

February 2018

EQUITY MARKETS

The S&P 500 declined in February, marking the first monthly drop for this widely followed U.S. equity index since before the presidential election in 2016. After hitting record highs in January, the major U.S. stock indices, including the S&P 500, Dow Jones Industrial Average, NASDAQ, Russell 1000, Russell 2000, and Russell 3000 dropped lower in February. Following sharp declines early in the month that saw volatility surge to its highest level in years, equities generally improved for the balance of February. Despite solid improvements from those early-month lows, most major equity indices dropped in February. Volatility, which had been rather dormant during 2017, came back with a vengeance during the month. In general, international stocks, both developed and emerging markets, fared worse than U.S. equities for the month. Continuing their recent trend of underperformance, small cap stocks fell modestly further than large caps in February. Style continued to matter for the month as value stocks suffered more significant declines than growth stocks, as the ongoing trend of growth outperforming value remained intact. Despite declines in February, most major U.S. and international equity indices remained in positive year-to-date territory due to strong gains in January.

FIXED INCOME MARKETS

After rising sharply in January, the yield on the 10-year Treasury continued to increase in February, closing the month around 2.86%. At its high in February, the yield on 10-year Treasuries hit 2.95%, marking the highest level for this benchmark indicator since early 2014 and a notable increase from the 2017 close near 2.4%. Overall, this increase in interest rates continued to put pressure on most fixed income sectors for the month. The Bloomberg Barclays Aggregate Bond Index, U.S. Treasuries and investment grade corporates all turned in negative results in February, which pushed year-to-date declines further into negative territory. High yield bonds were one of the only fixed income sectors to show gains in January, but declines in February pushed year-to-date results into modestly negative territory as well. While negative, municipal bonds showed better relative performance for the month.

ECONOMIC DATA

The economy continued to grow in January. The labor market saw 200,000 job additions in January, after job gains in December were more muted coming in at a revised 160,000. The unemployment rate held steady at 4.1% as expected. Once again, the ISM Manufacturing Index and ISM Non-Manufacturing Index continued to show solid economic growth. After back-to-back quarters of gross domestic product (GDP) growth above 3%, the second reading of fourth quarter 2017 GDP growth came in at 2.5%. This was in-line with expectations, but a modest drop from the preliminary estimate of 2.6%. Although no Federal Open Market Committee meeting occurred in February, Chairman Jerome Powell took over leadership of the Federal Reserve and his first significant introduction to the market was during his scheduled testimony to Congress late in the month. While hard to attribute it only to Chairman Powell's testimony, equity markets declined and volatility rose through month end in the day and a half following his testimony.

Event	Period	Estimate	Actual	Prior	Revised
Nonfarm Payroll	Jan	180,000	200,000	148,000	160,000
Unemployment	Jan	4.1%	4.1%	4.1%	
ISM Manufacturing	Jan	58.6	59.1	59.7	59.3
ISM Non-Manufacturing	Jan	56.7	59.9	55.9	56.0
Retail Sales ex Auto & Gas	Jan	0.3%	-0.2%	0.4%	0.0%
Average Hourly Earnings YOY	Jan	2.6%	2.9%	2.5%	2.7%
JOLTS Job Openings	Dec	5,691,000	5,811,000	5,879,000	5,978,000
PPI MOM	Jan	0.4%	0.4%	-0.1%	0.0%
PPI MOM ex Food & Energy	Jan	0.2%	0.4%	-0.1%	
PPI YOY	Jan	2.4%	2.7%	2.6%	
PPI YOY ex Food & Energy	Jan	2.0%	2.2%	2.3%	
CPI MOM	Jan	0.3%	0.5%	0.1%	0.2%
CPI MOM ex Food & Energy	Jan	0.2%	0.3%	0.3%	0.2%
CPI YOY	Jan	1.9%	2.1%	2.1%	

CPI YOY ex Food & Energy	Jan	1.7%	1.8%	1.8%	
Industrial Production	Jan	0.2%	-0.1%	0.9%	0.4%
Housing Starts	Jan	1,234,000	1,326,000	1,192,000	1,209,000
Building Permits	Jan	1,300,000	1,396,000	1,302,000	1,300,000
New Home Sales	Jan	647,000	593,000	625,000	643,000
Existing Home Sales	Jan	5,600,000	5,380,000	5,570,000	5,560,000
Leading Index	Jan	0.7%	1.0%	0.6%	
Durable Goods Orders	Jan (P)	-2.0%	-3.7%	2.8%	2.6%
S&P CoreLogic CS 20-City YOY	Dec	6.35%	6.30%	6.41%	6.36%
Personal Income	Jan	0.3%	0.4%	0.4%	
Personal Spending	Jan	0.2%	0.2%	0.4%	
GDP Annualized QOQ	4Q (S)	2.5%	2.5%	2.6%	
Univ. of Mich. Sentiment	Feb (F)	95.7	99.9	95.7	

P = Preliminary, S=Second, F = Final

Source: Bloomberg

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