuance Date

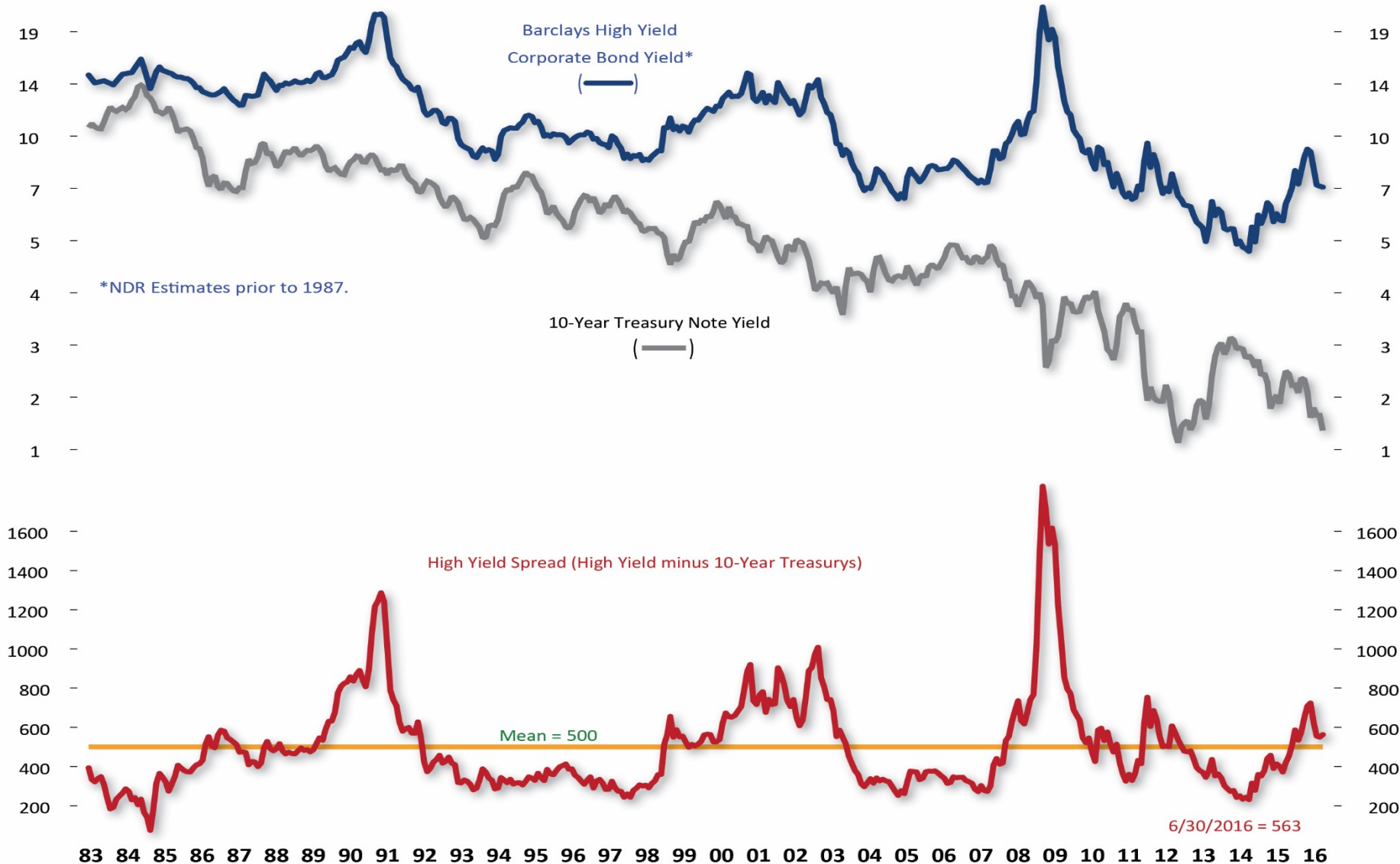


Source: Ned Davis Research



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

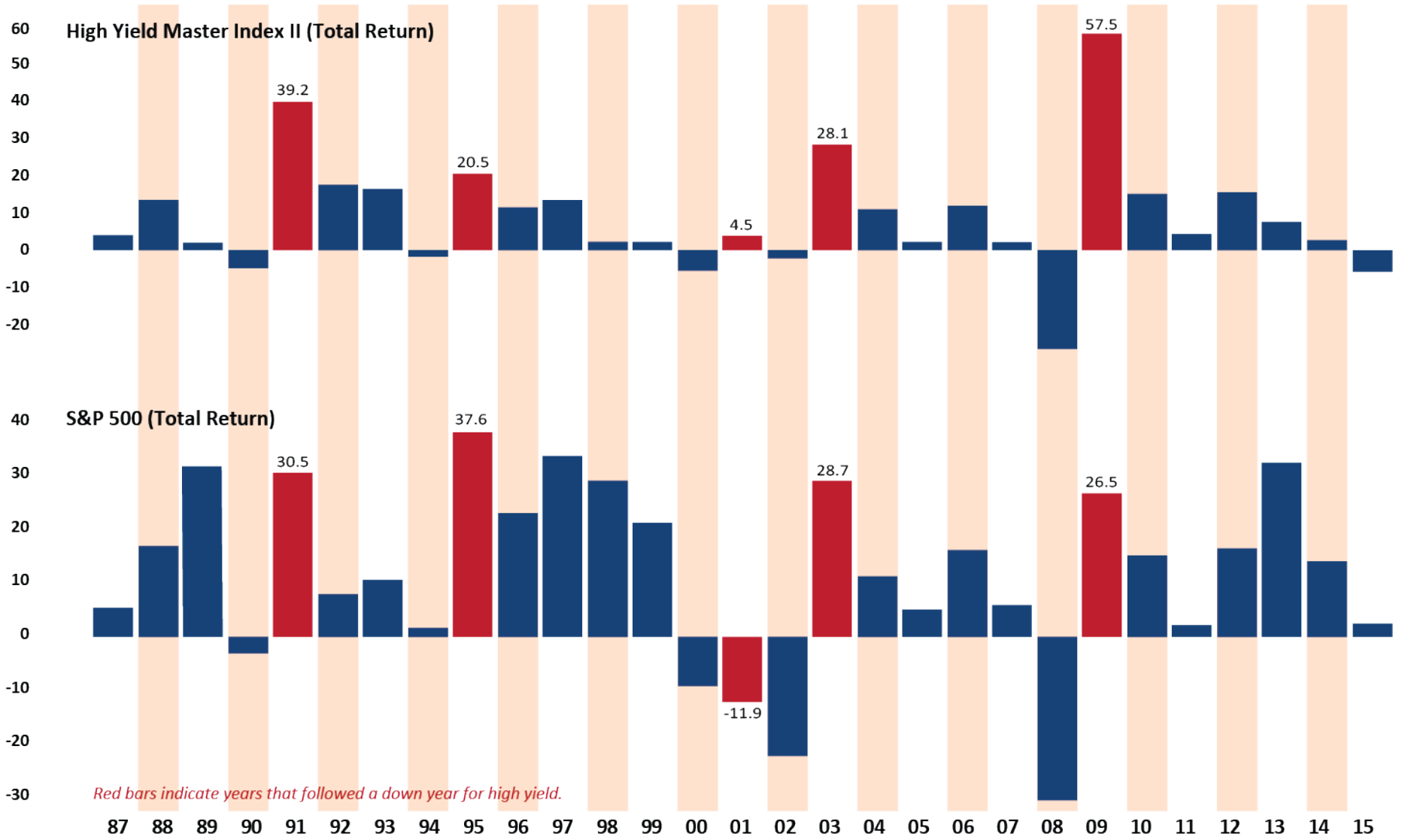
Monthly Data 1/31/1983 - 6/30/2016 (Log Scale)



