



# MarketOutlook

*Mid-Year* 2018

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Tuesday, June 19, 2018

# 2018 Outlook – Executive Summary

- 2018 S&P 500 target of 2900. International to outperform U.S. again.
- Mid-term Election years tend to be volatile, with a steep correction into the middle of the year.
- Expect to see volatility return, return of normal corrections
- Risks to the outlook – Valuations, earnings growth, path of monetary policy, new Fed Chairman, length of bull market, geopolitical risks
- Long-term – Secular bull market intact, attractive relative valuations for stocks.
- Economy – 9 years into economic expansion. Leading indicators, health of labor market, yield curve suggest continued economic growth. For U.S. economy, we expect 3.0% growth. Inflationary pressures / wage costs rising. Global economy to grow 3.5%.
- Federal Reserve – Expect three additional rate hikes. Market should challenge new Fed Chair Powell.
- Fixed Income – 2.75% target for 10-year yields with curve flattening. Modest increase in yields. Favor credit over duration risk on strength of economy. Expect to see a risk off trade emerge prior to mid-term election.

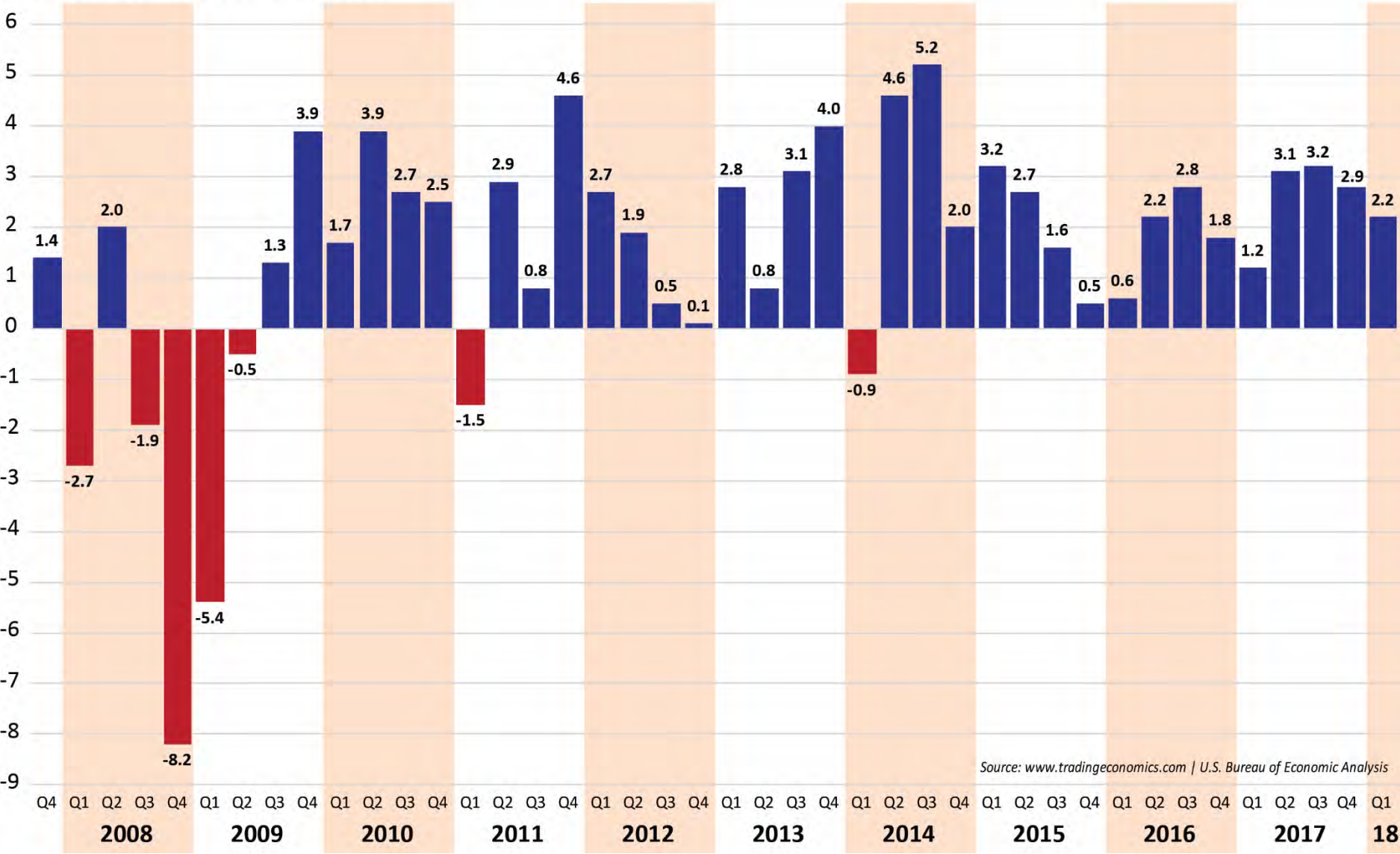


<b>Domestic Equity</b>		<b>YTD - May 2018</b>	<b>2017</b>
	S&P 500	2.02%	21.83%
	Russell 1000	2.19%	21.69%
	Russell 2000	6.91%	14.65%
	Russell 3000	2.55%	21.13%
	Russell 3000 Value	-1.43%	13.19%
	Russell 3000 Growth	6.43%	29.59%
<b>International Equity</b>			
	MSCI Emerging Market	-3.26%	34.35%
	MSCI All Country World (ex US)	-1.92%	27.19%
<b>Fixed Income</b>			
	BBgBarc U.S. Aggregate Bond	-1.50%	3.54%
	BBgBarc U.S. Treasury	-1.10%	2.31%
	BBgBarc U.S. Corporate	-2.70%	6.42%
	BBgBarc U.S. Corporate High Yield	-0.24%	7.50%
	BBgBarc Municipal	-0.33%	5.45%



# United States GDP Growth Rate

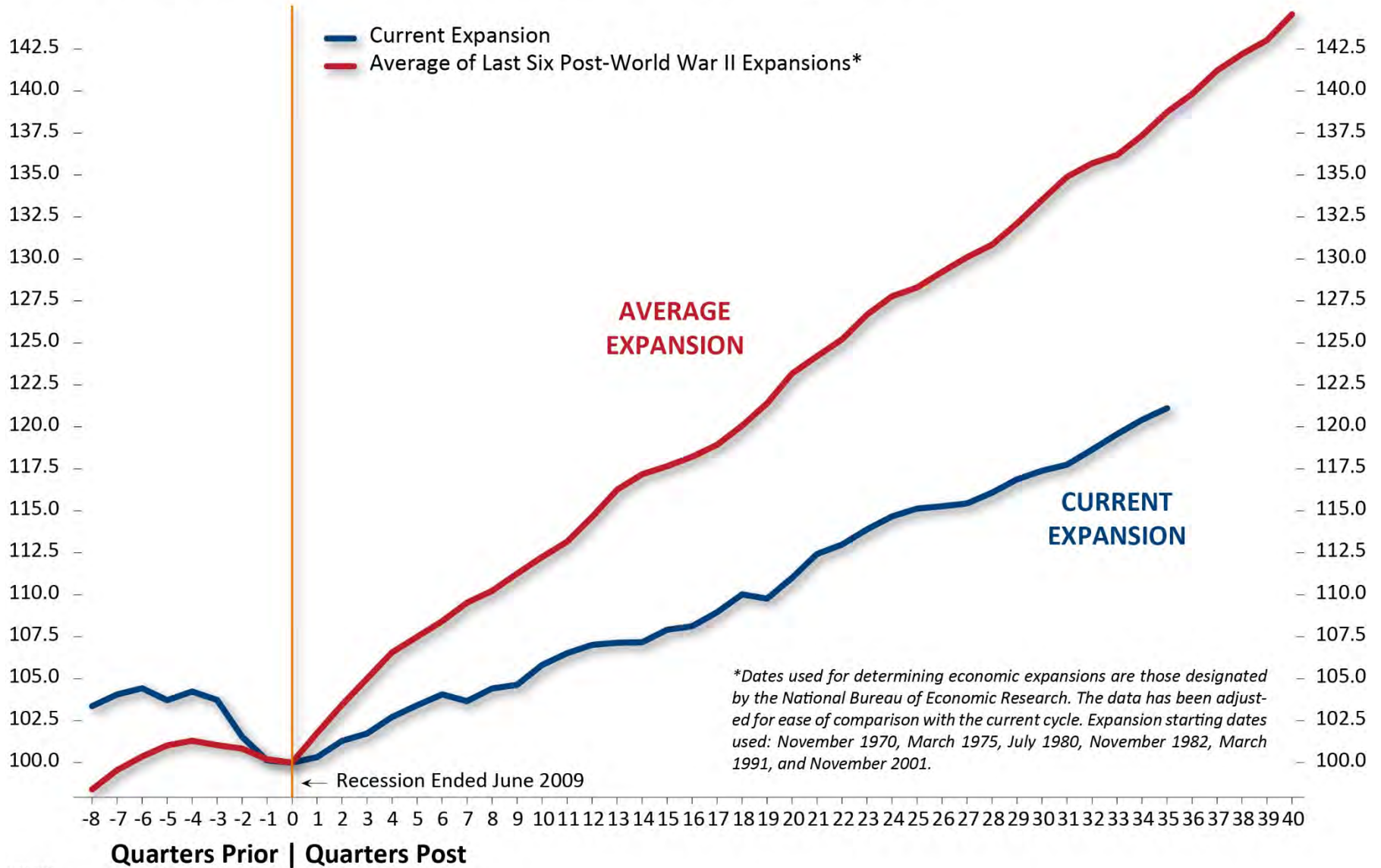
Percent Change in Gross Domestic Product



Source: [www.tradingeconomics.com](http://www.tradingeconomics.com) | U.S. Bureau of Economic Analysis



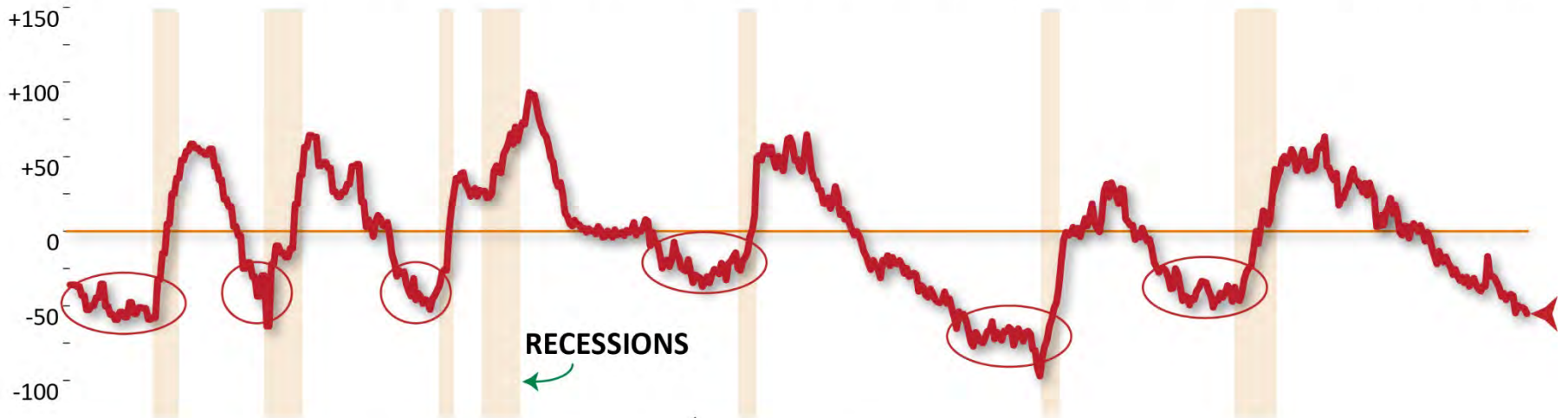
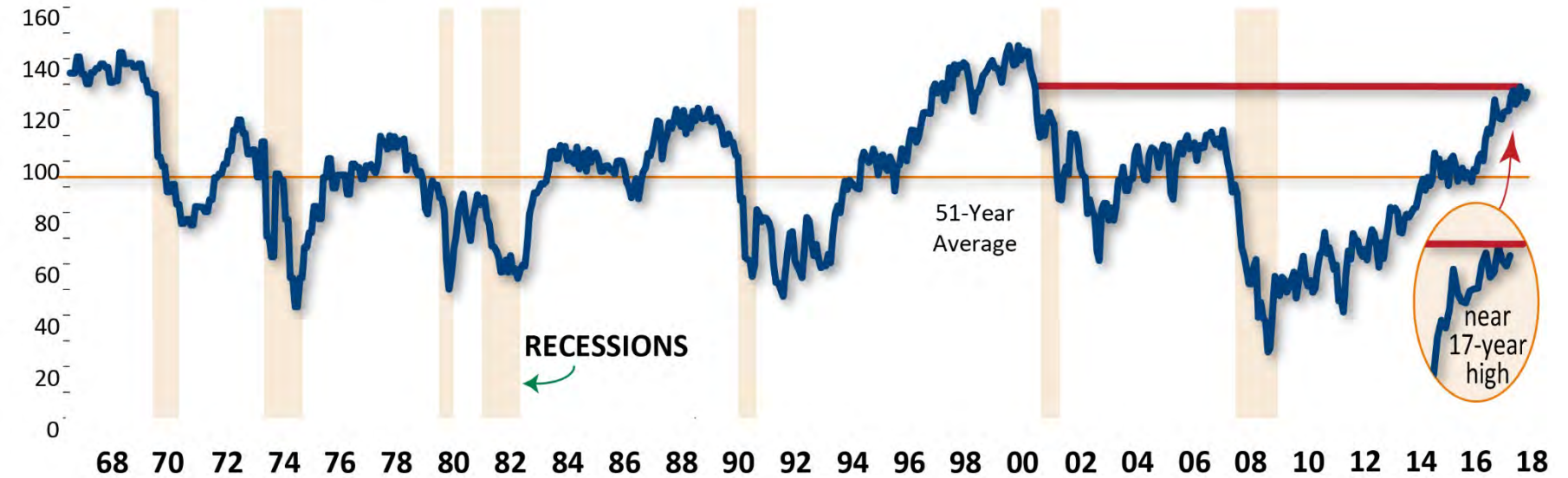
# Performance of Real GDP vs. Average of Last Six Expansions



