LOW VOLATILITY = TOO MUCH COMPLACENCY

It is hard to believe that a year ago the markets were digesting the surprise Brexit vote. Especially since it has felt like the summer doldrums set in early this year as the markets have been trading in a very narrow range without much volatility to speak of. To highlight the lack of volatility, the CBOE Volatility Index (VIX) closed the first quarter at 13.37 and ended the second quarter at 11.18. That is historically very low, and it hasn't traded in that low a range since 2014. The market has now gone 247 days since the last 5% dip in the S&P 500, the longest such stretch in over 20 years. The result has been a remarkably consistent climb across risk asset classes including equities and bonds. We know from past history that volatility is cyclical. When low volatility periods end, they usually are accompanied with falling, not rising, risk asset prices. However, low volatility periods of the past have lasted for months and, in some cases, years. An old Wall Street adage is: "The most bullish thing the market can do is go up." We should enjoy it while it lasts.

From a headline perspective, not much impacted the markets in the second quarter. Sure there are plenty of geopolitical risks to contend with, both at home and abroad, but throughout this bull the market seems to defy gravity and continues to "climb that wall of worry."

The Federal Reserve did hike interest rates again in June. That hike, just like the prior rate increases, was made amid an environment of moderate, yet unwavering, economic growth. The moves have been well telegraphed and, therefore, well received by investors. Of greater importance is the probability of a third rate increase in 2017 along with the beginning of the Fed paring its balance sheet. The result was a further trend towards a flat yield curve, as two-year yields have risen to 1.37% and 10-year yields are at 2.30%. The less than 1% gap between the two-year and 10-year yields is near the lowest levels seen since 2007.

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.

Second Quarter Attribution

The Fixed Income Total Return (FITR) portfolio remained fully invested in high yield bonds during the second quarter, as has been the case since allocating to the high yield bond sector over one year ago on February 29, 2016. For the quarter, the Fixed Income Total Return portfolio rose 2.00% gross of fees (1.24% net), marginally trailing the Barclays Corporate High Yield Bond Index, which gained 2.17%, and outperforming the Barclays Aggregate Bond Index, which gained 1.45%. Year-to-date the portfolio has gained 4.62% gross of fees (3.07% net), compared to 4.93% and 2.27% respectively for the Barclays High Yield and Aggregate Bond indices.

Past performance is not indicative of future results.

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

Second Quarter 2017 — Portfolio Commentary

For sixteen consecutive months, the Fixed Income Total Return portfolio has been allocated to the high yield asset class. At the risk of sounding like a broken record, the portfolio's performance was again driven by its allocation to credit risk, which performed well in the quarter and outperformed duration risk, given the supportive economic environment and continued marginal spread compression. The trend favoring high yield has been persistent and strong. The Fed hiked interest rates in March and June for the third and fourth times in this cycle, as they continue on their path towards normalizing monetary policy. Through the rate hikes, relative strength in favor of high yield only improved and the portfolio has performed well by being fully allocated to credit.

Credit spread contraction continues with high yield spreads ending the quarter at 332 bps. On an absolute basis, the 332 bps point credit spread for high yield over Treasuries is well below the historic average, which indicates high yield bonds are more than fairly valued. However, when comparing high yield to investment grade credit spreads, a different picture emerges. High yield looks very attractive compared to investment grade credit and, therefore we expect to see continued support for high yield bonds given their yield advantage over other fixed income sectors.

Outlook

The U.S. economic expansion has now eclipsed the eight year mark, making it one of the longest expansions in U.S. history. This fact alone has created a good deal of consternation that the expansion is long in the tooth. At 96 months it is currently the third longest expansion since 1900. The previous longest expansions lasted 120 and 106 months. We see little evidence of any meaningful economic weakness and the economy appears set for continued growth based on the Conference Board's Index of Leading Economic Indicators hitting new all-time highs and the trend of falling initial unemployment claims. That backdrop should continue to support high yield. However, we have downgraded our return expectations given the spread compression that has already been realized. 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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