Source: Ned Davis Research



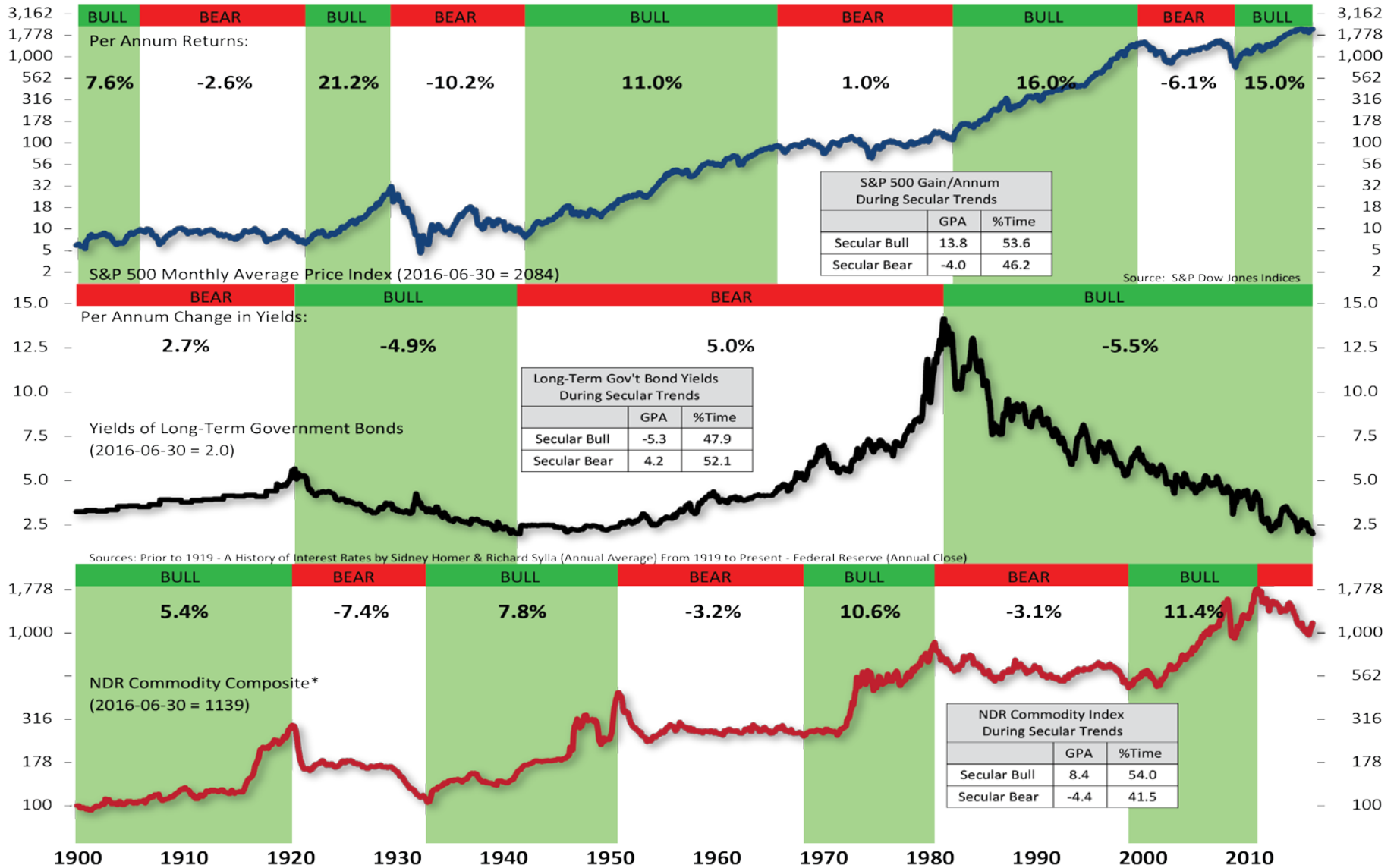
# High Yield and S&P 500 Total Returns by Year: 1987 - 2015



Source: Bespoke Investment Group Past Performance is not indicative of future results.

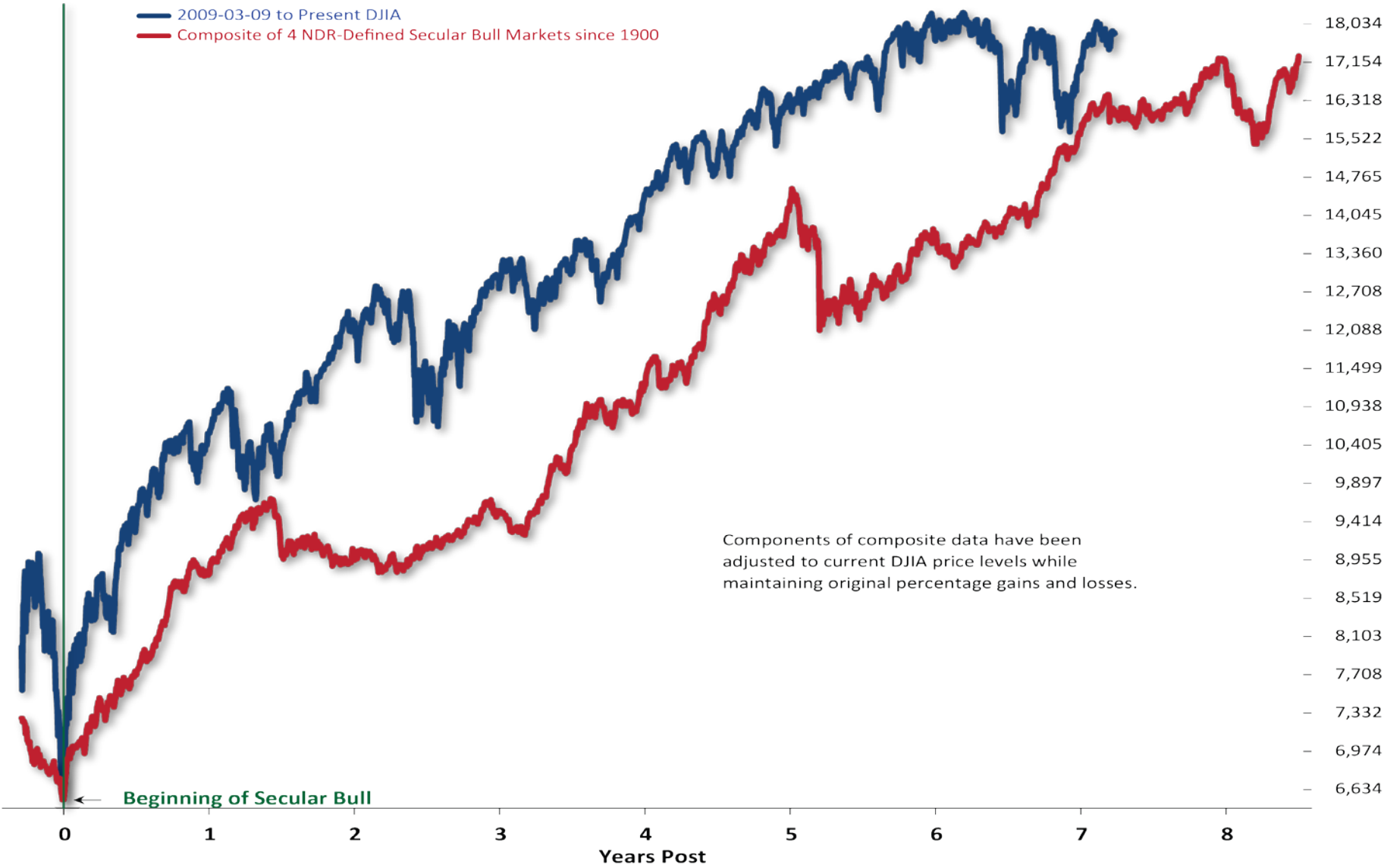
# Asset Classes & Secular Trends

Monthly Data 1900-01-31 to 2016-06-30 (Log Scale)



Source: Ned Davis Research

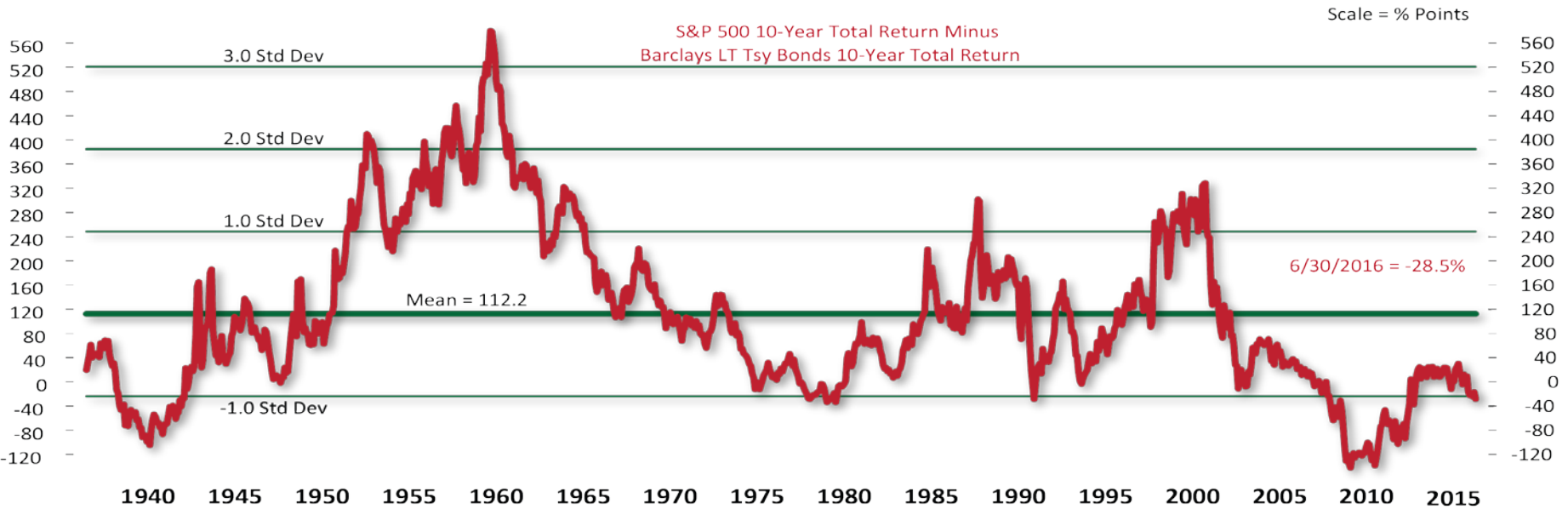
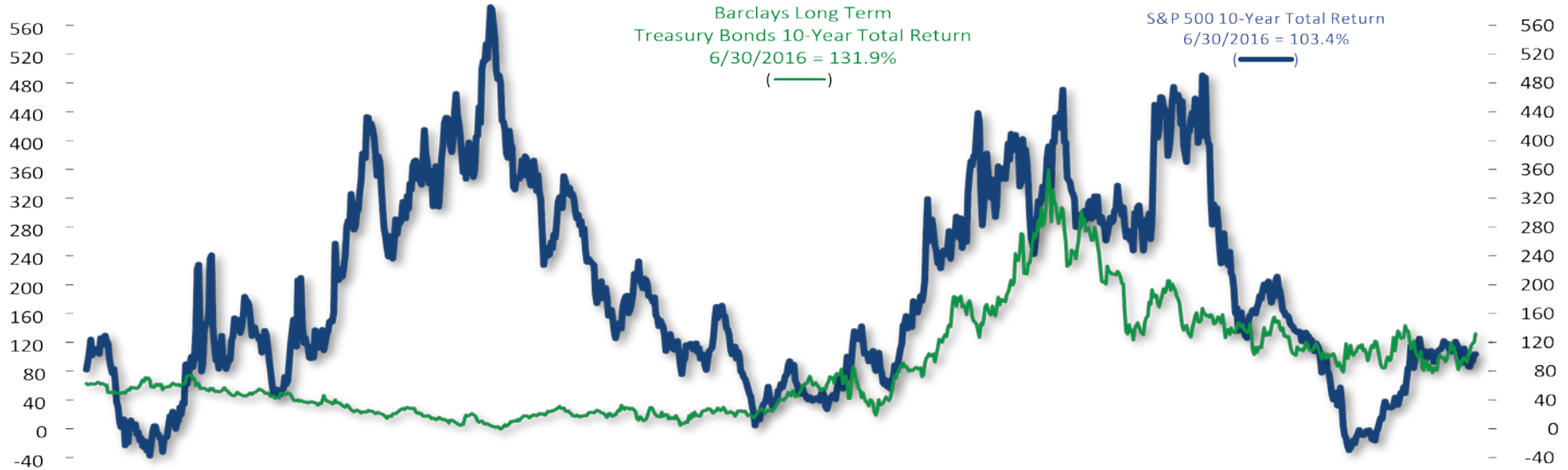
# 2009 to Present DJIA vs Composite Secular Bull Market Advance