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# Consumer Confidence

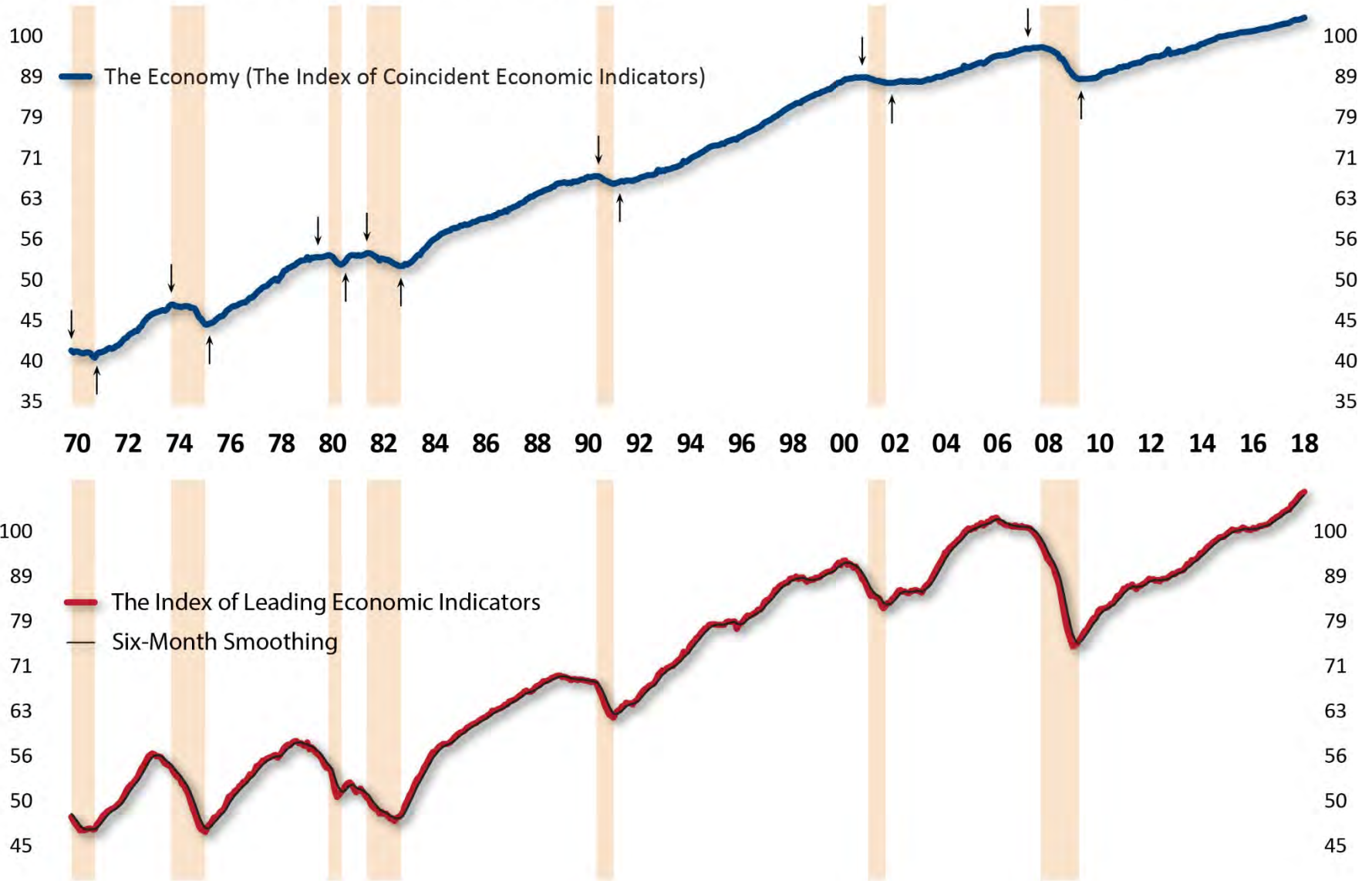


"Future Expectations" minus "Present Situation"

InvesTech Research

# The Index of Leading Economic Indicators

Monthly Data 1969-12-31 to 2018-04-30



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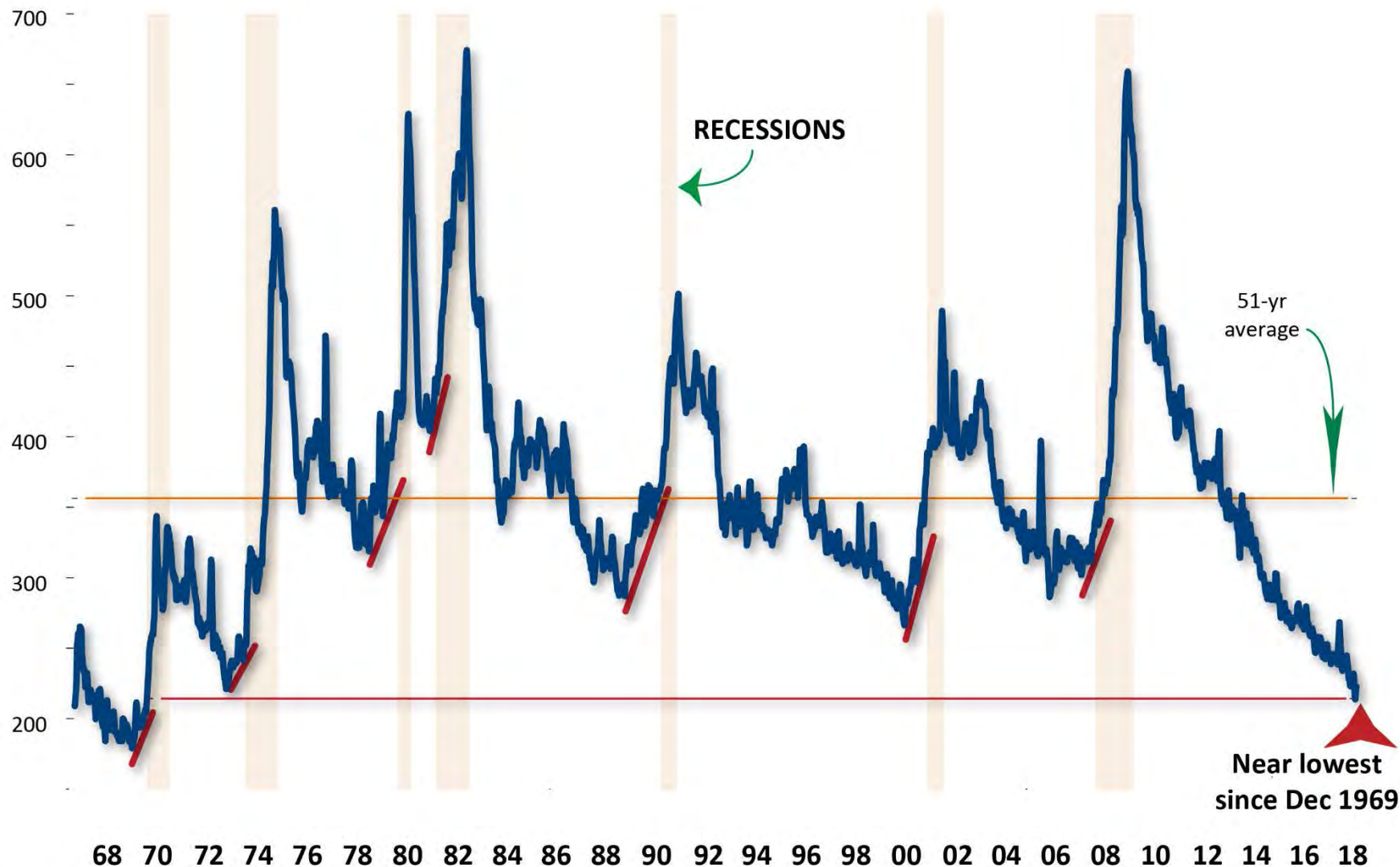
# LEI Recession Lead Times

LEI Peak	Recession Start	Months from Peak to Start
12/31/1959	4/30/1960	4
4/30/1969	12/31/1969	8
2/28/1973	11/30/1973	9
10/31/1978	1/31/1980	15
10/31/1980	7/31/1981	9
1/31/1989	7/31/1990	18
4/30/2000	3/31/2001	11
3/31/2006	12/31/2007	21





# Unemployment Claims (4-wk moving avg)

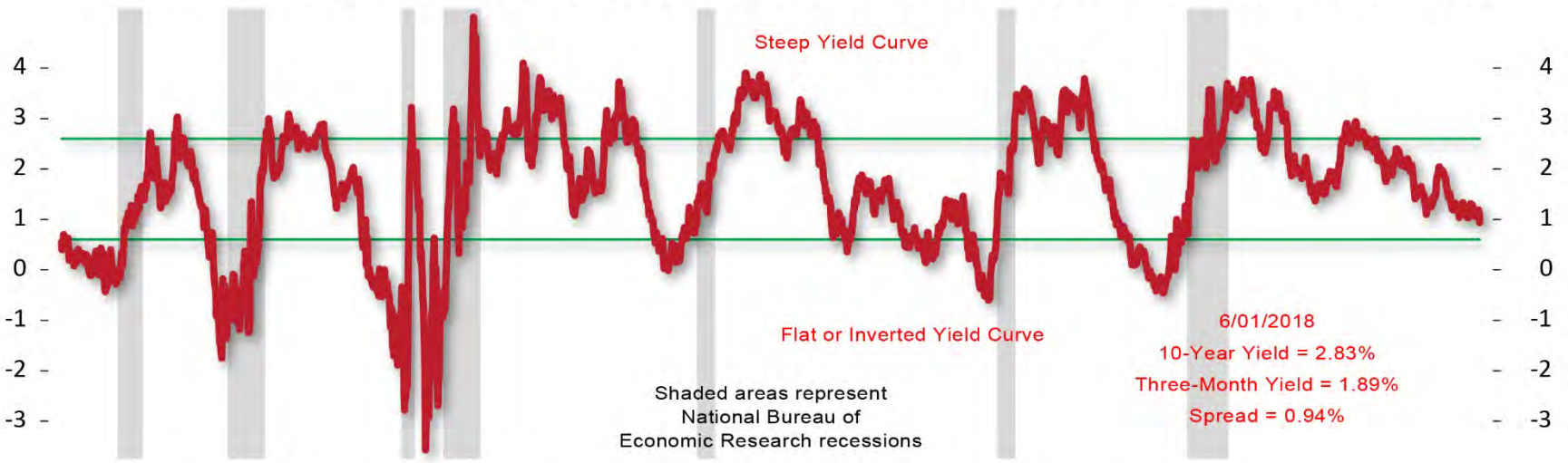
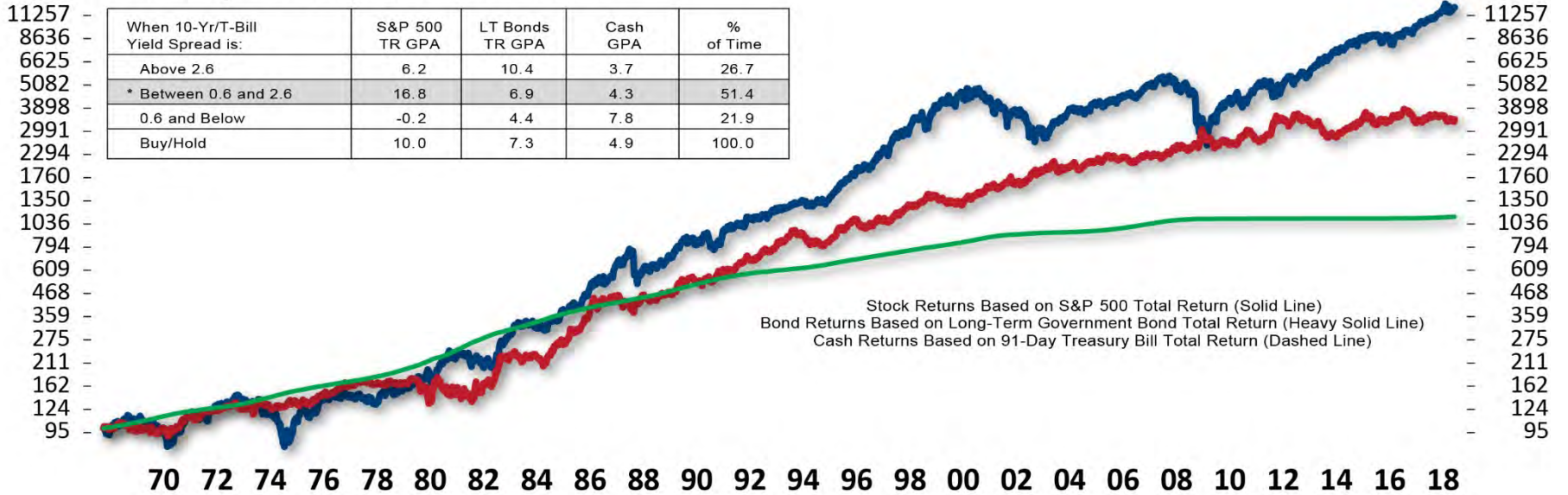


InvesTech Research

U.S. Bureau of Labor Statistics



# Stocks/Bonds/Cash Returns



## Yield Curve - 10-Year Minus Three-Month Treasury Yield

(AA47)

