# WHERE DID THE VOLATILITY GO?

**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.

Risk markets performed well across the board in the first quarter of 2017 as the Trump rally trade continued virtually unabated. The global risk-on rally showed few cracks developing, with trends pushing higher even though there were a number of obstacles to overcome. The markets faced uncertainty on numerous fronts in the first quarter, including the change of power in the White House with President Trump taking office in January, a flurry of executive orders, Congress' failure to repeal and replace Obamacare, the Federal Reserve's third interest rate hike of the cycle, and growing geopolitical tensions with North Korea firing missiles, just to name a few.

Even so, the markets remained very calm with volatility seeming to hibernate. For example, the S&P 500 enjoyed a 109-day streak without a 1% decline, its longest stretch in nearly 22 years. The benchmark went 55 trading days without a 1% daily move in either direction, the longest such streak since 2014. In fixed income, credit dominated with the Barclays High Yield Index gaining 2.70%, the Barclays Intermediate Term Credit Index gaining 1.14%, and the Barclays 7-10 Year Treasury Index positive by 0.94%.

The Federal Reserve did hike rates for only the third time in the cycle and suggested more hikes. Possibly two to three more are in the offing this year. The market doesn't seem to believe the Fed will hike that much, evidenced by the fact that the 10-year Treasury Note yield has peaked concurrently with each of the three Fed rate hikes. If the market put any trust in the Fed's willingness or ability to hike more rapidly, we believe the 10-Year Treasury Note yield would remain firmer after each rate hike.

## First Quarter Attribution

The Fixed Income Total Return (FITR) portfolio remained fully invested in high yield bonds during the first quarter, as has been the case since the allocation to the high yield bond sector over one year ago on February 29, 2016. For the quarter, the Fixed Income Total Return portfolio rose 2.57% gross of fees (1.81% net), marginally trailing the Barclays High Yield Bond benchmark which gained 2.70% and outperforming the Barclays Aggregate Bond benchmark, which gained 0.82%. The portfolio's performance was again driven by its allocation to credit risk, which performed well in the quarter given a supportive economic environment and continued spread compression.

Credit spreads have steadily contracted since peaking at 840 bps on February 2016. Spreads ended the quarter at 345 bps, which is below the mean spread of 544 bps since 2000, arguing that high yield bonds are expensive. While valuations are a concern and may be a headwind to future high yield bond returns, we would caution against turning negative on the sector purely based on valuations as we have witnessed spreads much lower than current levels as recently as 2014 when they fell to 221 bps.

Past performance is not indicative of future results.

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

# Navigator® Fixed Income Total Return

K. Sean Clark, CFA, Chief Investment Officer

## First Quarter 2017 — Portfolio Commentary

The strong gains in high yield bonds and sharp contraction in spreads over the past 13-months can be attributed to fundamental support on several fronts. First, the risk of corporate bonds defaulting is low. Default risk is reduced when the economy grows and expectations are for continued, and accelerating, economic growth. Second, there has been a huge recovery in energy and other commodity prices, which had driven spreads wider into early 2016. In addition, the lack of any source of stress has also kept volatility low, which has allowed the high yield bond market to remain buoyed despite being fully valued.

### Outlook

As we mentioned in our last Commentary, we continue to favor credit and thus are fully exposed to high yield in the Fixed Income Total Return portfolio. We do not expect to see the same surge in credit as we saw in 2016, but history shows spreads can remain tight for long periods of time without an economic downturn. We do not see any evidence of potential trouble for the economy as indicators we look at are in solid growth territory, including the Conference Board's Index of Leading Economic Indicators (LEI), which recently surged to a new high, suggesting continued economic growth through the remainder of the year.

The below investment grade credit space still has a nice yield advantage over other fixed income sectors, and we are comfortable remaining allocated to credit, enjoying the yield advantage. We have dialed back our return expectations for the portfolio given the large gains over the past year. Given the run up in high yield bonds, tighter credit spreads, and lack of volatility in the market, we think low to mid-single digit return expectations are appropriate at this stage of the credit cycle.

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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 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 and Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and 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 Treasury Index tracks the performance of the long-term U.S. government bond market.

The Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-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.

Barclays U.S. Aggregate Bond Index: The index is unmanaged and measures the performance of the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries and government-related and corporate securities that have a remaining maturity of at least one year.

MSCI All Country World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley and is comprised of stocks from both developed and emerging markets.

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.

Gross performance shown is presented gross of investment advisory fees and includes 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. Net performance includes the deduction of a 3.0% annual wrap fee, which is the highest anticipated wrap fee charged by any sponsor. Management and performance of individual accounts will vary due to differences such as the availability of securities, trading implementation or client objectives, and market conditions. For a fee schedule, please contact your advisor or refer to AssetMark’s Form ADV Part 2A. If you enter into an agreement directly with Clark Capital, refer to Clark Capital’s Form ADV Part 2A. The Firm’s policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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