Source: Ned Davis Research

# 10-Year Stock and Bond Performance Difference

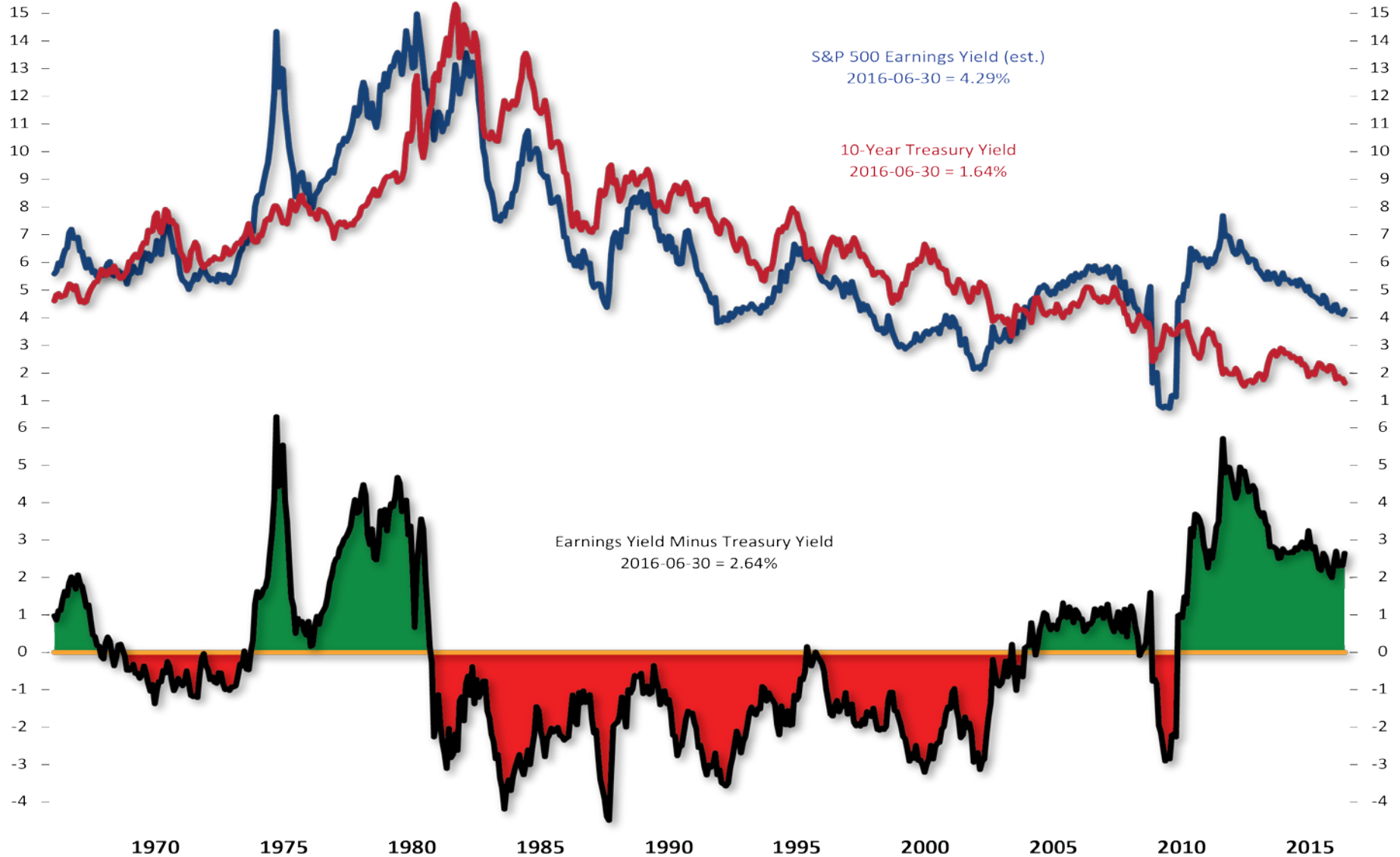
Monthly Data 12/31/1935 - 6/30/2016



Source: Ned Davis Research

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

Monthly Data 1966-01-31 to 2016-06-30



Source: Ned Davis Research

# Dow Jones Industrial Average vs. Consumer Confidence Index

Monthly Data 1967-02-28 to 2016-06-30



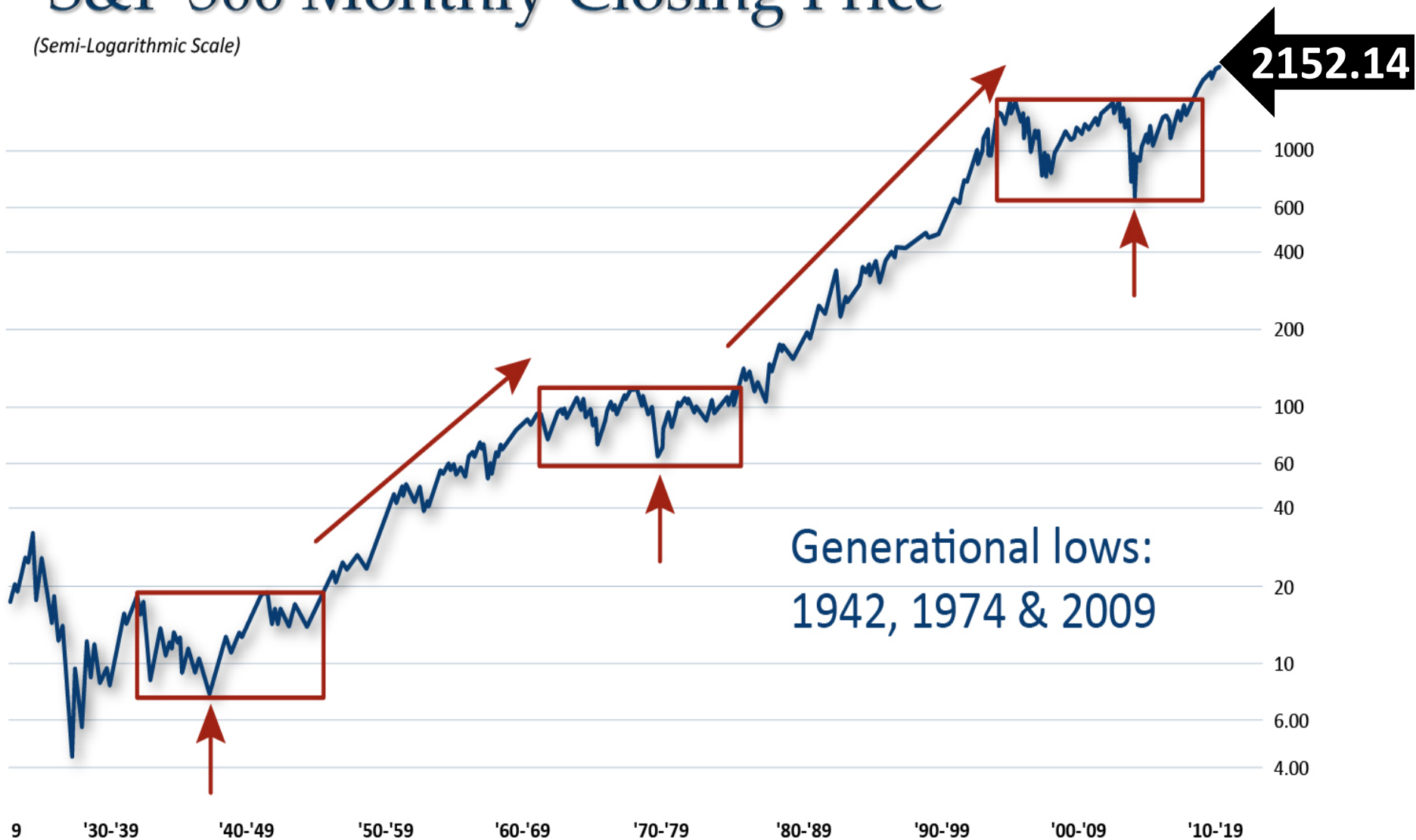
DJIA Performance		
Full History: 1967-02-28 to 2016-06-30		
Consumer Confidence Is	% Gain/ Annum	% of Time
Above 110.0	0.51	21.94
66.0 - 110.0	6.27	60.70
Below 66.0	14.82	17.36
Buy/Hold = 6.40% Gain/Annum		

Source: Ned Davis Research



# S&P 500 Monthly Closing Price

(Semi-Logarithmic Scale)



Generational lows:  
1942, 1974 & 2009

Source: Ned Davis Research. Past performance is not indicative of future results.