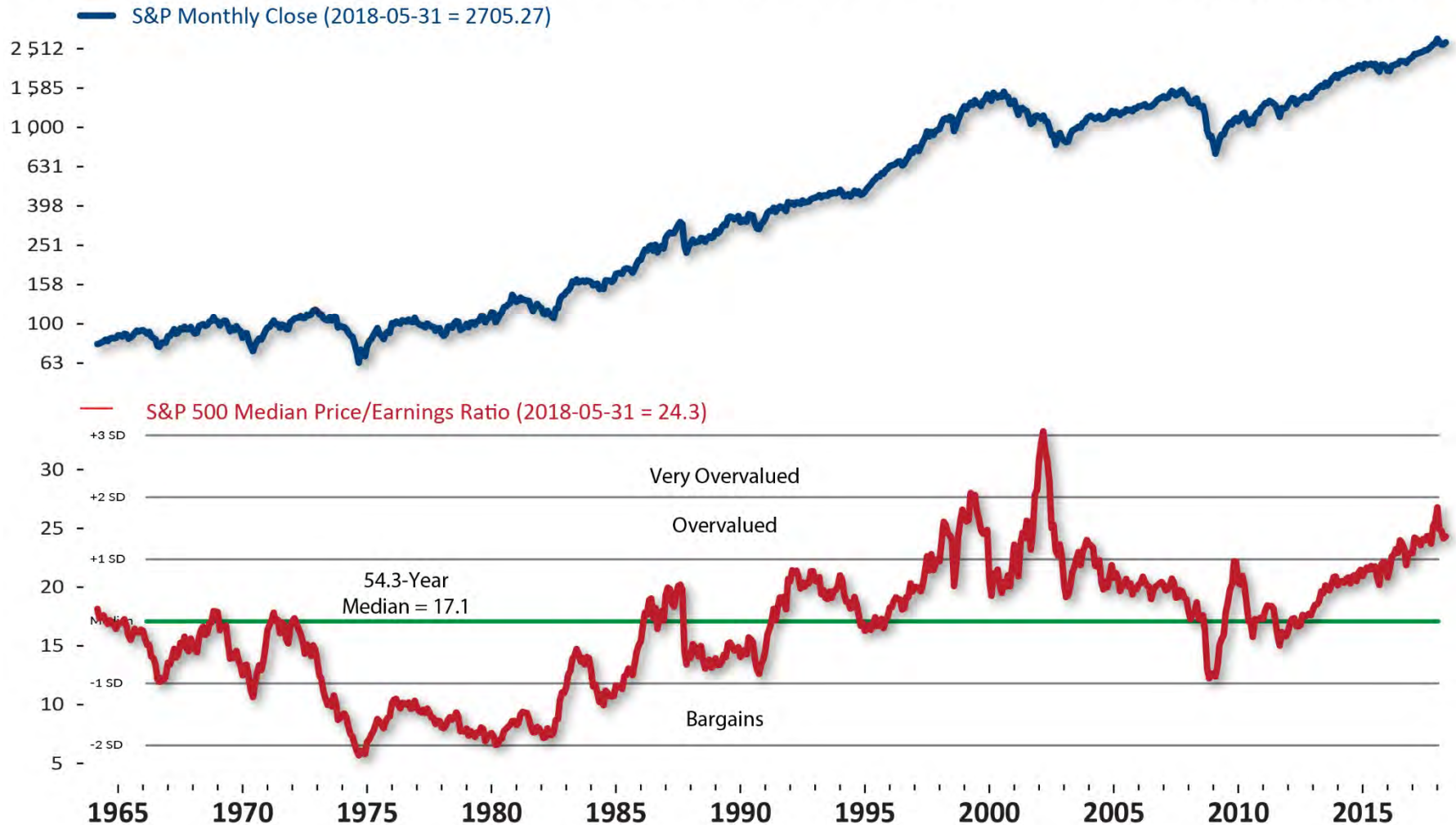
# Yield Curve Leading Up to Recessions

Start of Recession	Yield Curve (bps)	
	At Start of Recession	52-Week Low
12/31/1969	<b>-13</b>	<b>-45</b>
11/30/1973	<b>-61</b>	<b>-187</b>
01/31/1980	<b>-87</b>	<b>-208</b>
07/31/1981	<b>-20</b>	<b>-373</b>
07/31/1990	<b>61</b>	<b>-16</b>
04/02/2001	<b>72</b>	<b>-99</b>
12/31/2007	<b>79</b>	<b>-60</b>
Current	<b>94</b>	<b>89</b>



# S&P 500 Median Price/Earnings Ratio (NDR Calculation)

Monthly Data 1964-03-31 to 2018-05-31

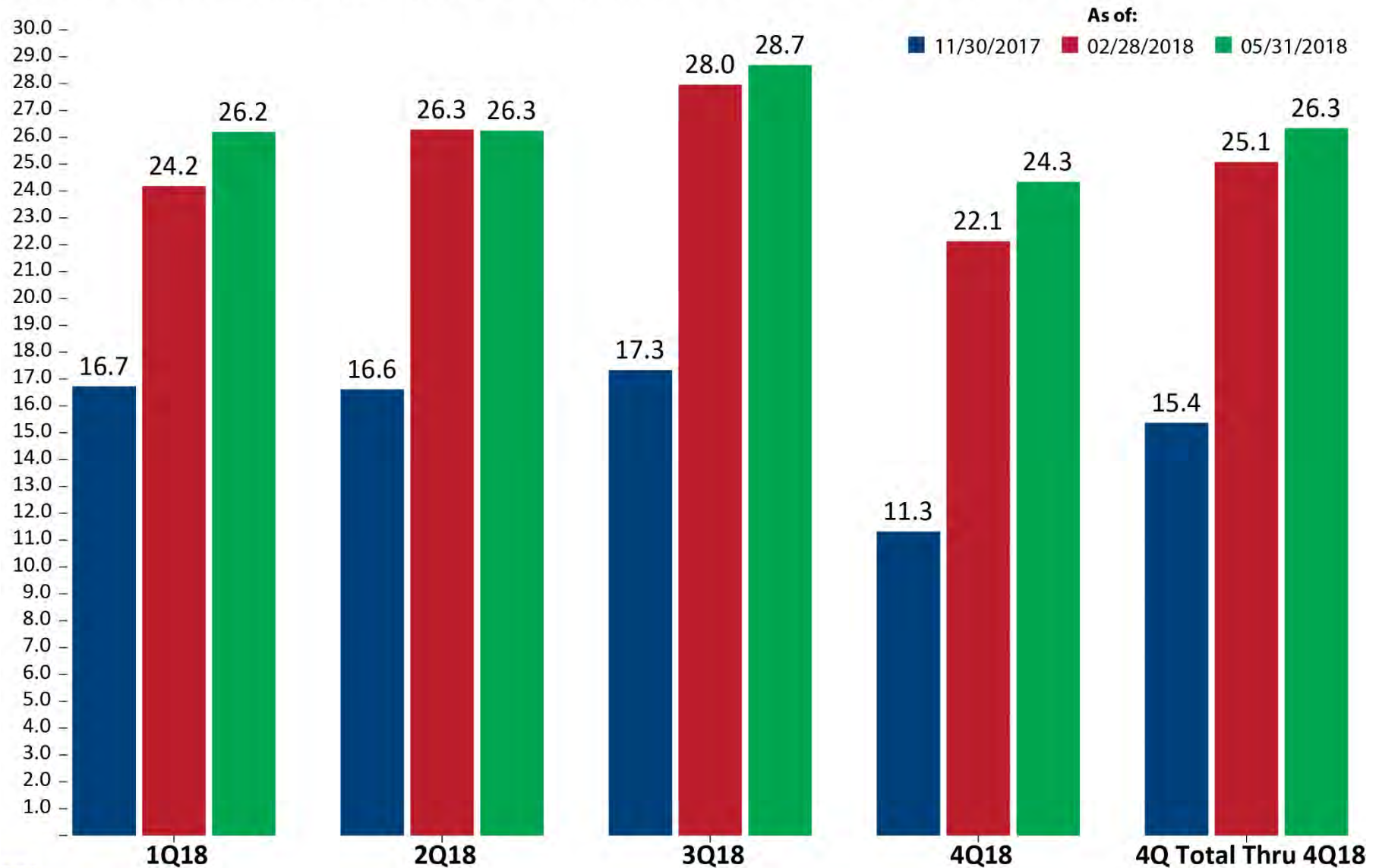


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## S&P 500 Consensus Operating EPS Estimates (Year/Year % Change)



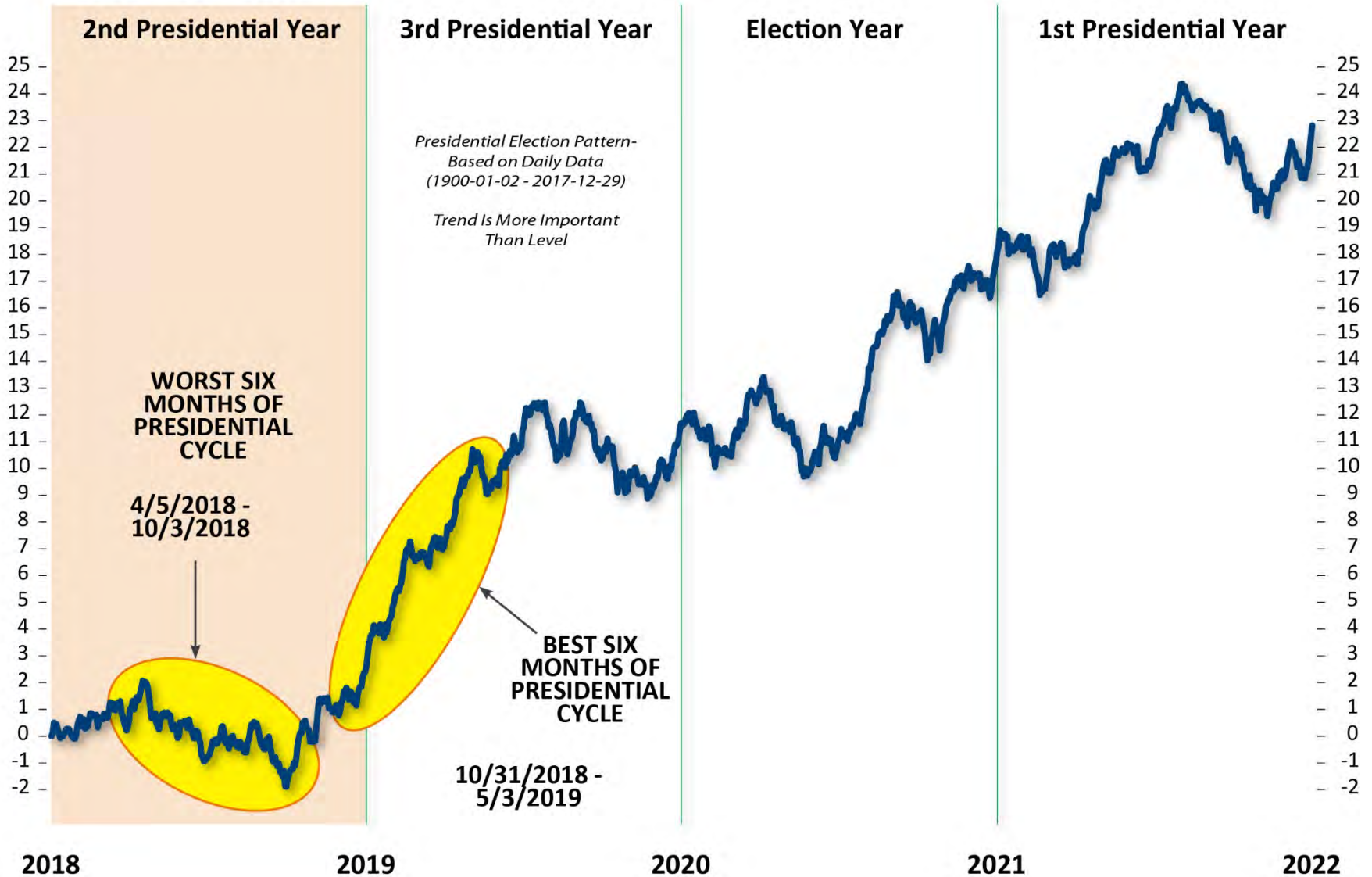


# S&P 500 Performance Since 1934

Prior 12-Month High	S&P 500	Mid-Term Low Date	S&P 500	% Loss to Mid-Term Low	Pre Election Year High Date	S&P 500	% Gain from Mid-Term Low
2/6/1934	11.82	7/26/1934	8.36	-29.27%	11/19/1935	13.46	61.00%
<b>3/10/1937</b>	<b>18.67</b>	<b>3/31/1938</b>	<b>8.5</b>	<b>-54.47%</b>	<b>1/4/1939</b>	<b>13.23</b>	<b>55.65%</b>
7/28/1941	10.47	4/28/1942	7.47	-28.65%	7/14/1943	12.64	69.21%
5/29/1946	19.25	10/9/1946	14.12	-26.65%	2/8/1947	16.20	14.73%
1/11/1950	17.09	1/14/1950	16.65	-2.57%	10/15/1951	23.85	43.24%
<b>2/3/1953</b>	<b>26.54</b>	<b>1/11/1954</b>	<b>24.8</b>	<b>-6.56%</b>	<b>11/14/1955</b>	<b>46.41</b>	<b>87.14%</b>
7/15/1957	49.13	1/2/1958	40.33	-17.91%	8/3/1959	60.71	50.53%
12/12/1961	72.64	6/26/1962	52.32	-27.97%	12/31/1963	75.02	43.39%
2/9/1966	94.06	10/7/1966	73.2	-22.18%	9/25/1967	97.59	33.32%
<b>5/14/1969</b>	<b>106.16</b>	<b>5/26/1970</b>	<b>69.29</b>	<b>-34.73%</b>	<b>4/28/1971</b>	<b>104.77</b>	<b>51.21%</b>
<b>10/12/1973</b>	<b>111.44</b>	<b>10/3/1974</b>	<b>62.28</b>	<b>-44.11%</b>	<b>7/15/1975</b>	<b>95.61</b>	<b>53.52%</b>
12/31/1976	107.46	3/6/1978	86.9	-19.13%	10/5/1979	111.27	28.04%
<b>8/11/1981</b>	<b>133.85</b>	<b>8/12/1982</b>	<b>102.42</b>	<b>-23.48%</b>	<b>10/10/1983</b>	<b>172.65</b>	<b>68.57%</b>
1/7/1986	213.80	1/22/1986	203.49	-4.82%	8/25/1987	336.77	65.50%
<b>7/16/1990</b>	<b>368.95</b>	<b>10/11/1990</b>	<b>295.46</b>	<b>-19.92%</b>	<b>12/31/1991</b>	<b>417.09</b>	<b>41.17%</b>
2/2/1994	482.00	4/4/1994	438.92	-8.94%	12/13/1995	621.69	41.64%
12/5/1997	983.79	1/9/1998	927.69	-5.70%	12/31/1999	1469.25	58.38%
1/4/2002	1172.51	10/9/2002	776.76	-33.75%	12/31/2003	1111.92	43.15%
5/5/2006	1325.76	6/13/2006	1223.69	-7.70%	10/9/2007	1565.15	27.90%
4/23/2010	1217.28	7/2/2010	1022.58	-15.99%	4/29/2011	1363.61	33.35%
9/19/2014	2010.40	10/15/2014	1862.49	-7.36%	5/21/2015	2130.82	14.41%
<b>Mean</b>				<b>-21.04%</b>			<b>46.91%</b>
<b>Median</b>				<b>-21.05%</b>			<b>46.96%</b>



