Tony Soslow, CFA®
Senior Portfolio Manager

Tony serves as a portfolio manager in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. He has over 25 years of portfolio management experience utilizing both a quantitative and fundamental process. From 1997 to 2013 Tony was the President and Chief Investment Officer of Global Capital Management which he founded. He was cited as a Top Guns Manager* in 2006 and 2007 and was named Manager of the Decade in 2011 by PSN. From 1986 through 1997, Tony was Director of Portfolio Management at RTE Asset Management where he was responsible for portfolio management across all asset classes. Tony is a graduate of the Wharton School of the University of Pennsylvania and holds the CFA designation.

*Top Guns Manager of the Decade is a recognition from Informa Investment Solutions PSN, an independent, national money manager database. This designation may not be representative of any one client's experience because the rating reflects an average of all, or a sample of all, the experiences of Mr. Soslow's GCM clients. This information does not reflect the experience of clients of Clark Capital Management Group, Inc. and is not indicative of future performance. For the periods when the designation was made, the recognition was for the GCM All Cap Core strategy managed by Mr. Soslow. Though the strategy was in the top ten, it was not ranked Second in the top ten category for each period.

THE DILEMMA OF SUCCESS

With my youngest now 19 and off to college in the fall, I begin to consider my parenting obligations as both boys are now technically adults and on their own. Do my wife and I now "stand back and just let go," claiming "mission accomplished" or do we need to continue our mild helicoptering, advice offering and nudging? Albeit on a much different scale, the Fed is also confronted with their own Dilemma of Success as recently released data show the May PCED year-over-year core inflation rate finally hit 2.0% — matching their official target established in a statement on January 12, 2012. Combine that with the current unemployment rate being below what is considered full employment and Fed officials have reached all objectives and are thus facing a similar conundrum. What to do now?

Is Micromanaging Helicoptering?

Certainly, robust U.S. economic strength and rising levels of wage growth provide support for the Fed's continued scheme of monetary policy normalization (I call it tightening) through the end of next year. Global economic activity as measured by the broad-based Purchasing Manager's Index (PMI) accelerated in June, nearly matching February's three-and-a-half year high. Growth was noticeably stronger in developed markets as the U.S. PMI hit 56.2 or just shy of May's three-and-a-half year high and Europe's index at 54.9 also predicts strong GDP gains. Tightening labor markets corroborate the PMI statistics and the Fed's agenda as sustained 2.7% average hourly earnings gains have enticed 600,000 workers to return to the work force. This has driven the prime-age employment/population ratio higher to 79.3%, matching the cycle high hit in February. While current conditions depict near economic perfection, the Fed policy dot plot of likely future short-term interest rates implies that the yield spread between 10-year and 2-year U.S. Treasury rates (currently at just 0.30%) could turn negative by yearend. Historically, negative yield spreads correspond to investor expectations for slower economic growth and often precede recessions. As the Fed seems resolute in maintaining their current monetary micromanagement, little weight appears to have been given to "just letting go."

Celebrating Small Failures

Optimum levels of current inflation and high levels of expected economic growth face headwinds from a nearly negative yield curve following seven interest rate increases since 2015. Free market economists may argue that the planned four additional rate hikes, which will drive the fed funds rate to 2.75 to 3.00%, are unnecessary. I am not sure if trade wars, labor market tightness, increasing energy or freight costs or a combination of these will slow economic growth. However, I am concerned that if the Fed maintains its current path, monetary policy will hasten a recession, causing undue harm or a hard landing. The recent contraction in the yield spread implies that policy is already dampening investor expectations. Given the low yield spread and the balance of positive and negative influences on future growth, in our view abandoning the current interest rate tightening regime would be likely to lengthen the recovery and allow the economy to naturally descend into a soft landing. Instead of helicoptering around each cycle — transitioning from easing to tightening to easing again — this is a perfect time for the Fed to allow weaker parts to naturally fail and allow creative destruction to build more sustainable players for the future.

SMID Starts Sixth Year Slowly

Since inception, Navigator SMID strategy delivered annualized gains of 15.48% gross (12.10% net) vs. 12.15% annualized gains for the Russell 2500 Index. In the second quarter of 2018, Navigator SMID strategy gained 2.58% gross (1.82% net) vs. a 5.71% gain in the Russell 2500 Index. Positioning in Energy and Telecommunication Services helped the relative performance while positioning in Consumer Discretionary and Technology hurt the performance. Our holdings in Insight Enterprises, Inc. and Korn/Ferry International helped performance in the quarter as positions in Mednax Inc. and MKS Instruments, Inc. hurt the performance. The value characteristics of the SMID Cap strategy remain compelling. Its current P/E of 16.4 is less than that of the S&P Mid Cap (21.1) or S&P Small Cap (23.7) indices with similar quality and business growth characteristics.

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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 S&P SmallCap 600 measures the small cap segment of the U.S. equity market. The index is designed to be an investable portfolio of companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is a subset of the Russell 3000 Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership.

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 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.

The MSCI Emerging Markets Index is a free float adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The CBOE Volatility Index (VIX) is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. The index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

The MSCI All Country World ex USA Total Return (MSCI ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International and is comprised of stocks from both developed and emerging markets.

The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

The MSCI World ex US Index is a market capitalization-weighted index designed to measure equity performance in 22 global developed markets, excluding the United States. The MSCI World ex US Net Index is generally representative of international equities. 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.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Bloomberg Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

The Bloomberg 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 B of A Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Bloomberg Barclays 7-10 Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities between seven and ten years.

The Bloomberg Barclays 20+ Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities greater than twenty years.

The Bloomberg Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

The Bloomberg Barclays 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.

The Bloomberg Barclays U.S. Treasury Bond Index is an issuances-weighted index measuring the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world.

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.

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CCM-672