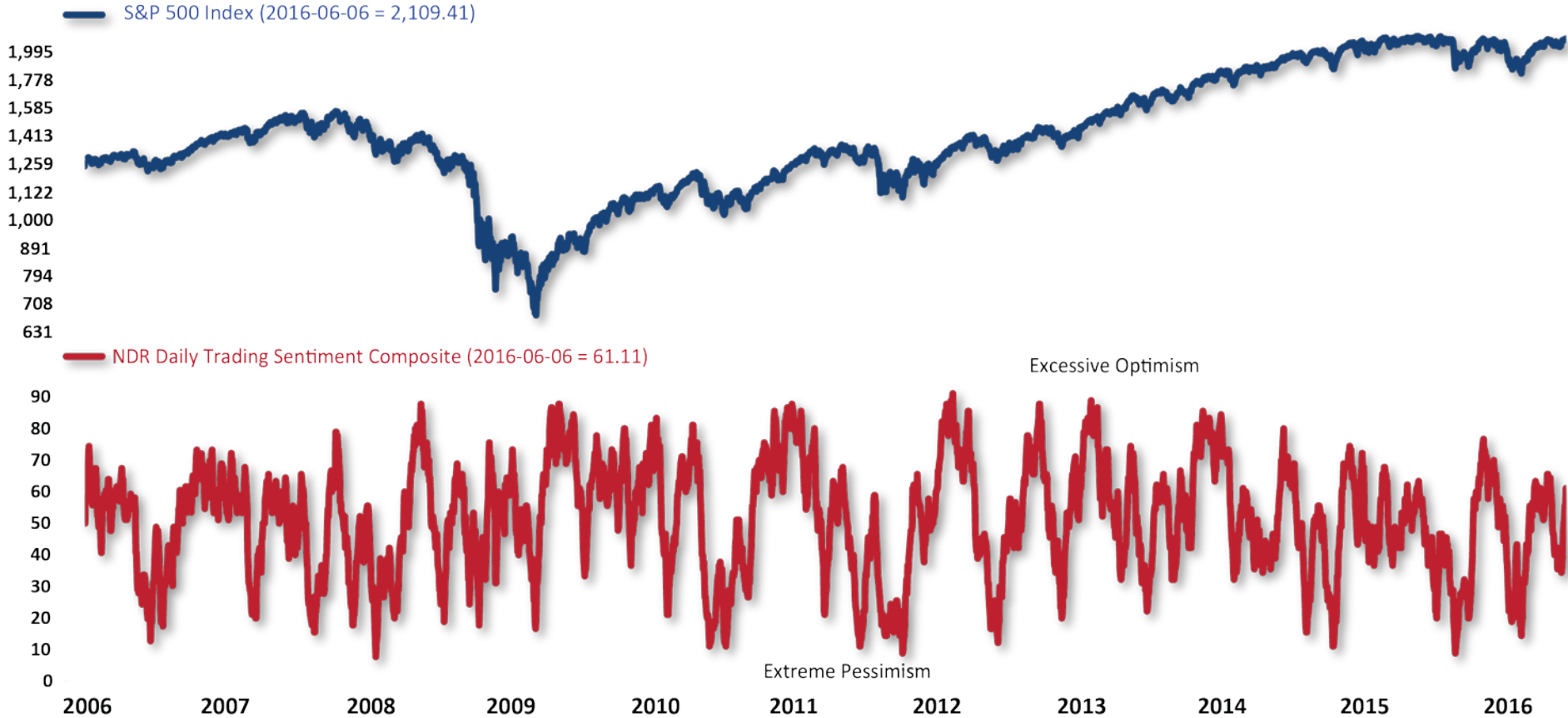




Q&A

# S&P 500 Index vs. NDR Daily Trading Sentiment Composite

Daily Data 2006-01-03 to 2016-06-06



S&P 500 Index Performance		
Full History: 1994-12-30 to 2016-06-06		
NDR Daily Sentiment Composite is	% Gain/Annum	% of Time
Above 62.5	-10.92	27.63
41.5 - 62.5	6.42	45.19
Below 41.5	31.72	27.18
Buy/Hold = 7.37% Gain/Annum		

S&P 500 Index Performance		
Chart View: 2006-01-03 to 2016-06-06		
NDR Daily Sentiment Composite is	% Gain/Annum	% of Time
Above 62.5	-10.95	28.55
41.5 - 62.5	0.35	42.63
Below 41.5	32.17	28.82
Buy/Hold = 4.99% Gain/Annum		

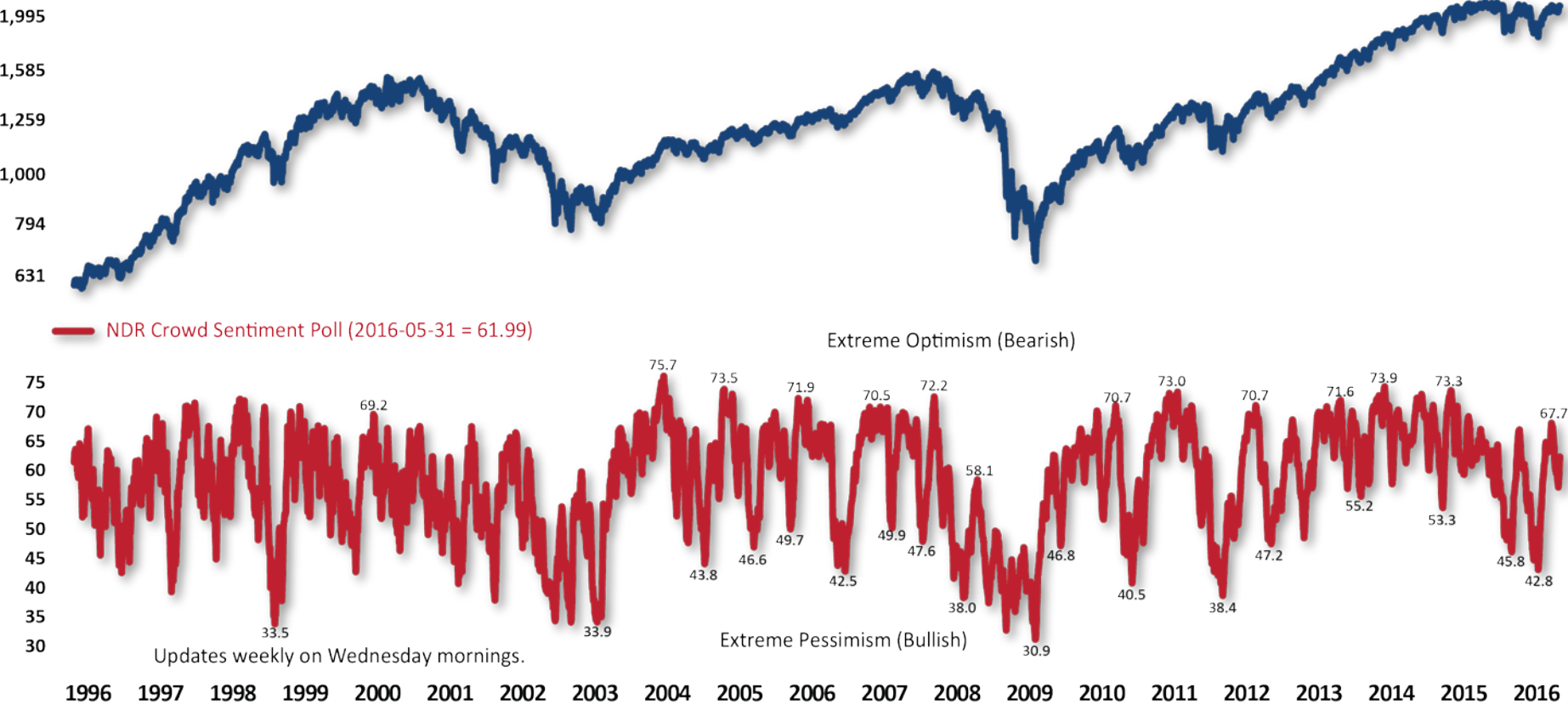
Source: Ned Davis Research

# S&P 500 Index vs. NDR Crowd Sentiment Poll - Transitional Mode Basis

Daily Data 1995-12-01 to 2016-05-31

— S&P 500 Composite Index (2016-05-31 = 2,096.96)

— NDR Crowd Sentiment Poll (2016-05-31 = 61.99)