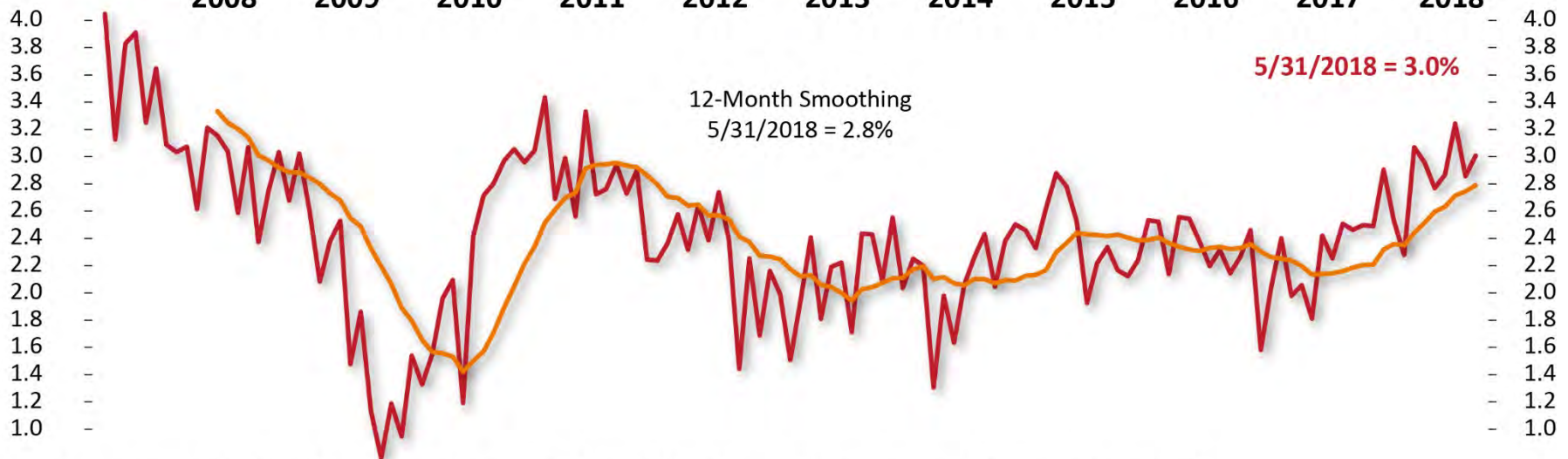
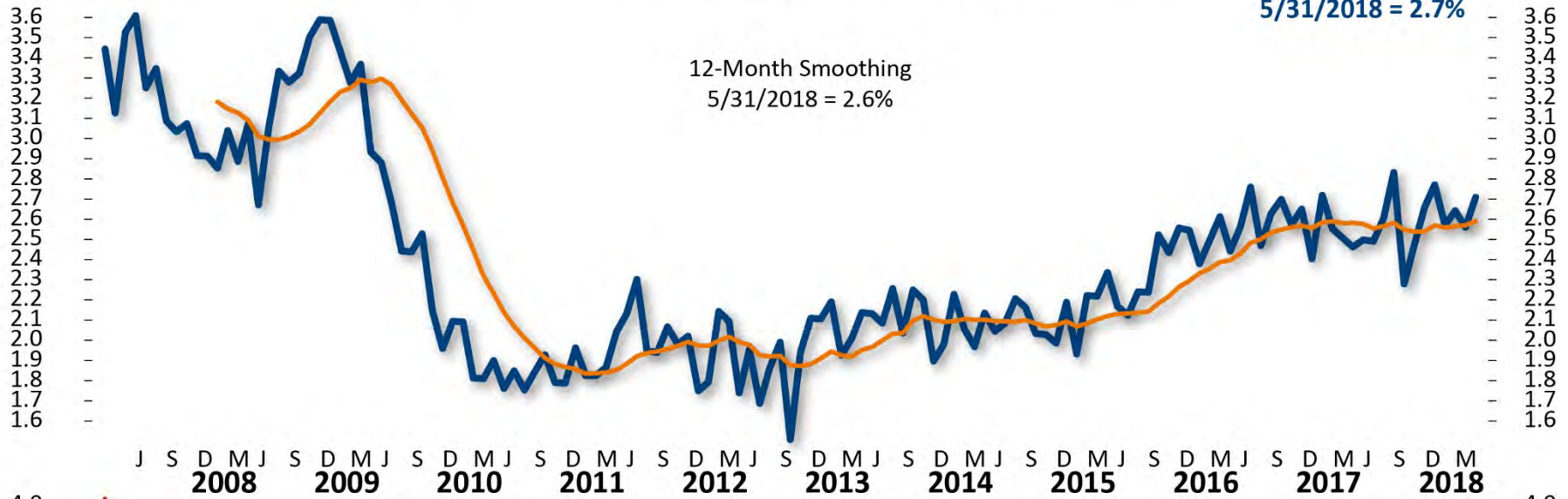
# Dow Industrials Four-Year Presidential Cycle



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# Average Hourly Earnings of All Workers (Year-to-Year Change)

Monthly 3/31/2007 - 5/31/2018



# Average Weekly Earnings of All Workers (Year-to-Year Change)

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# 10-Year Constant Maturity Treasury Note Yields (Since 2007)

Daily Data 2007-07-02 to 2018-06-07

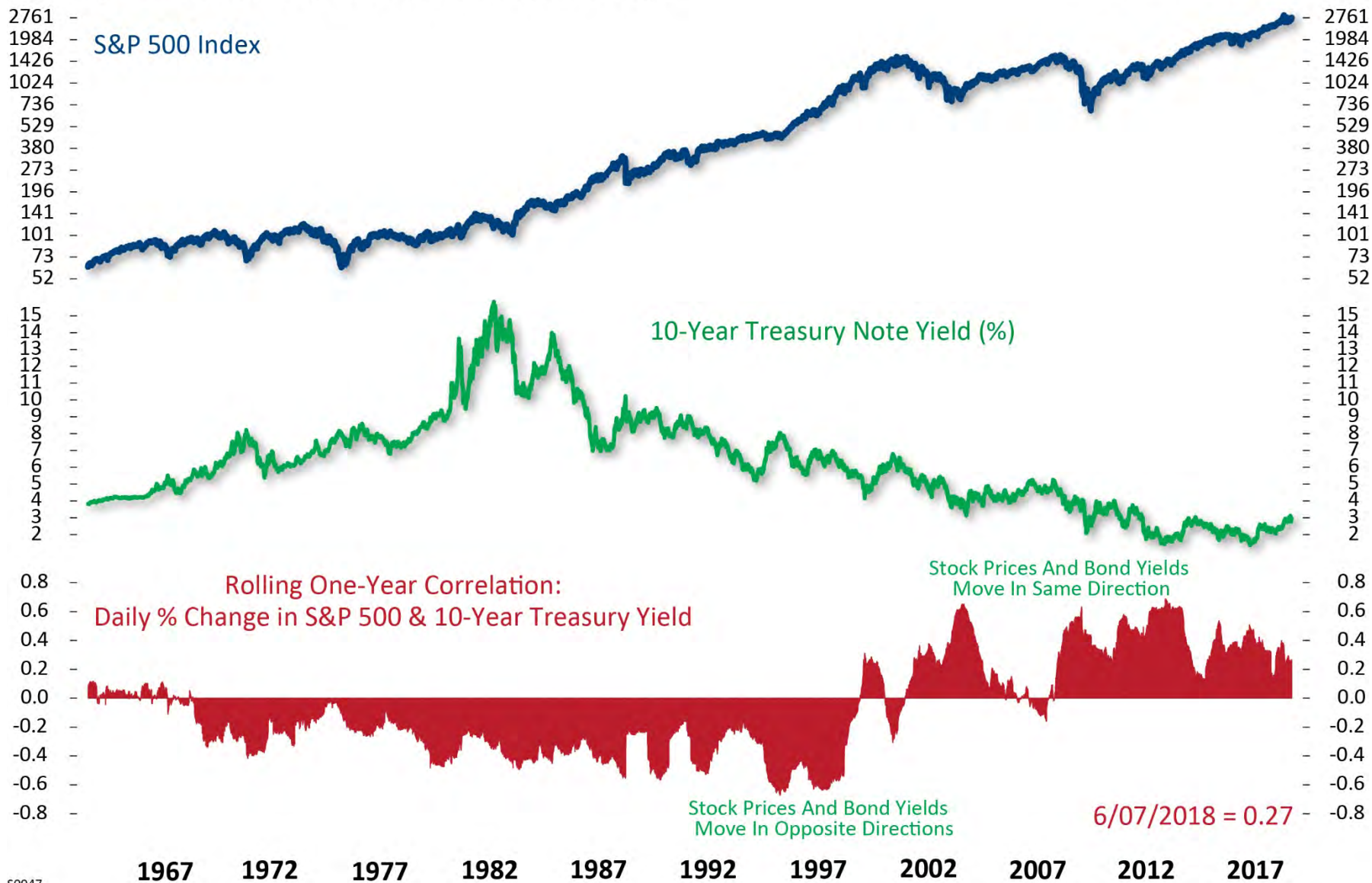


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# Stock/Bond Rolling One-Year Correlation

Daily 1/02/1963 - 6/07/2018 (Log Scale)



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# Dollar-Adjusted Commodity Indexes II (Majors)

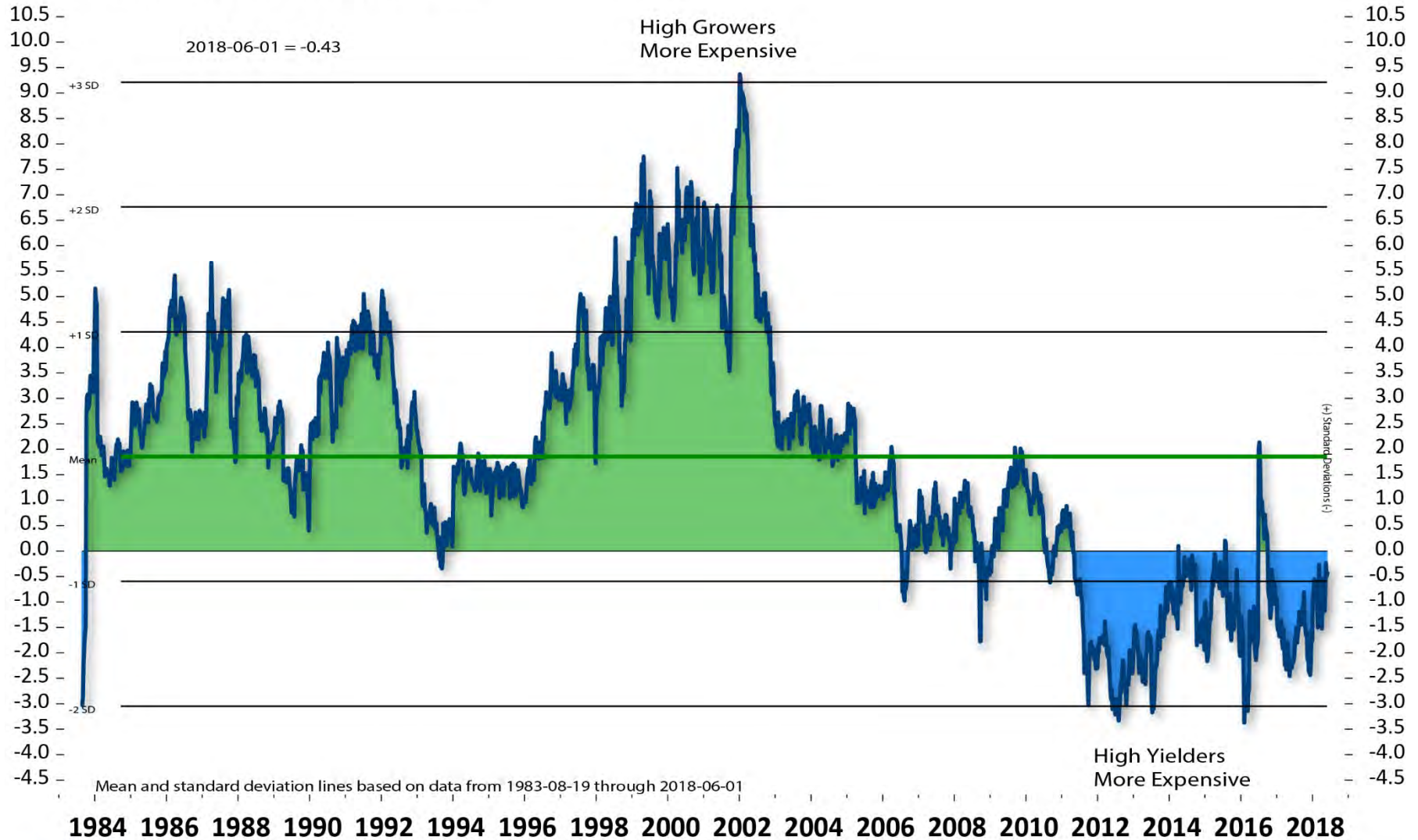
Daily 5/01/2008 - 6/08/2018 (Log Scale)



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# S&P 500 Median Forward P/Es of High Dividend Growers minus High Dividend Yielders

