



**Maira F. Thompson**  
Senior Portfolio Manager

Maira is responsible for management of High Dividend Equity and customized portfolios in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. Her more than thirty years of investment experience included the position of Vice President and head of the Philadelphia Investment Group for Meridian Asset Management. After Delaware Trust became part of Meridian, Maira managed their Trust Investment Group in Wilmington, Delaware. In the 1980s Maira managed assets for high net worth clients and co-managed a small cap fund for Fidelity Bank in Philadelphia. She began her career as a trader with Prudential Bache Securities and a licensed broker for Legg Mason Wood Walker. Maira is a graduate of Ohio Wesleyan University and undertook additional studies in economics at the London School of Economics. She joined Clark Capital in 1997.

## MADE IN AMERICA

At the mid-year mark, earnings growth remains stellar aided by the 2017 Tax Cuts and Jobs Act which helped boost first quarter earnings by 24.8%. Analysts project continued double-digit earnings momentum for the balance of 2018. Solid U.S. economic growth and an improving labor market combined with low inflation and higher business confidence have steadied expectations for the second half of the year. In the second quarter, the S&P 500 Index estimated earnings growth is 20.0%, which would be the second highest earnings growth (after first quarter) since a 34% peak for the third quarter of 2010. Projections for strong earnings continue with third quarter estimates rising 21.7% and fourth quarter up 17.8%. While earnings growth has been a tailwind for the market, high expectations often end in disappointment in the later stages of an economic cycle. In 2019, earnings growth could be impacted by numerous headwinds such as: higher input and labor costs, a strong dollar, rising interest rates and inflation.

### Sector Turmoil amid Trade Tensions

Tariff talks usually have unintended consequences. This quarter was marked with higher volatility and sector rotation in reaction to President Trump's proposed tariff implementation. While trade tensions muted market returns, so far earnings estimates remain intact. Second quarter earnings season could bring acknowledgement from certain market sectors that trade disputes may increase the risk to forward earnings estimates even if the estimates are left unchanged. Currently, the Technology, Energy and Material sectors have the highest overseas sales as well as the best profit forecasts for the quarter. The Technology sector has led the market for the last several years fueled by strong earnings growth. Since the 1990s, trade action had little impact on technology stocks, but according to FactSet, Inc., overseas revenue has increased to 59% for the sector which is the highest exposure in the S&P 500 Index. During the quarter, stocks with a higher percentage of overseas revenue underperformed by 150 basis points although this pricing pressure could be temporary based on the ultimate outcome of trade talks.

### Share Buybacks and Dividends

Over the last decade, companies invested nearly \$4 trillion dollars in share buybacks. Higher cash levels created by the 2017 corporate tax cut have been deployed in the form of dividend increases, share buybacks, mergers and acquisitions or capex. So far, the corporate preference has been to use funds for stock buybacks and dividend increases, although M&A may increase as trade talks subside. In the second quarter, S&P 500 Index companies announced \$433.6 billion of share repurchases, nearly double the first quarter's \$242.1 billion. In addition to share repurchases, those firms

Sources: FactSet, Ned Davis Research

Past performance is not indicative of future results. This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



## Navigator® High Dividend Equity

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### Second Quarter 2018 — Portfolio Commentary

have spent an average of 20.2% of cash flow on dividends since the financial crisis. Dividend payments increased in most of the S&P 500 sectors reflecting the widespread economic strength. Three sectors with lower dividend payouts were: Consumer Staples, Basic Materials and Utilities all of which have underperformed year to date.

#### Sectors

Ned Davis Research commented that sector dispersion was widespread in the second quarter with three sectors gaining more than 6.0% while four lost ground. The top sectors were

Energy up 12.6%, Consumer Discretionary increasing 7.8% and Technology up 6.7%. The lowest returns were Financials down 3.5%, Industrials declining 3.6% and Consumer Staples lost 2.3%. The High Dividend Equity portfolio winners were TJX Companies, Inc. up 17.2%, UnitedHealthcare Group, Inc. rising 15.0% and Apple, Inc. up 10.7%. The biggest losers for the quarter were Cummins Inc. down 17.3%, Lockheed Martin Corp. declining 12.0% and Royal Caribbean International losing 11.5%.

Sources: FactSet, Ned Davis Research

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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.

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