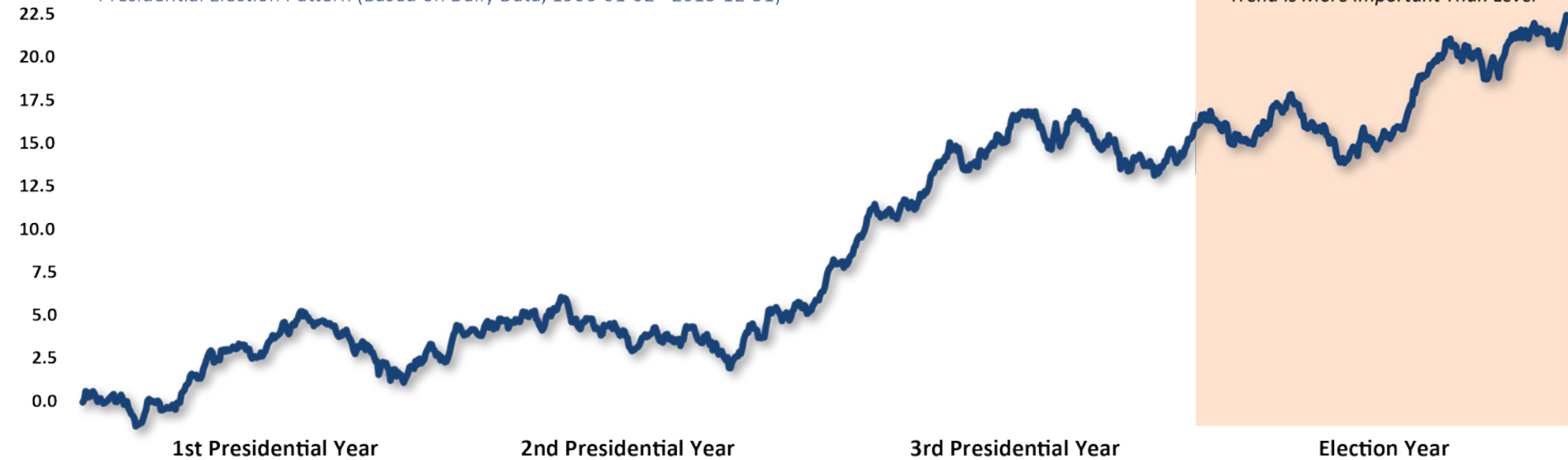
S&P 500 Index Performance Full History: 1995-12-01 to 2016-05-31		
NDR Crowd Sentiment Poll is	% Gain/Annum	% of Time
Above 66.0	-7.51	21.04
57.0 - 66.0 From Above	1.05	17.67
57.0 - 66.0 From Below	20.53	19.61
Below 57.0	9.97	41.15
Buy/Hold = 6.23% Gain/Annum		

Source: Ned Davis Research

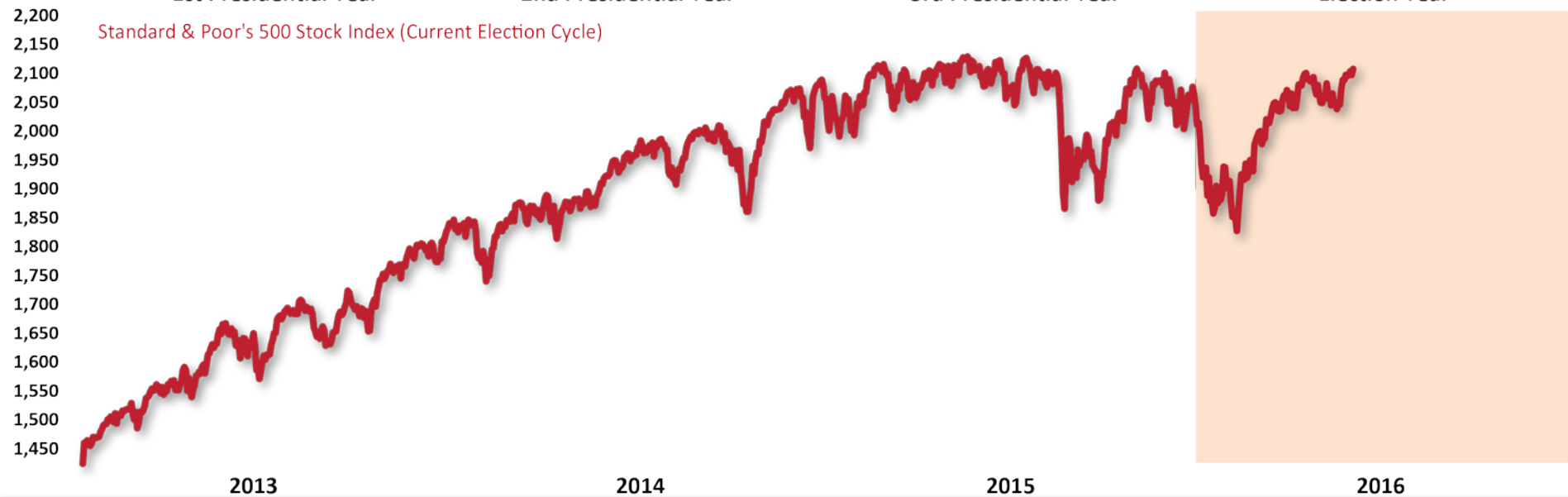
# Dow Industrials Four-Year Presidential Cycle vs S&P 500 Index Current Election Cycle

Presidential Election Pattern (Based on Daily Data, 1900-01-02 - 2015-12-31)

*Trend Is More Important Than Level*

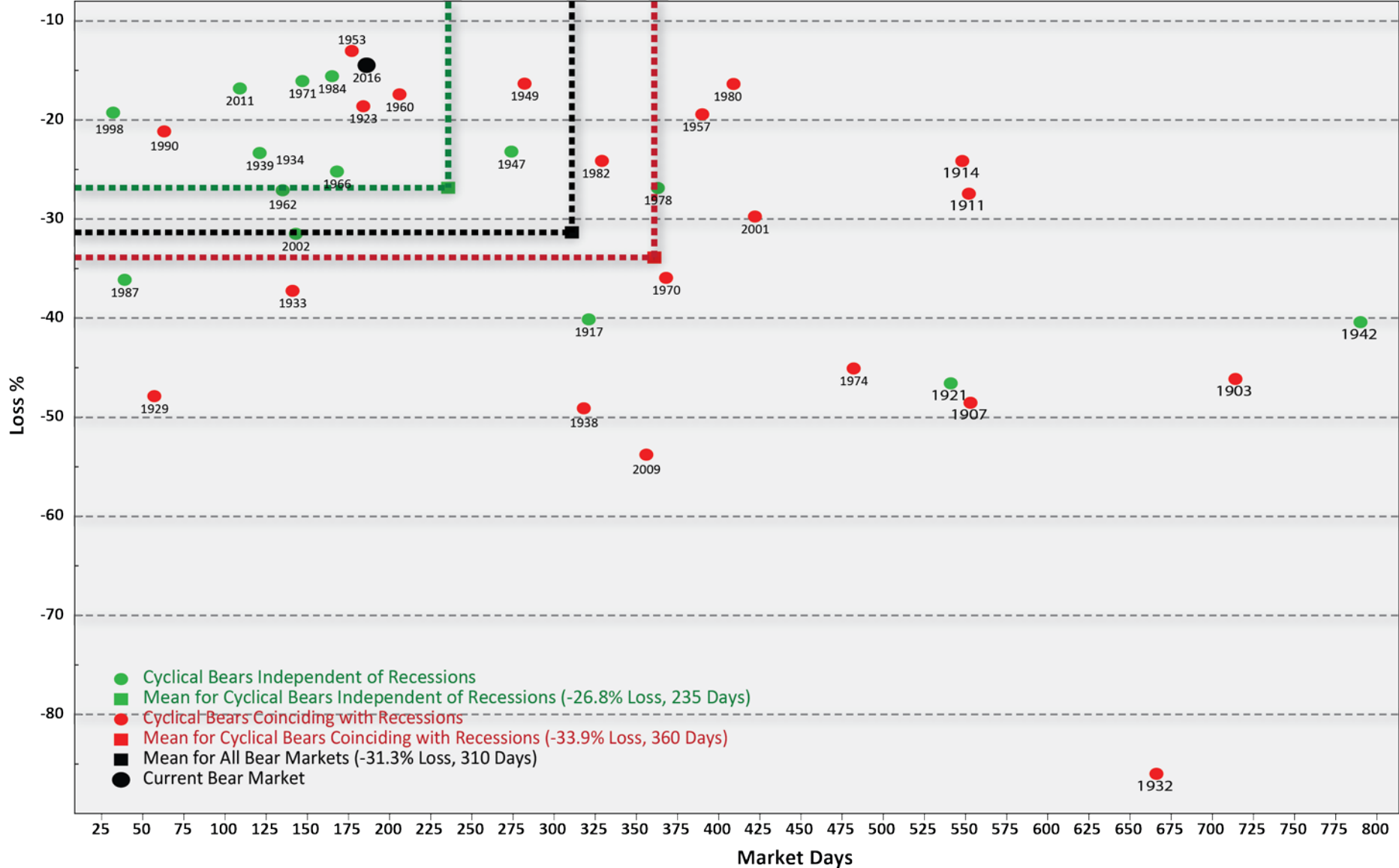


Standard & Poor's 500 Stock Index (Current Election Cycle)