Weekly Data 1983-08-19 to 2018-06-01

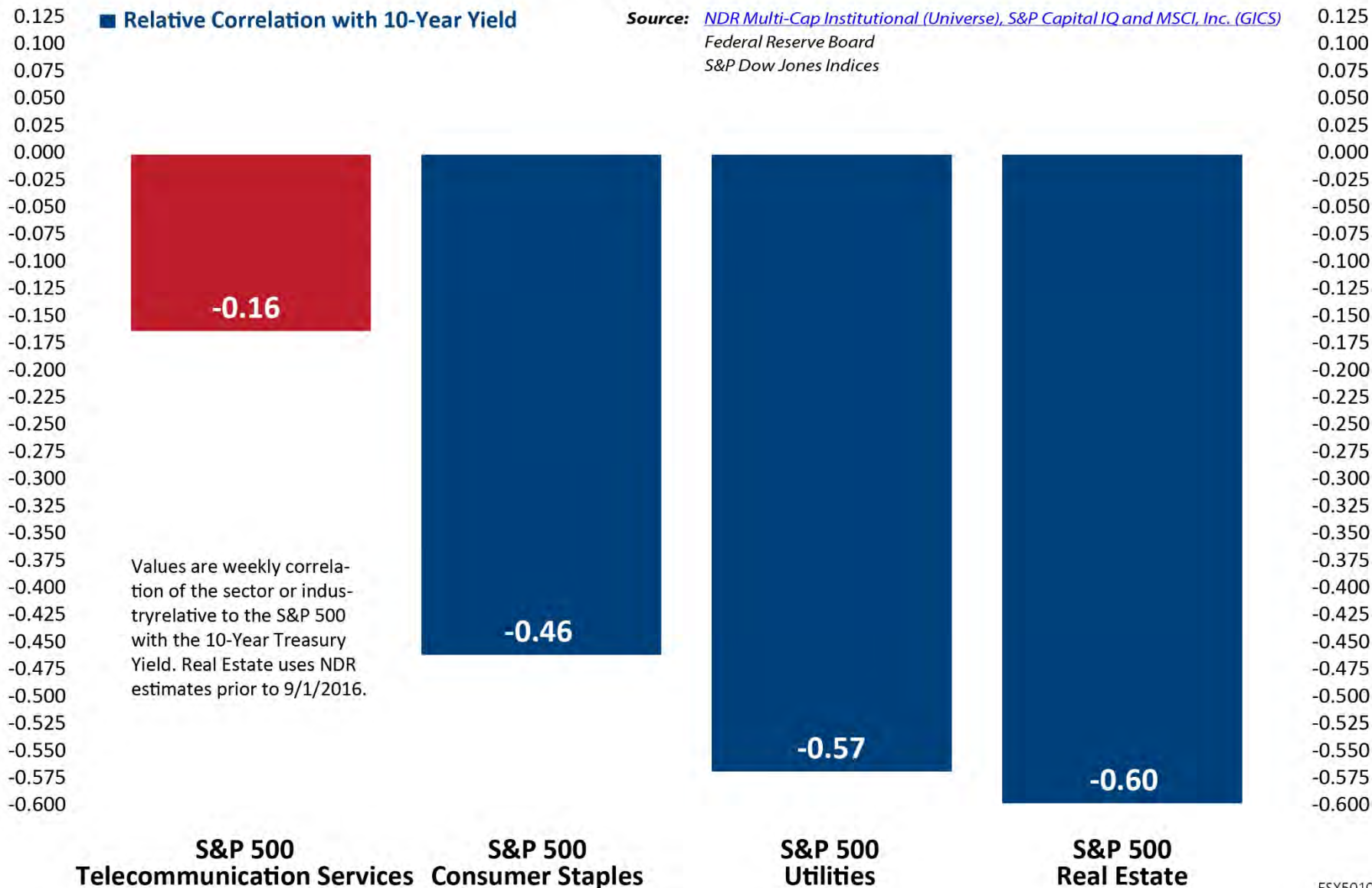


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# Relative Correlation with 10-Year Treasury Note Yield

Weekly data calculated from 2013-01-04 to 2018-05-25





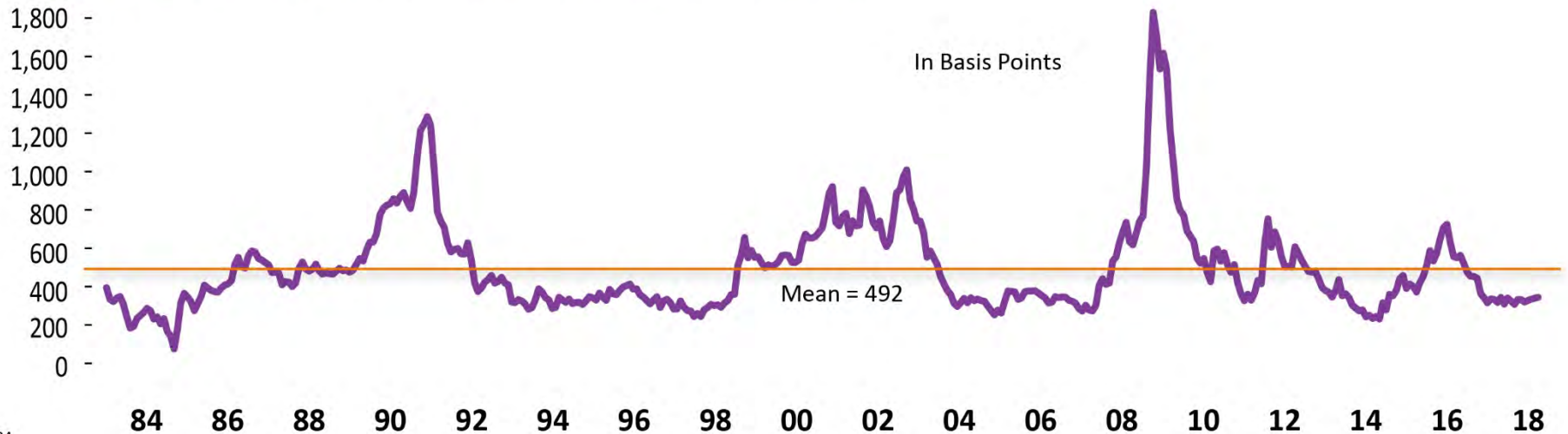
# High Yield Corporate Spreads (Relative to 10-Year Treasurys)

Monthly Data 1983-01-31 to 2018-05-31

- 10-Year Treasury Note Yield (2018-05-31 = 2.98%)
- Barclays High Yield Corporate Bond Yield\* (2018-05-31 = 6.42%)



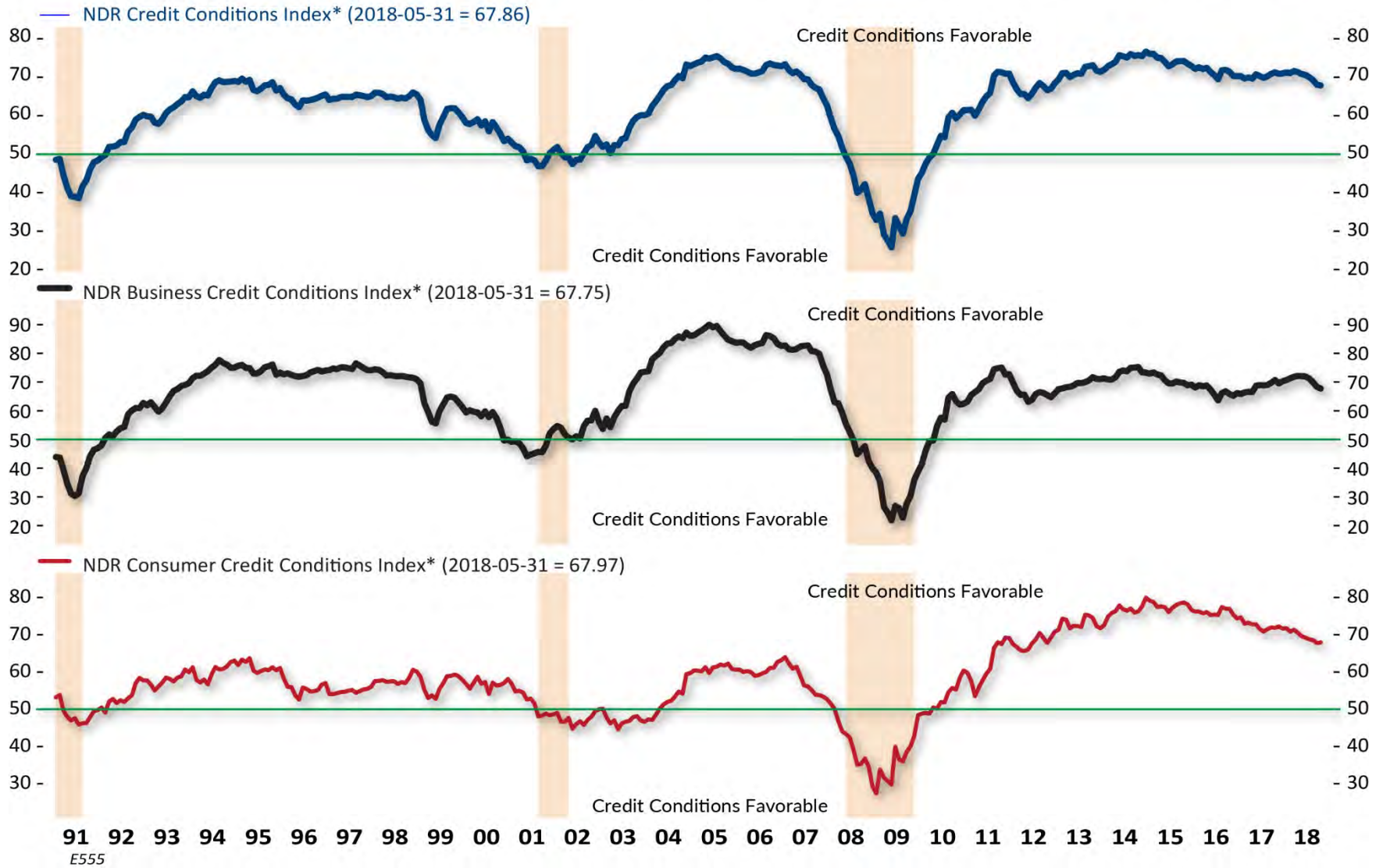
- High Yield Spread (High Yield minus 10-Year Treasurys) (2018-05-31 = 343)



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# NDR Credit Conditions Index and Its Components

