




Portfolio Perspectives


 Seeking to
 Navigate
 a Rising Rate
 Environment

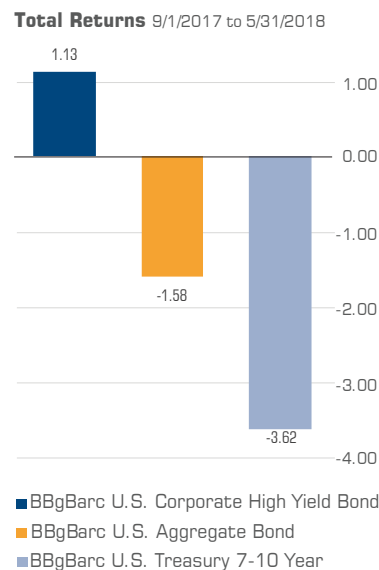
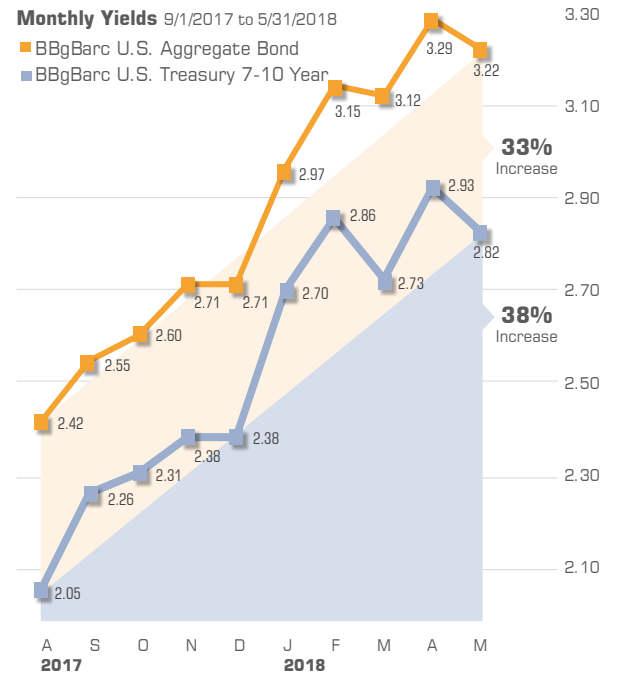
Bond Market Disconnect: High Yields Delivered Despite Treasuries' Tumult

From September 1, 2017 to May 31, 2018, the bond market experienced adjustments as economic data continued to surprise to the upside. During this period the Bloomberg Barclays U.S. Treasury 7-10 Year yield rose 0.77% or a noteworthy 38% in percentage terms. This rise in rates has investors searching for ways to navigate the fixed income markets.

High Yields Increased with Interest Rates

In rising interest rate environments, high yield bonds may offer investors the ability to generate positive total return. They are generally more affected by shifts in credit valuations than shifts in interest rates, and during this time period credit was strong, even as interest rates increased.

The chart below illustrates the total return of the Bloomberg Barclays U.S. Corporate High Yield Bond Index compared to the Bloomberg Barclays U.S. Treasury 7-10 Year Index and the Bloomberg Barclays U.S. Aggregate Bond Index. During this time period, Clark Capital's tactical fixed income strategies were allocated to the high yield sector.



High yield has historically been negatively correlated to Treasuries but also positively correlated to equities. It is for that reason Clark Capital takes a tactical approach, providing the ability to rotate to Treasuries or to the safety of cash based upon our quantitative research.

Takaways

- High yield bonds may offer a better risk/return profile than Treasuries in a rising rate environment
- The ability to rotate one's investment allocation between high yields, Treasuries, and short-term asset classes like cash may help investors navigate challenges in the fixed income markets
- Consider Clark Capital's [separate account fixed income solution](#) and [mutual fund fixed income solutions](#) as part of your clients' fixed income allocation

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The BBgBarc 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. Index returns reflect the reinvestment of income and other earnings, are provided to represent the investment environment shown, and are not covered by the report of independent verifiers.

BBgBarc 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 BBgBarc U.S. Aggregate Bond Index is generally representative of broad based U.S. fixed income. Index returns reflect the reinvestment of income and other earnings, are provided to represent the investment environment during the time period shown and are not covered by the report of independent verifiers.

The BBgBarc US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. Index returns reflect the reinvestment of income and other earnings, are provided to represent the investment environment during the time period shown and are not covered by the report of independent verifiers.

The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.

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