Source: Ned Davis Research

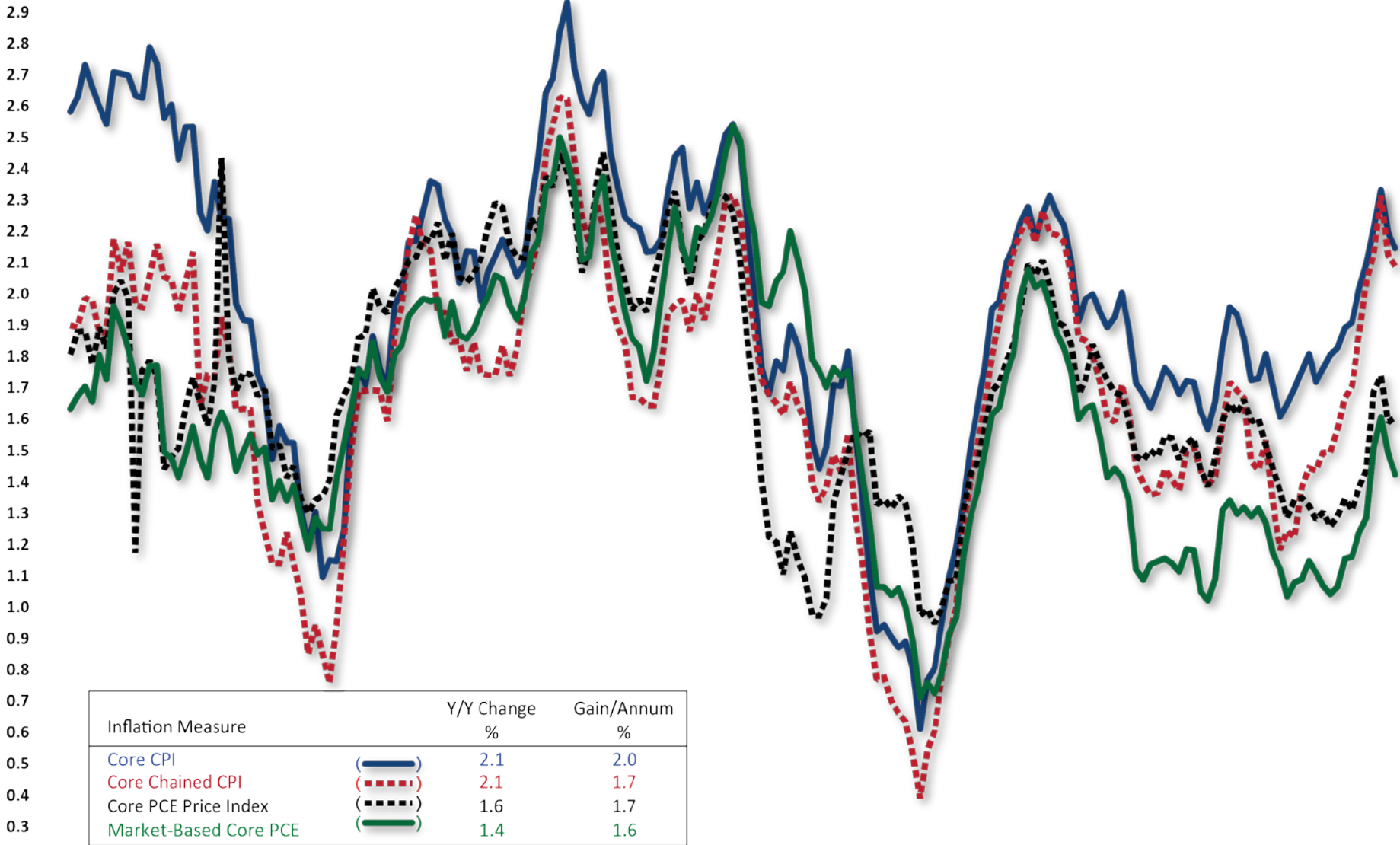
# A History of Bear Markets II: Dow Jones Industrial Average (1900-Present)



