

## May 2018

### EQUITY MARKETS

The S&P 500 Index added to April's gains with additional gains in May, pushing this widely followed index into positive year-to-date territory. Despite late-month stress arising from political turmoil in Italy and flaring of tariff concerns in the U.S., domestic equities were able to post solid gains for the month. The Russell 2000 Index, a measure of small capitalization stocks, performed even better during May and achieved a new all-time high. While U.S. equities gained in May, international equities struggled. A stronger U.S. dollar, higher interest rates, turmoil in Italy and ongoing headlines concerning tariff barriers were among the factors that weighed on international equities during the month. Overall, this was a month U.S. equities clearly outperformed their international counterparts. Most major U.S. stock indices, including the S&P 500, Dow Jones Industrial Average, NASDAQ, Russell 1000, Russell 2000 and Russell 3000 posted gains for May. The Russell 2000 Index hit a new all-time high during May and stood out among the major equity indices with some of the strongest monthly gains. International stocks struggled in May with both developed international and emerging market equities declining for the month.

### FIXED INCOME MARKETS

The notable rise in 10-year U.S. Treasury yields during much of May was countered by a late-month flight to quality which led to a rally in Treasury bond prices and declining yields. After ending April above 2.9%, the yield surpassed 3.1% during May before closing the month around 2.83%. Overall, this decline in yields led to a positive backdrop for most pockets of fixed income for the month. One notable exception was high yield bonds, which slipped marginally lower during May. The Bloomberg Barclays U.S. Aggregate Bond Index, U.S. Treasuries, municipals and investment grade corporate bonds all gained for the month. Despite a modest decline in May, high yield bonds, while negative, have still performed relatively better than most other fixed income categories on a year-to-date basis.

### ECONOMIC DATA

For the most part, economic data slowed in April from March's levels, but the economy remained in a growth mode. The ISM Manufacturing Index and the ISM Non-Manufacturing Index were both below expectations in April and lower than March's level. However, both readings also remained comfortably above the 50 mark, which is the dividing line between expansion and contraction for these indices. The second reading of first quarter 2018 GDP was revised modestly lower to 2.2% from the first estimate of 2.3%. While this reading had been expected to stay at 2.3%, the second reading was still ahead of the original consensus estimate of 2.0% growth. Housing data in April was also lower than March's levels, but housing starts and building permits continued to reflect a robust housing market. After disappointing in March, non-farm payroll additions improved in April but were below consensus estimates. On a positive note, the unemployment rate dipped to 3.9% when it had been expected to remain at 4.0%, and average hourly earnings rose at a modestly slower pace than expected. Year-over-year inflation readings through April were all below expectations with the exception of headline CPI, which came in as expected with a 2.5% annual increase. The Federal Open Market Committee met in early May and, as anticipated, kept policy rates unchanged.

| Event                       | Period | Estimate  | Actual    | Prior     | Revised   |
|-----------------------------|--------|-----------|-----------|-----------|-----------|
| Nonfarm Payroll             | Apr    | 193,000   | 164,000   | 103,000   | 135,000   |
| Unemployment                | Apr    | 4.0%      | 3.9%      | 4.1%      |           |
| ISM Manufacturing           | Apr    | 58.5      | 57.3      | 59.3      |           |
| ISM Non-Manufacturing       | Apr    | 58.0      | 56.8      | 58.8      |           |
| Retail Sales ex Auto & Gas  | Apr    | 0.4%      | 0.3%      | 0.3%      | 0.4%      |
| Average Hourly Earnings YOY | Apr    | 2.7%      | 2.6%      | 2.7%      | 2.6%      |
| JOLTS Job Openings          | Mar    | 6,100,000 | 6,550,000 | 6,052,000 | 6,078,000 |
| PPI MOM                     | Apr    | 0.2%      | 0.1%      | 0.3%      |           |
| PPI MOM ex Food & Energy    | Apr    | 0.2%      | 0.2%      | 0.3%      |           |
| PPI YOY                     | Apr    | 2.8%      | 2.6%      | 3.0%      |           |
| PPI YOY ex Food & Energy    | Apr    | 2.4%      | 2.3%      | 2.7%      |           |
| CPI MOM                     | Apr    | 0.3%      | 0.2%      | -0.1%     |           |

|                              |         |           |           |           |           |
|------------------------------|---------|-----------|-----------|-----------|-----------|
| CPI MOM ex Food & Energy     | Apr     | 0.2%      | 0.1%      | 0.2%      |           |
| CPI YOY                      | Apr     | 2.5%      | 2.5%      | 2.4%      |           |
| CPI YOY ex Food & Energy     | Apr     | 2.2%      | 2.1%      | 2.1%      |           |
| Industrial Production        | Apr     | 0.6%      | 0.7%      | 0.5%      | 0.7%      |
| Housing Starts               | Apr     | 1,310,000 | 1,287,000 | 1,319,000 | 1,336,000 |
| Building Permits             | Apr     | 1,350,000 | 1,352,000 | 1,354,000 | 1,377,000 |
| New Home Sales               | Apr     | 680,000   | 662,000   | 694,000   | 672,000   |
| Existing Home Sales          | Apr     | 5,550,000 | 5,460,000 | 5,600,000 |           |
| Leading Index                | Apr     | 0.4%      | 0.4%      | 0.3%      | 0.4%      |
| Durable Goods Orders         | Apr (P) | -1.3%     | -1.7%     | 2.6%      | 2.7%      |
| S&P CoreLogic CS 20-City YOY | Mar     | 6.45%     | 6.79%     | 6.80%     | 6.76%     |
| Personal Income              | Apr     | 0.3%      | 0.3%      | 0.3%      | 0.2%      |
| Personal Spending            | Apr     | 0.4%      | 0.6%      | 0.4%      | 0.5%      |
| GDP Annualized QOQ           | 1Q (S)  | 2.3%      | 2.2%      | 2.3%      |           |
| Univ. of Mich. Sentiment     | May (F) | 98.8      | 98.0      | 98.8      |           |

P = Preliminary, S = Second, F = Final,

Source: Bloomberg

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