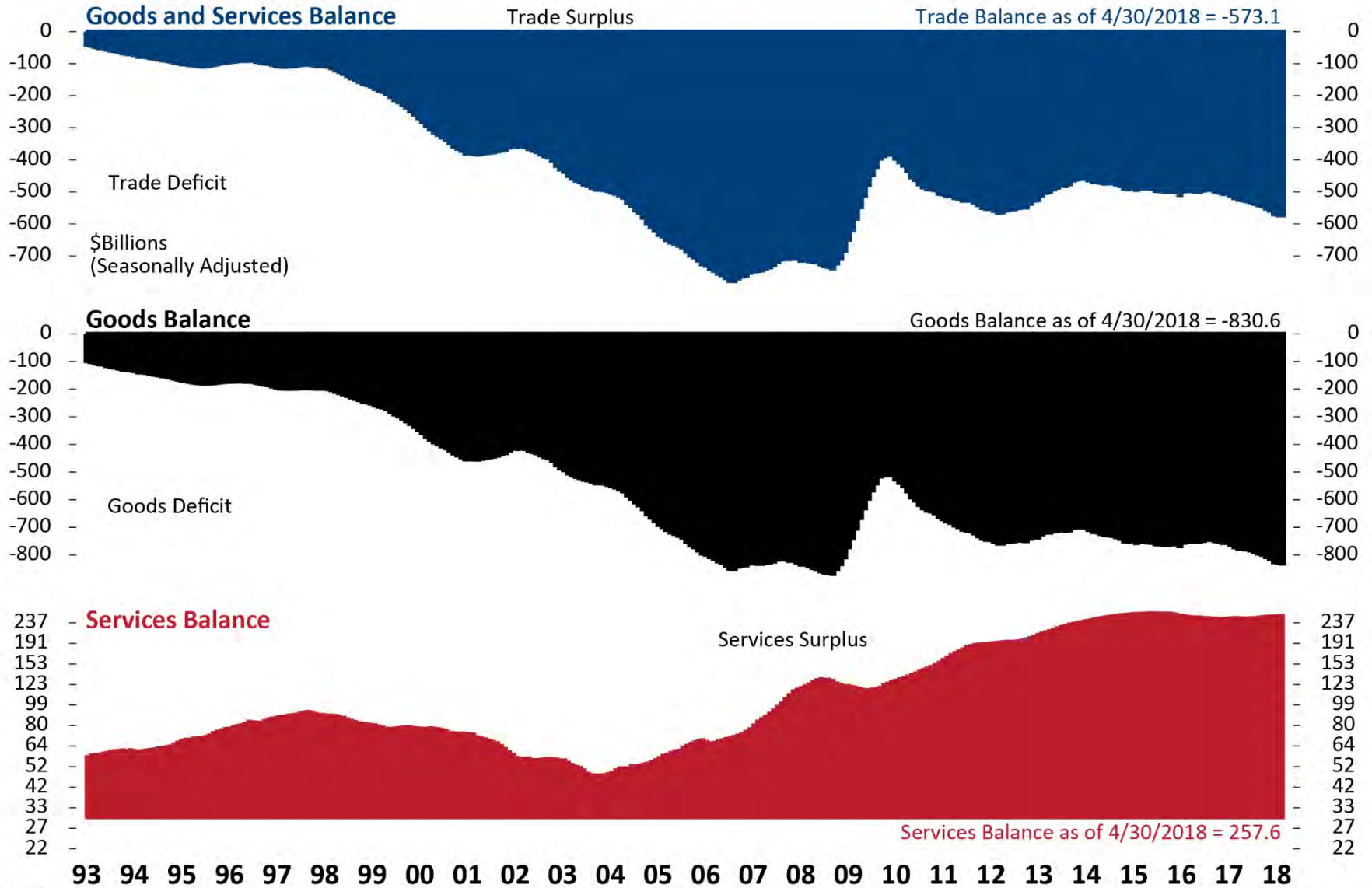
Monthly Data 1990-08-31 to 2018-05-31





# Trade Balance and Its Components (12-Month Totals)

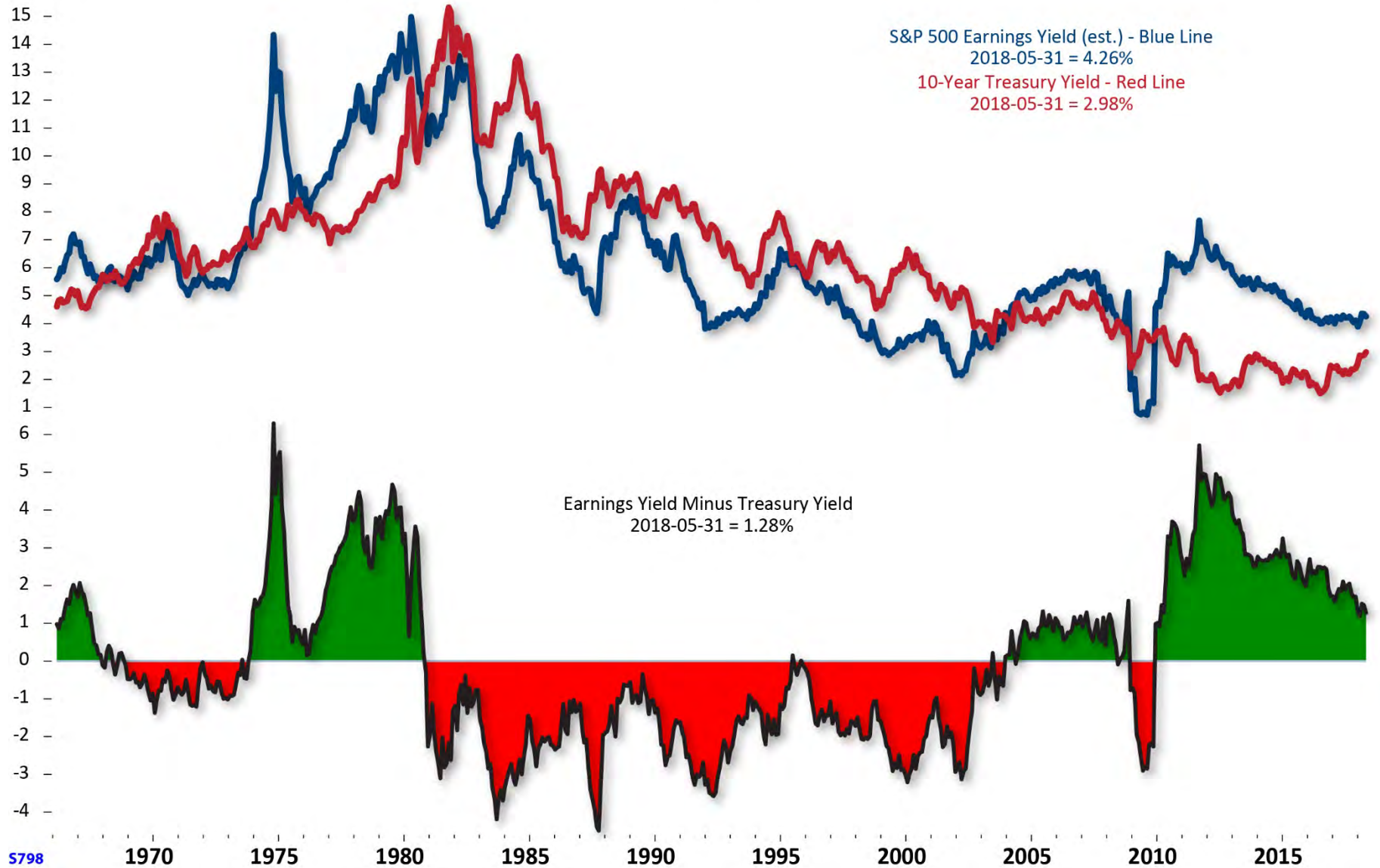
Monthly 1/31/1993 - 4/30/2018



(E0404A)

# S&P 500 Earnings Yield vs. 10-Year Treasury Yield

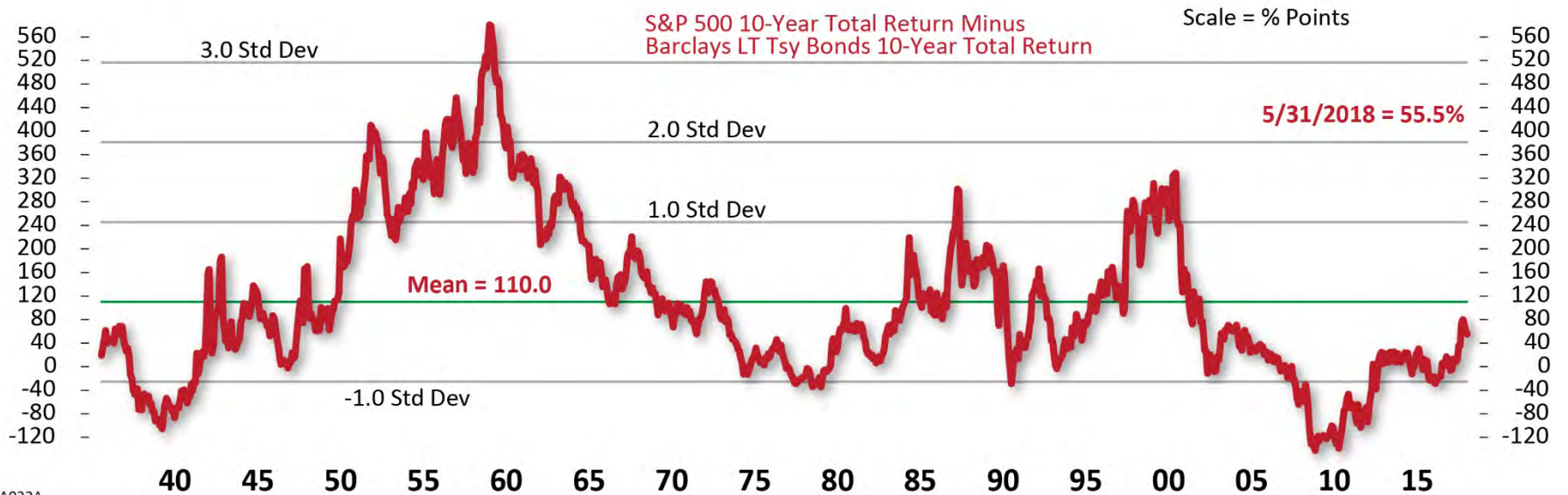
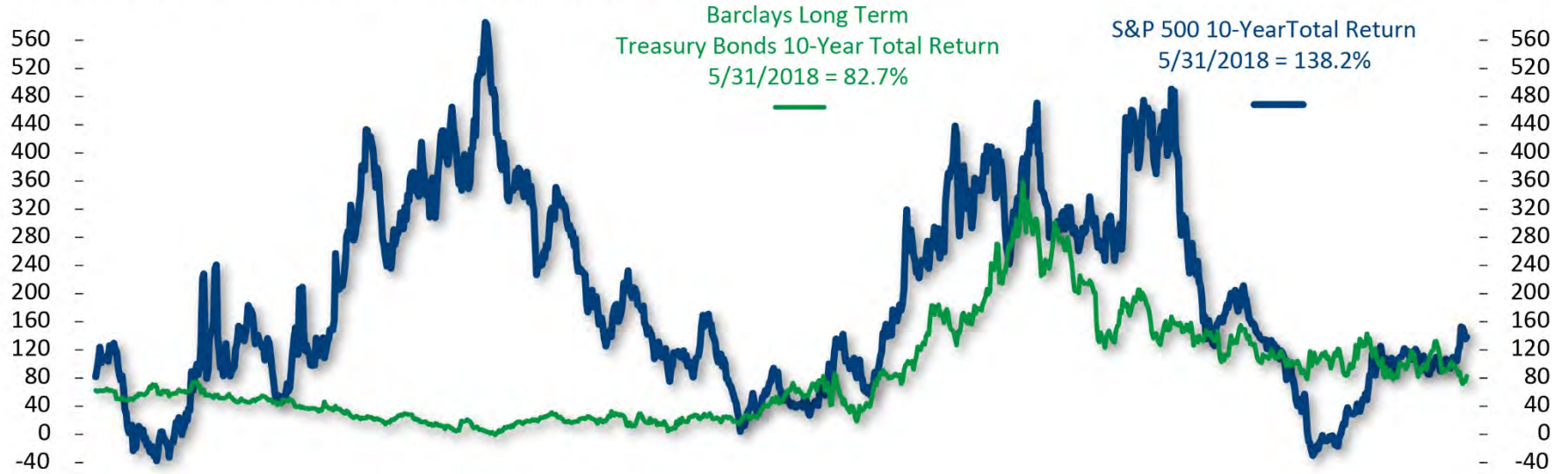
Monthly Data 1966-01-31 to 2018-05-31



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# 10-Year Stock and Bond Performance Difference

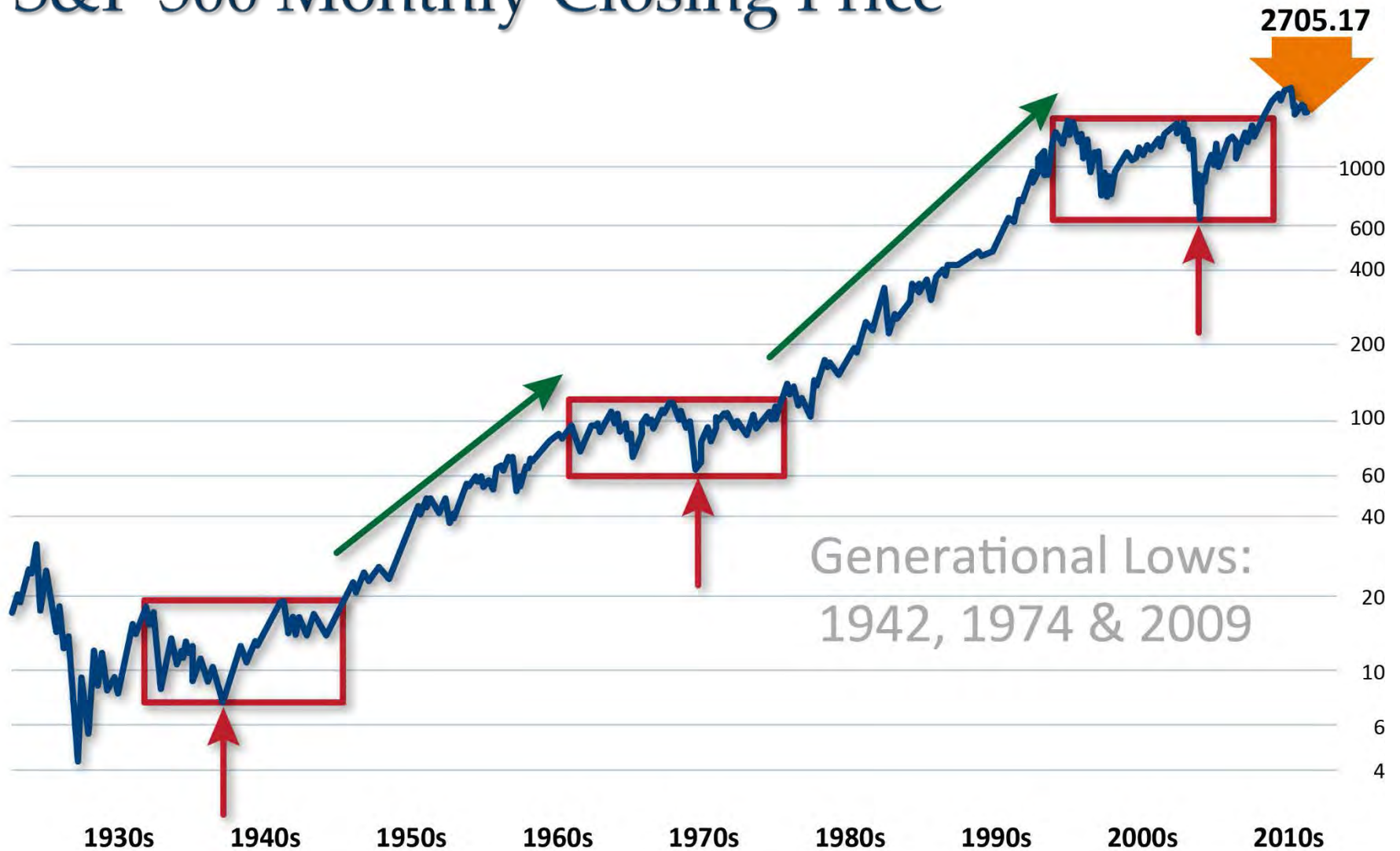
Monthly 12/31/1935 - 5/31/2018



AA032A



# S&P 500 Monthly Closing Price



Q&A





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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 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 World Index is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

The MSCI Asia ex. Japan is a free float-adjusted market capitalization weighted index that is

designed to measure the equity market performance of Asia, excluding Japan. The MSCI AC Asia ex Japan Index consists of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

The MSCI Emerging Markets Index is a freefloat-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 VIX Index is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries and government-related & 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 Barclays U.S. Corporate High-Yield Index covers the USD-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 iPath® S&P 500 Dynamic VIX ETN is designed to provide investors with exposure to the S&P 500® Dynamic VIX Futures™ Total Return Index.