Source: Ned Davis Research

# Core CPI, Chained CPI and PCE Price Indexes (Year-to-Year Changes)

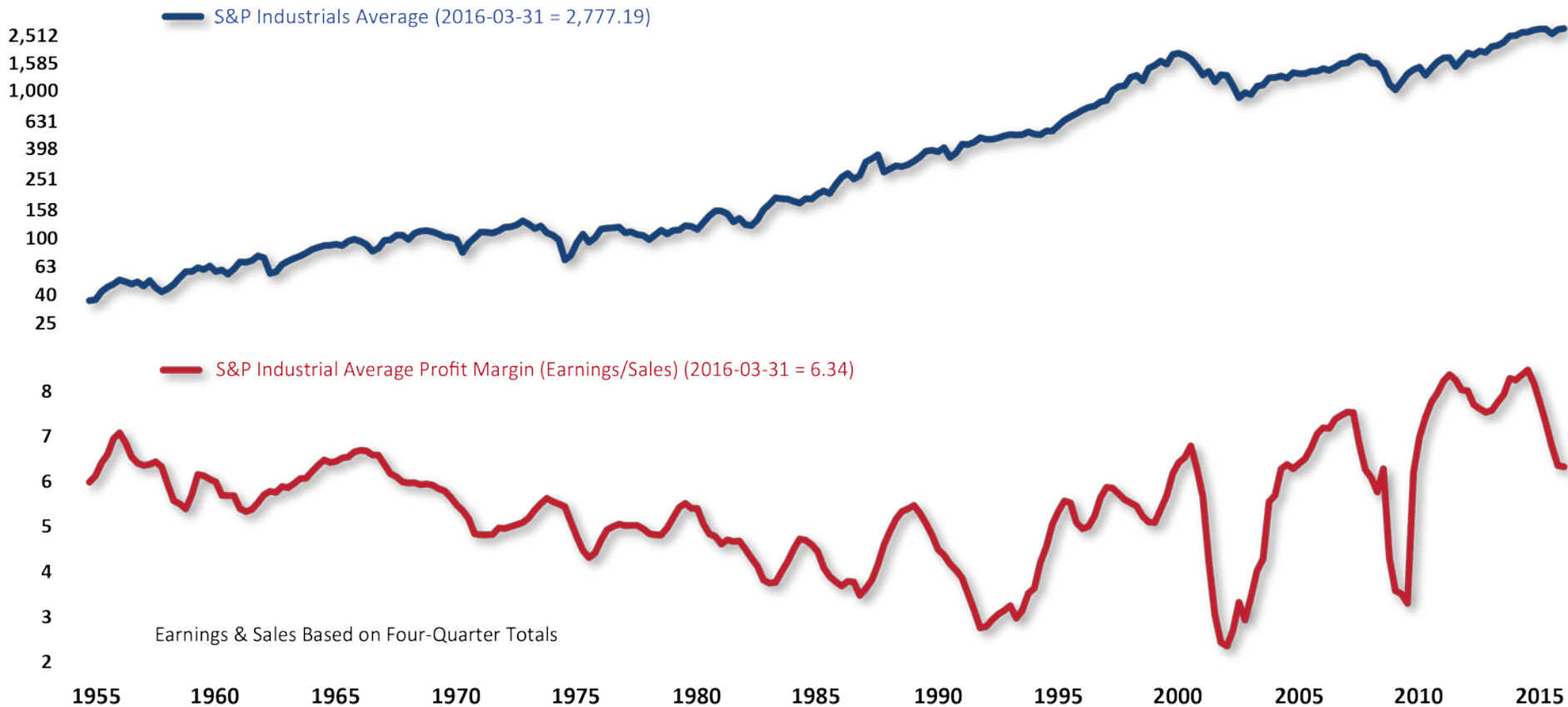
Monthly Data 12/31/2000 - 4/30/2016



Source: Ned Davis Research

# S&P Industrial Average vs. S&P Industrial Average Profit Margin

Quarterly Data 1954-09-30 to 2016-03-31

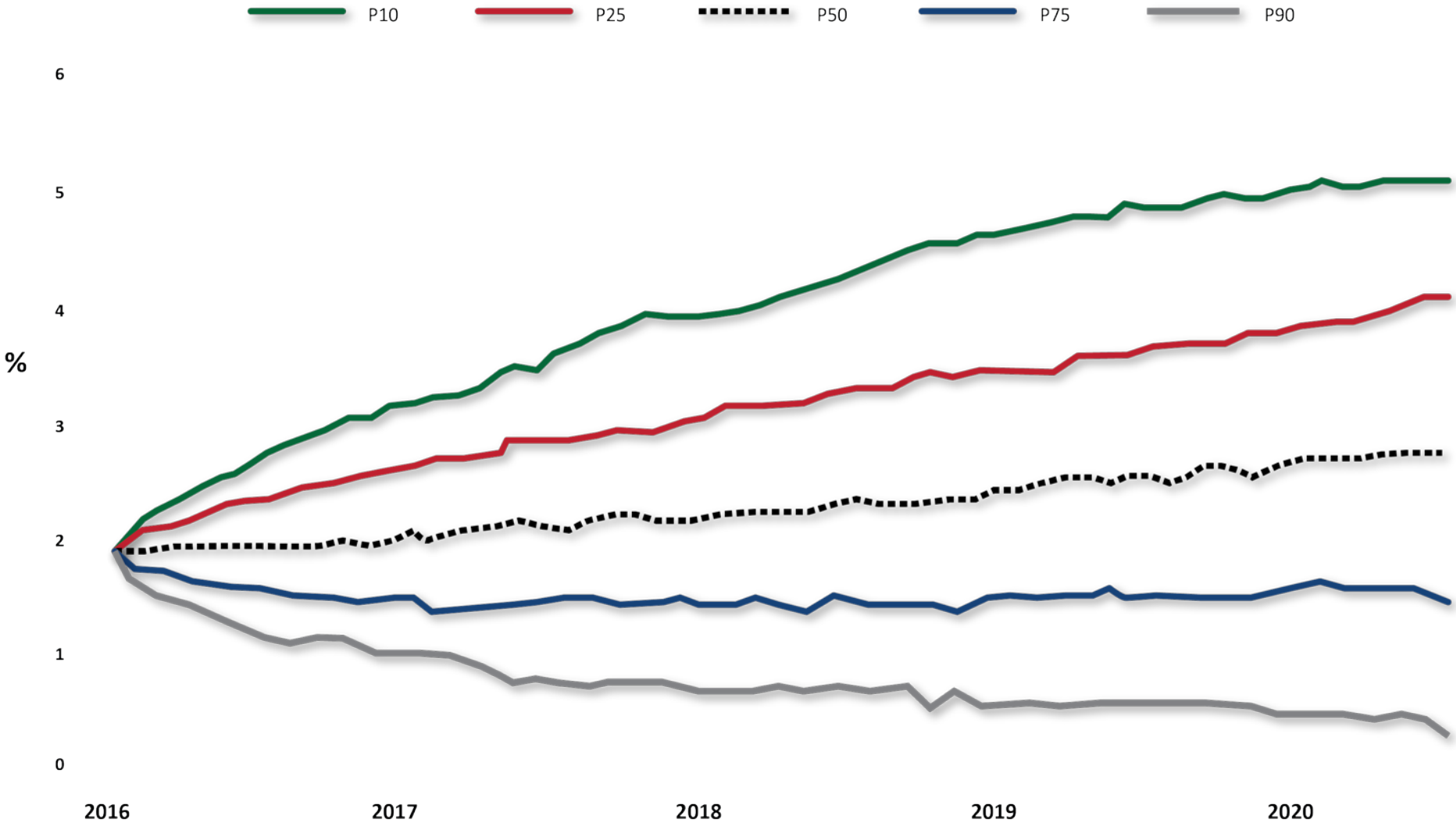


S&P Industrial Average Performance Full History: 1954-09-30 to 2016-03-31		
SPIA Profit Margin is	% Gain/ Annum	% of Time
Above 6.2	2.84	28.05
5.4 - 6.2	6.05	26.01
3.3 - 5.4	13.41	40.26
Below 3.3	-3.34	5.69
<i>Buy/Hold = 7.45% Gain/Annum</i>		

Source: Ned Davis Research

# Option Implied Probabilities of >100bp Increases in 10-Year Treasury Rates Are Significant

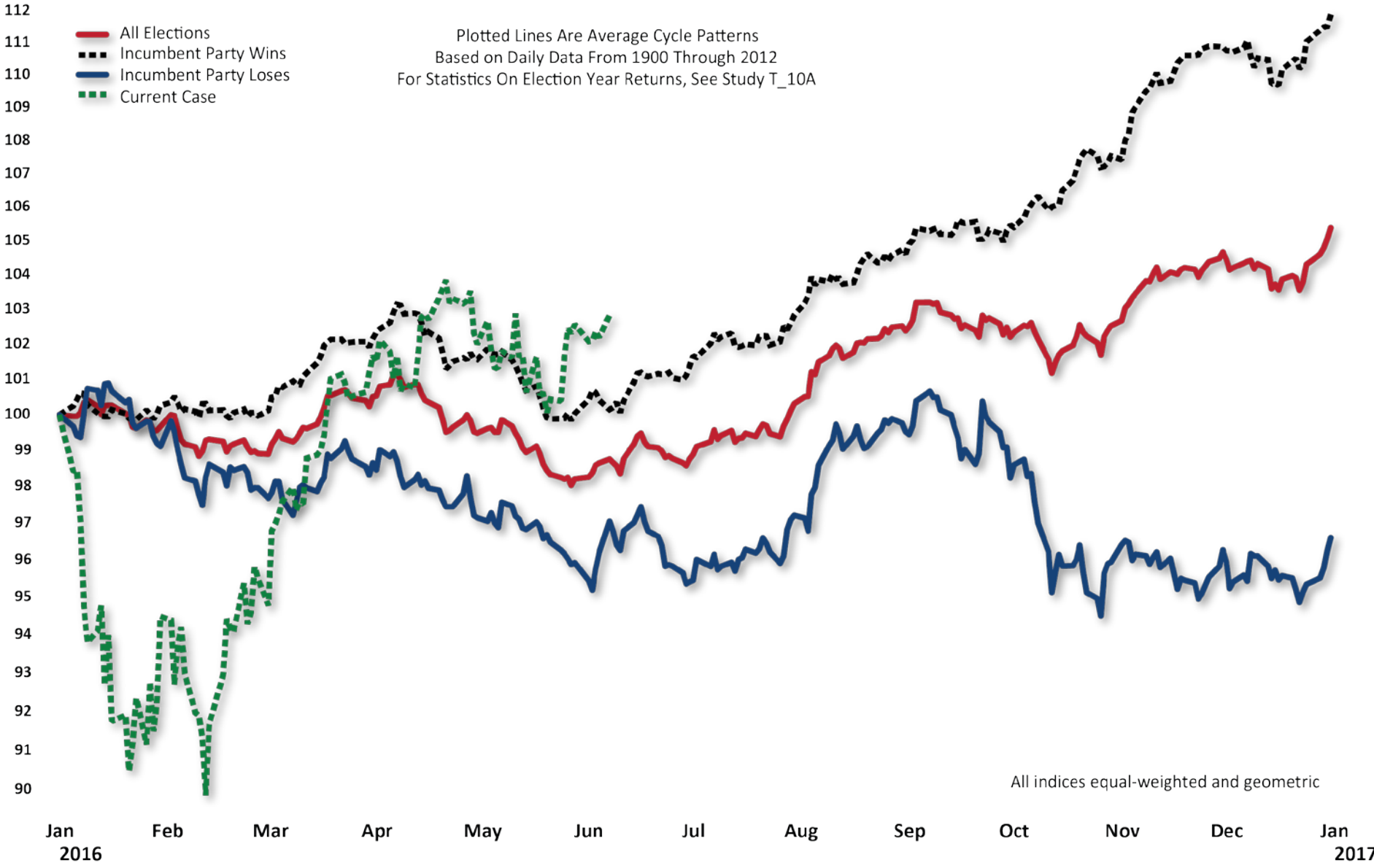
Market Implied Distribution of 10-Year Treasury Rates



