Clark Capital MANAGEMENT GROUP

Navigator®
Fixed Income Total Return

K. Sean Clark, CFA®, Chief Investment Officer

Third Quarter 2017 — Portfolio Commentary

PARTY LIKE IT'S . . .

The global risk markets have hit new all-time highs as the secular bull market continues to power higher. The buzz on the street now is of a melt-up, which is in stark contrast to the worry over geopolitical issues and the beginning of quantitative tightening that the Fed recently embarked on.

For the quarter, the gains were impressive. The S&P 500 gained 4.48%, the MSCI All Country World ex USA gained 6.16%, and the Bloomberg Barclays Corporate U.S. High Yield Index advanced 1.98%. The move higher illustrates the resiliency of this market as the summer months are often a period of weakness and volatility, both of which were notably absent this year. In fact, volatility measured by the CBOE Volatility Index (VIX) just hit its fifth lowest level on record. The lack of downside volatility is not a new development. The S&P 500 Total Return Index has risen for 11 months in a row, the most since 1959. The S&P (price only) has not seen a 5% correction since June 2016, its longest stretch in 21 years. The last 3% decline ended the week before the presidential election. If it can hold until to November 9th, it will be the longest streak on record.

Third Quarter Attribution

The Fixed Income Total Return (FITR) portfolio remained fully invested in high yield bonds during the third quarter and has now been allocated to below investment grade bonds for nineteen months. For the quarter, the Fixed Income Total Return portfolio rose 1.96% gross of fees (1.20% net), marginally trailing the Bloomberg Barclays Corporate U.S. High Yield Bond Index, which gained 1.98%, and outperformed the Bloomberg Barclays U.S. Aggregate Bond Index, which gained 0.85%. Year-to-date, the portfolio has gained 6.67% gross of fees (4.31% net) compared to 7.00% and 3.14% respectively for the Bloomberg Barclays High Yield and Aggregate Bond indices.

The Fixed Income Total Return (FITR) portfolio has owned high yield bonds since the end of February 2016, now a period of over 18 months. It has been a solid run for the asset class, as the Bloomberg Barclays High Yield U.S. Corporate Index is up 26.7% between February 29th, 2016 and September 30th, 2017. Corporate earnings and balance sheets remain in good shape, and all high yield sectors gained in the quarter. The market's attention remained on the Fed, and for much of the quarter interest rates declined, particularly in early September, when the 10-year Treasury yield fell to 2.06% amid the North Korea showdown. However, that proved to be an intermediate-term bottom for Treasury yields, and rates rose sharply during the rest of September, ending the quarter at 2.33%, the middle of their range for much of the year.

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.

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The Federal Reserve announced that it will begin the process of normalizing its bloated $4.5 trillion balance sheet. As expected, the Fed will begin the process in October and it will cap its roll off at $10 billion ($6 billion of Treasuries and $4 billion of mortgage backed securities (MBS)) for the next three months. The announcement that balance sheet run off will start in October was not surprising. The Fed did take a bit of a hawkish tone, stating that the persistently low inflation numbers are transitory or temporary. As a result, the The Fed Funds Futures market is now pricing in a greater than 70% probability of a December rate hike.

High yield spreads (Bloomberg Barclays High Yield Index yield – 10-year Treasury yield) declined to 314 basis points at the end of September, nearing its lowest spread of the year, indicating confidence in the U.S. economy and expectations of a continued low level of volatility. An additional factor contributing to the compression of spreads has been a decline in issuance of high yield bonds. In April 2015, the BofA Merrill Lynch U.S. High Yield Index contained 2326 issues, but as of September 30th it only contained 1873 issues, a 19.5% decline. The falling supply has been a bullish factor for high yield, as the huge group of investors hungry for yield are pursuing a smaller and smaller pool of issues

Outlook

The outlook as we round third base and approach the end of the year remains favorable. The global risk on trade is intact with improving economies in the U.S. and abroad, and investor and consumer confidence remain buoyed by the lack of any meaningful volatility. Talk of tax reform in Washington has the market hopeful for some policy initiatives that may help boost the economy and drive earnings growth. Risk assets are now heading into what has historically been the strongest seasonal period of the year with positive trends intact, dormant volatility, and solid economic footing.

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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.

Bloomberg 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 Bloomberg 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 Bloomberg 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 Bloomberg 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 Bloomberg Barclays Long-Term Treasury Index tracks the performance of the long-term U.S. government bond market.

The Bloomberg 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 Bloomberg 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.

Bloomberg 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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