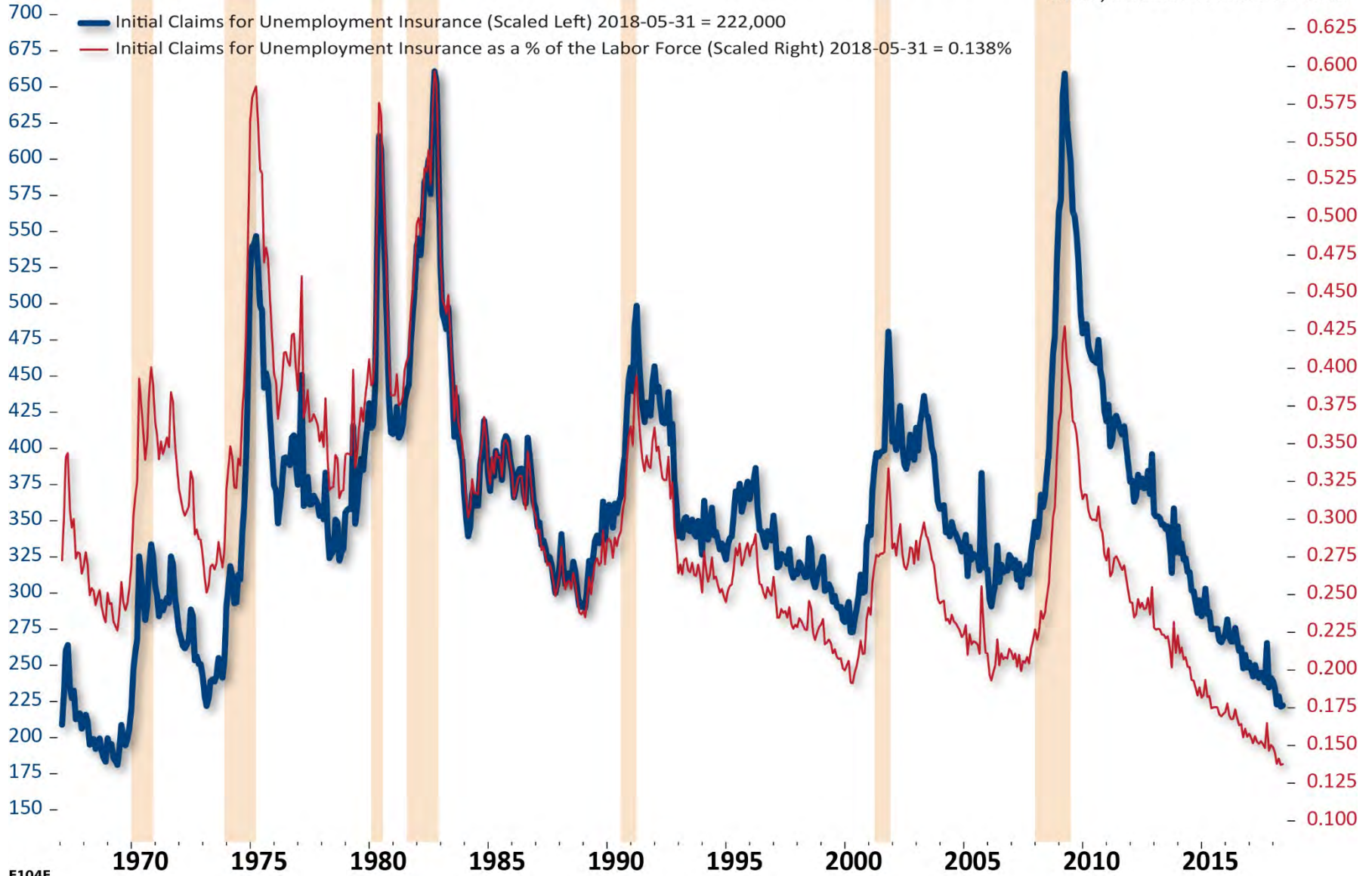
The S&P 500® Dynamic VIX Futures™ Total Return Index (the "Index") is designed to dynamically allocate between the S&P 500® VIX Short-Term Futures™ Index Excess Return and the S&P 500® VIX Mid-Term Futures™ Index Excess Return by monitoring the steepness of the implied volatility curve. The Index seeks to react positively to overall increases in market volatility and aims to lower the roll cost of investments linked to future implied volatility.

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.

The volatility (beta) of an account may be greater or less than its respective benchmark.

# Initial Claims for Unemployment Insurance as a % of the Labor Force

Monthly Data 1967-01-31 to 2018-05-31

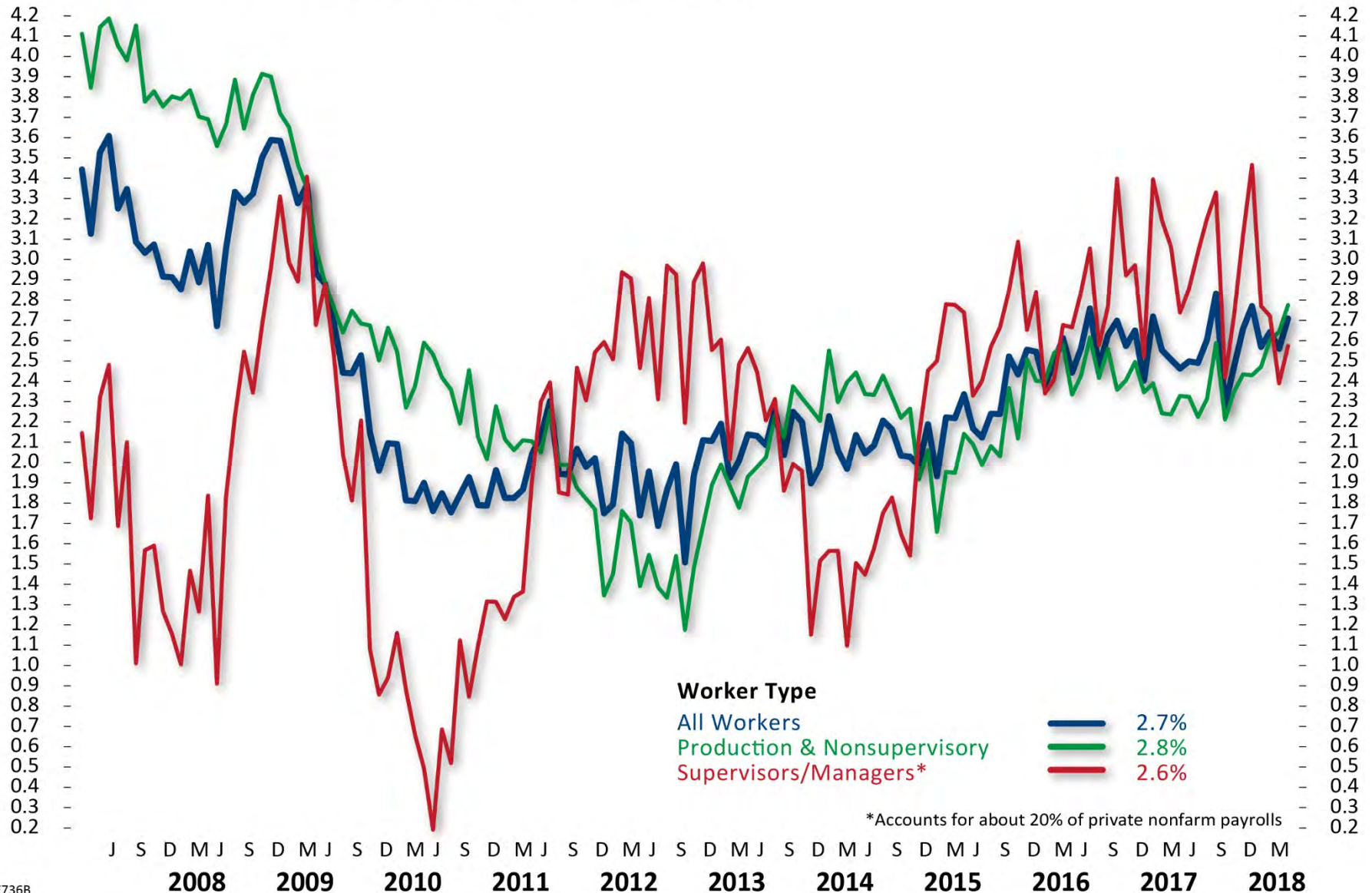


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# Average Hourly Earnings (Year-to-Year Change)

Monthly 3/31/2007 - 5/31/2018



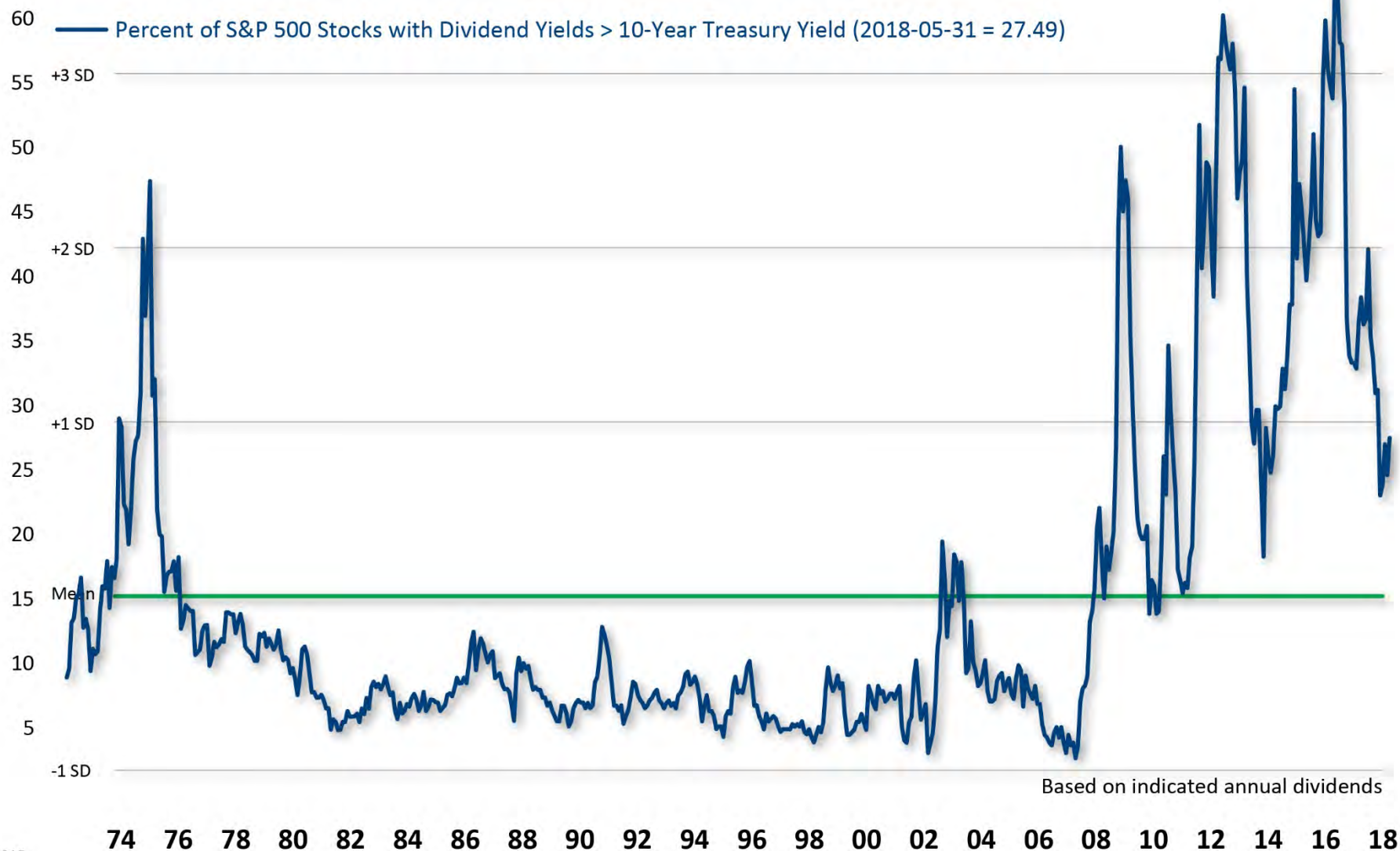
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# Percent of S&P 500 Stocks with Dividend Yields > 10-Year Treasury Yield

Monthly Data 1972-01-31 to 2018-05-31



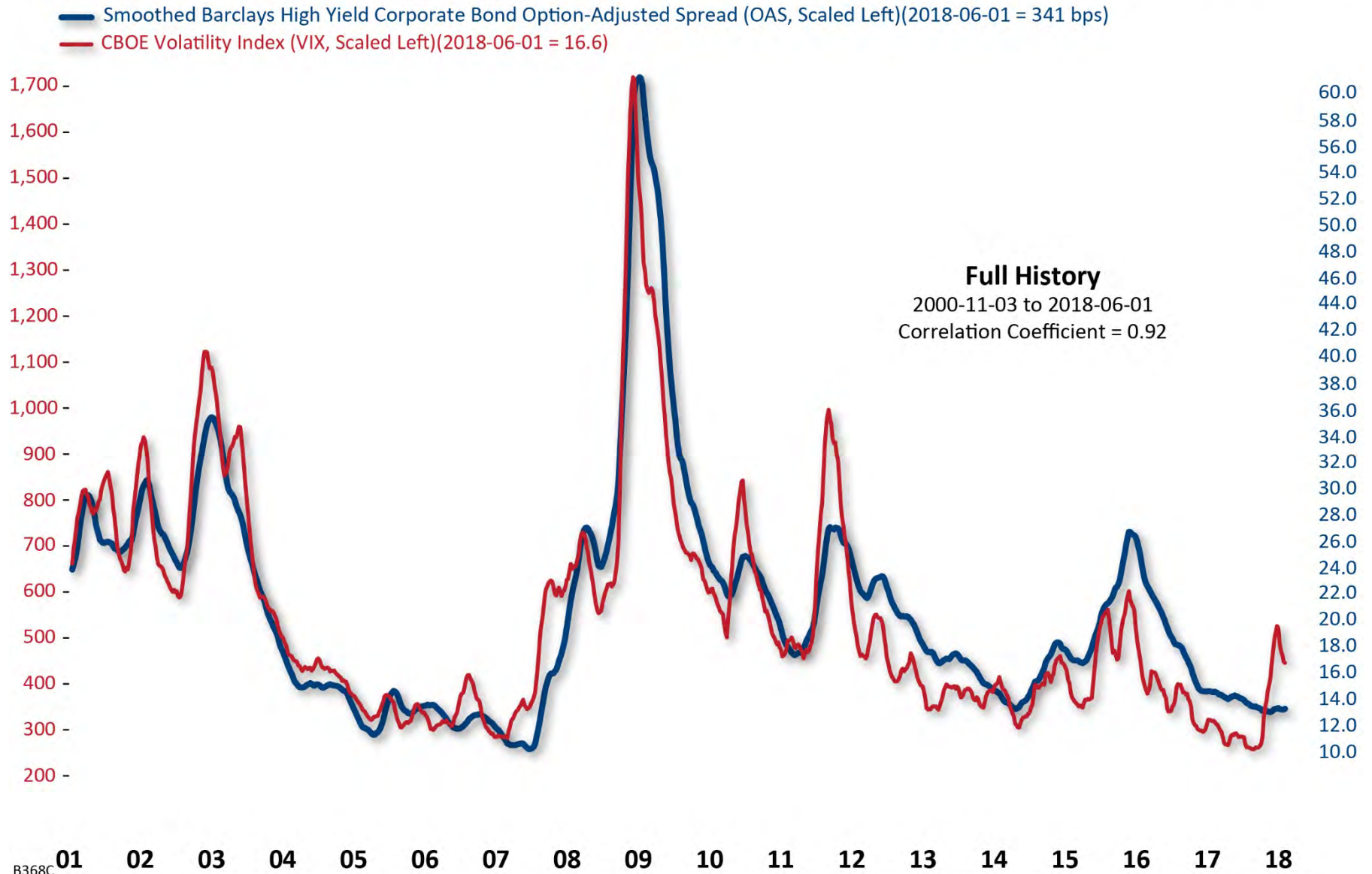
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# High Yield Corporate OAS vs VIX