Source: Ned Davis Research

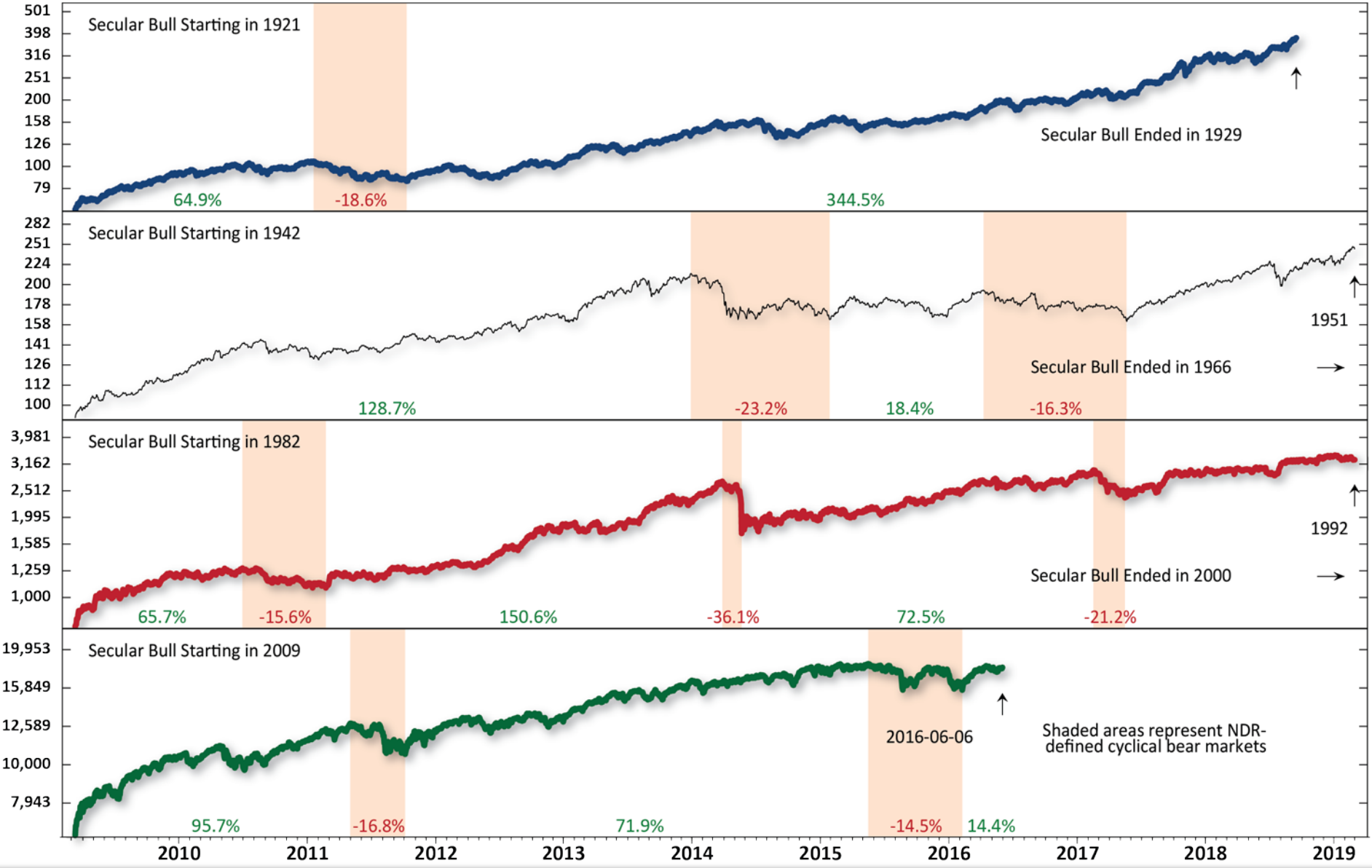


# Dow Industrials -- Election-Year Cycle (Incumbent Party Wins vs. Loses)



Source: Ned Davis Research

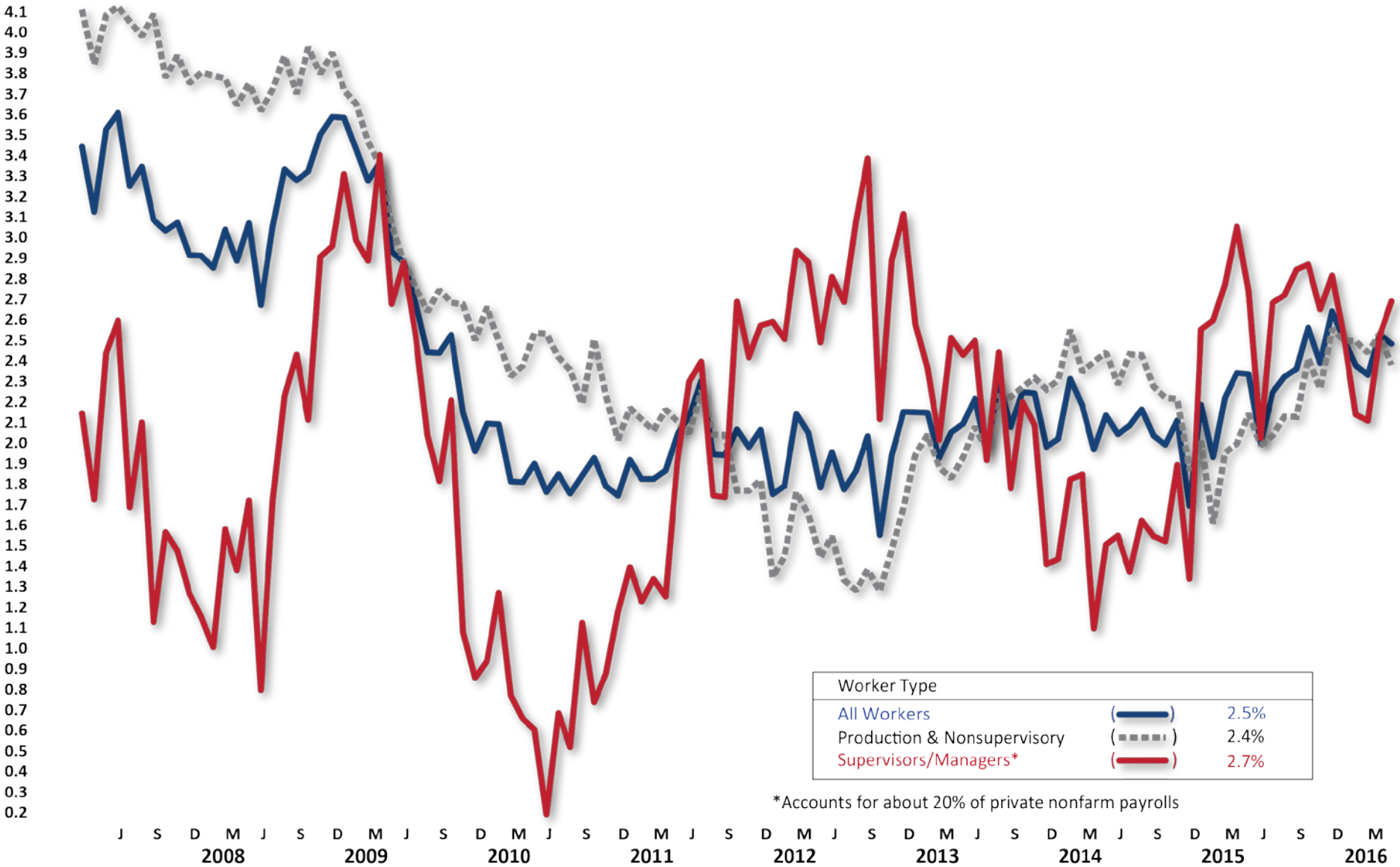
# DJIA Secular Bull Market Comparison



Source: Ned Davis Research

# Average Hourly Earnings (Year-to-Year Change)

Monthly Data 3/31/2007 - 5/31/2016



Source: Ned Davis Research

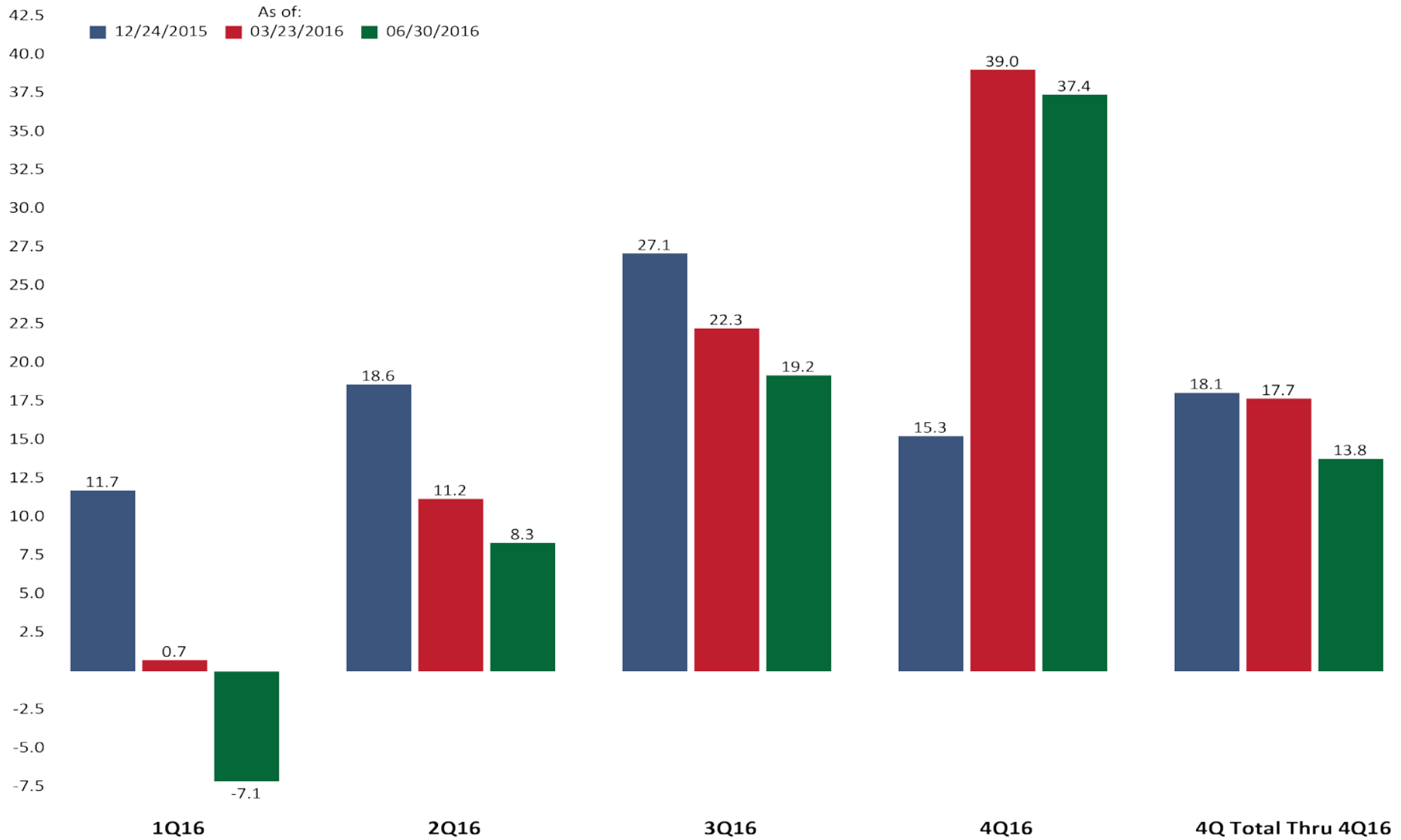
# Continuous Commodity Index (CCI) - Long-Term Trends

Daily Data 2001-01-02 to 2016-06-03 (Log Scale)



Source: Ned Davis Research

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



Source: Ned Davis Research

# Our 2016 Outlook – Executive Summary



- 2016 S&P 500 target 2200. Favor consistent earnings growers again in 2016 as economic expansion and bull market are long in the tooth. Easy comps should allow for near 8% earnings growth. Risks skewed to downside.
- Presidential election year historic bullish tendencies.
- Historical precedent – Good years normally follow flat years.
- Risks to the outlook – Valuations, lack of participation, Fed hikes rates faster than expected, margin debt, length of bull market, China, geopolitical risks.
- Market has a tendency to be resilient after first rate hike. Fast rate-hike cycle versus slow cycle.

# Our 2016 Outlook – Executive Summary



- Long-term — Secular bull market intact, attractive relative valuations for stocks. Commodity secular bear market.
- Economy — 6.5 years into economic expansion. Leading indicators suggest continued economic growth. For U.S. economy we expect 2.5% growth. Inflationary pressures / wage costs rising. Inflation moves toward Fed's 2.0% target. Global economy to grow 3.5%.
- Federal Reserve — First rate hike out of the way. Expect two to three additional rate hikes and the yield curve to flatten. Fed to hold off on shrinking the balance sheet.
- Fixed Income — Modest increase in yields. Flattening yield curve as Fed hikes rates. Favor credit over duration risk. Strong performance for high yield historically after down years.



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.