Weekly Data 2000-11-03 to 2018-06-01

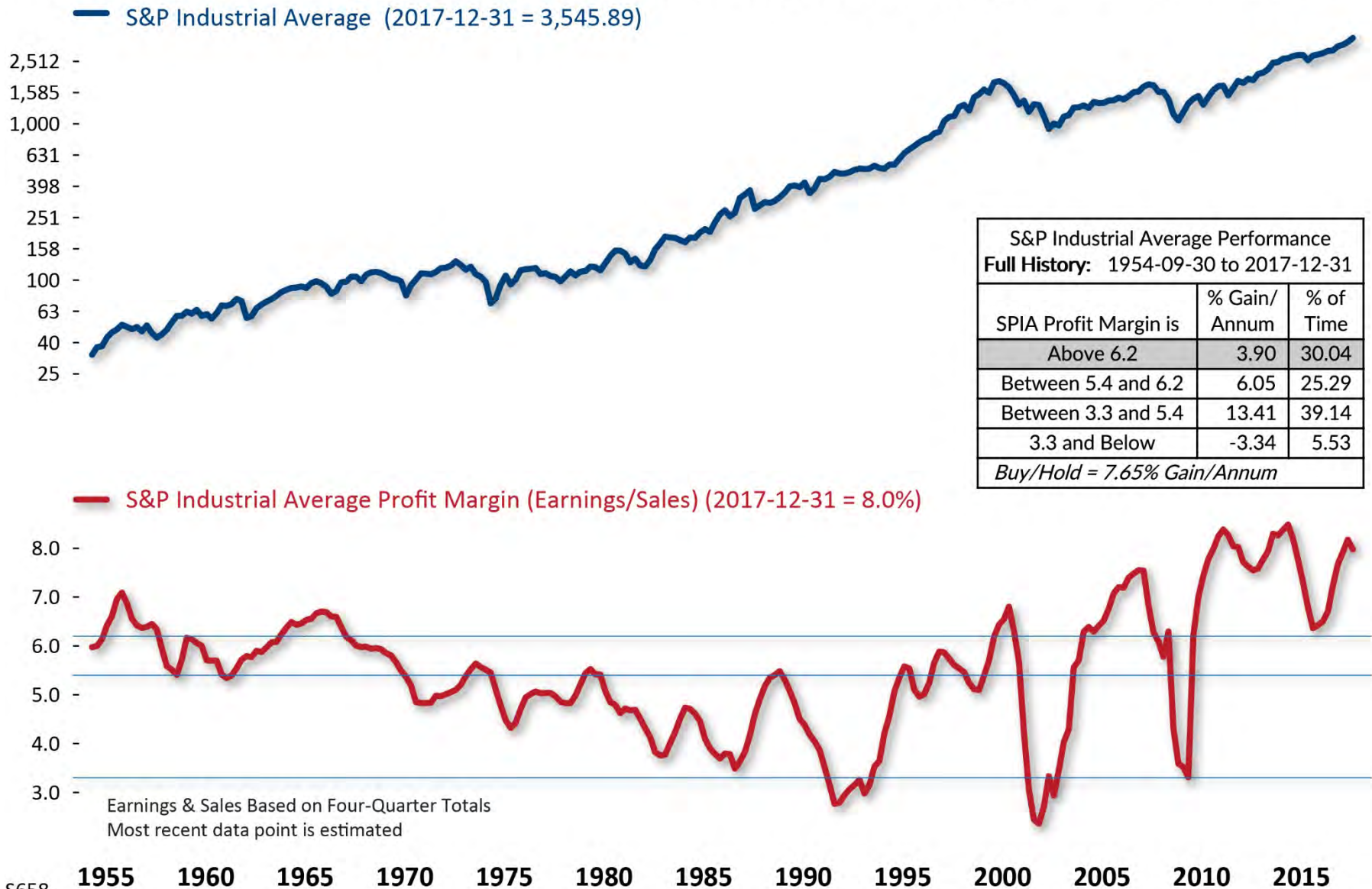


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# S&P Industrial Average vs. S&P Industrial Average Profit Margin

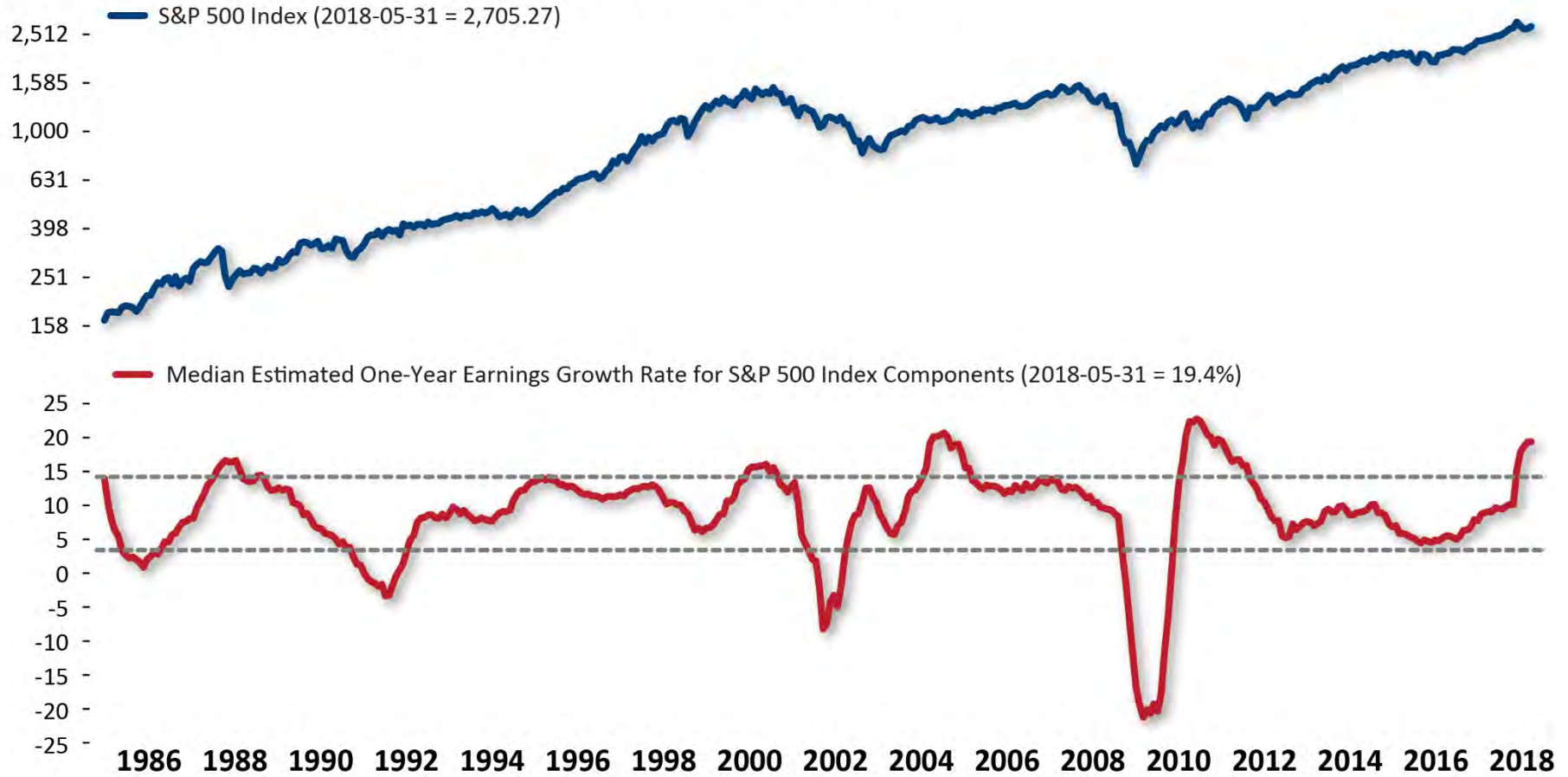
Quarterly Data 1954-09-30 to 2017-12-31



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# S&P 500 Index vs. Median Expected Earnings Growth

Monthly Data 1984-12-31 to 2018-05-31



Calculation is median 12-month percent change in rolling one-year forecasted EPS.  
 Rolling one-year forecasted EPS is a time-weighted average of current fiscal year's earnings estimates and following fiscal year's earnings estimates.  
 Forecasted EPS based on median estimates from Thomson I/B/E/S.

S&P 500 Index Performance		
Full History: 1984-12-31 to 2018-05-31		
Expected EPS Growth is	% Gain/Annum	% of Time
Above 14.2	-3.09	13.96
3.4 — 14.2	10.16	73.07
Below 3.4	13.95	12.96
Buy/Hold = 8.58% Gain/Annum		

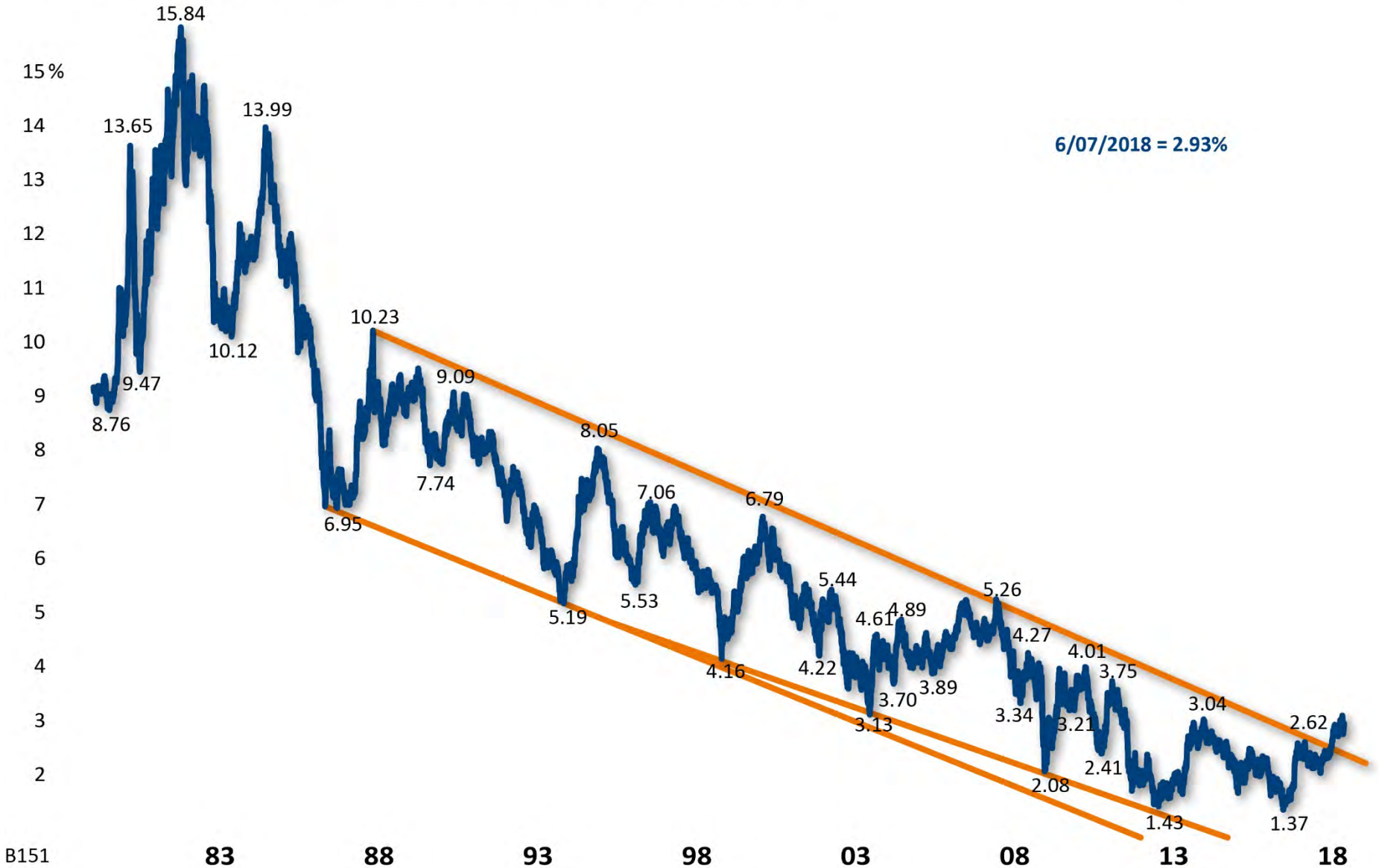
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# 10-Year Constant Maturity Treasury Note Yields

Daily 1/02/1979 - 6/07/2018



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83

88

93

98

03

08

13

18





# Anatomy of Post War Economic Expansions

3/31/1947 to 3/31/2018

Start	End	%Gain*	%Gain/Annum	Days
10/31/49	7/31/53	28.6	6.9	1369
5/31/54	8/31/57	13.6	4	1188
4/30/58	4/30/60	11.5	5.6	731
2/28/61	12/31/69	52	4.8	3228
11/30/70	11/30/73	16	5.1	1096
3/31/75	1/31/80	23.3	4.4	1767
7/31/80	7/31/81	4.4	4.4	365
11/30/82	7/31/90	38.4	4.3	2800
3/31/91	3/31/01	42.6	3.6	3653
11/30/01	12/31/07	18	2.8	2222
6/30/09	3/31/18	21.1	2.2	3196
Mean		24.5	4.4	1965
Median		21.1	4.4	1767

\*Growth of Real GDP