Clark Capital Management Group

Monthly Recap

July 2018

EQUITY MARKETS

Domestic equity indexes were resilient in July with both the S&P 500 and Dow Jones Industrial Average posting their biggest monthly gains since January 2018, a sign this current bull market may still have more room to run. Volatility dropped during the month with the VIX Index finishing July at 12.8 compared to 16.1 at the end of June. A strong corporate earnings tailwind combined with favorable economic data helped to offset trade tensions and a correction in global technology stocks and propelled the major U.S. equity indices higher to begin the second half of 2018. The leader of the domestic indices in July was the Dow at +4.8%. Both the S&P 500 and the tech-heavy NASDAQ showed positive returns for the fourth consecutive month, returning +3.7% and +2.2%, respectively.

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Large cap stocks outperformed both mid and small cap stocks in July, with the Russell 1000 Index returning +3.5%, outstripping the Russell 2000 Index's return of +1.7%, the Russell 2500 Index's return of +1.9%, and the Russell 3000 Index's return of +3.3%. All ten S&P sectors finished the month on a positive note. July saw a reversal between value and growth styles with value outperforming after several years of outperformance by growth. For the month, the Russell 1000 Value Index returned +4.0%, outpacing the Russell 1000 Growth Index's return of +2.9%. Growth, however, still holds the clear advantage on a year-to-date basis.

International markets rallied at the end of July as trade tensions began to thaw between the U.S. and Europe as both sides came to a preliminary agreement to reduce tariffs on non-auto industrial goods. Conversely, tensions between the U.S. and China seemed to sharpen during July with more trade-related rhetoric and a threat of additional tariffs on $200 billion of Chinese goods from the Trump administration. Overall, this led to a backdrop that saw the MSCI ACWI ex USA Index, a measure of developed international equities, gain 2.4% and the MSCI Emerging Markets Index increase by 2.3% in July, after both indices struggled through the first half of 2018.

FIXED INCOME MARKETS

The 10-year U.S. Treasury yield finished July higher at 2.97% compared to 2.85% the prior month. Federal Reserve Chairman Powell's semi-annual monetary policy testimony to Congress during the month had minimal impact on the market. In his testimony, he confirmed forward guidance through a gradual tightening cycle, basing his outlook on a strong labor market, inflation near the Fed's 2% target, and balanced risks to the Fed's outlook. With this backdrop, returns were rather mixed for most fixed income indices. The Bloomberg Barclays U.S. Aggregate Bond Index and the Bloomberg Barclays U.S. Credit Index gained 0.02% and 0.7%, respectively in July. U.S. Treasuries were among the hardest hit fixed income indices during the month due to the rising rate environment. Longer-date Treasuries suffered the most. The Bloomberg Barclays U.S. Aggregate Corporate High Yield Index, gained 1.1% in July, which led fixed income indices. High yield bonds have posted positive year-to-date returns and have been one of the best performing fixed income asset classes in 2018 as investors continue to be rewarded for taking on credit exposure during this current economic expansion.

ECONOMIC DATA

In economic data, the first reading of second quarter GDP was +4.1%, the strongest reading in the past four years. Primary drivers of the positive GDP results included an increase in consumer and business spending. The report was also aided by an increase in net exports, mostly stemming from front-loading of agricultural products ahead of potential upcoming tariffs. Durable goods orders rebounded but were lower than expected. In housing, both existing and new home sales were below the prior month's pace and below expectations.

The June employment report, which showed 213,000 non-farm payroll additions, was ahead of consensus expectations, which called for 195,000 gains. The unemployment rate moved up to 4.0% from 3.8%, as the labor-force participation rose to 62.9% from 62.7%. Average hourly earnings, which have been closely watched in recent months as the labor market tightens, rose less than expected. The June ISM manufacturing index was 60.2, up from 58.7 in May and better than the 58.5 consensus estimate.

Fed Chair Powell's semi-annual monetary policy testimony to Congress confirmed the Fed's forward guidance and a gradual tightening cycle. His commentary cited a strong labor market, inflation near the Fed's 2% target, and balanced risks to the Fed's outlook. His testimony didn't change expectations as markets are still anticipating two additional rate hikes in 2018. We continue to expect a slow paced and measured rate-hike cycle.

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Jun	58.5	60.2	58.7	--
ISM Non-Manf. Composite	Jun	58.3	59.1	58.6	--
Change in Nonfarm Payrolls	Jun	195k	213k	223k	244k
Unemployment Rate	Jun	3.8%	4.0%	3.8%	--
Average Hourly Earnings YOY	Jun	2.8%	2.7%	2.7%	--
JOLTS Job Openings	May	6,620	6,638	6,698	6,840
PPI Final Demand MOM	Jun	0.2%	0.3%	0.5%	--
PPI Final Demand YOY	Jun	3.1%	3.4%	3.1%	--
PPI Ex Food and Energy MOM	Jun	0.2%	0.3%	0.3%	--
PPI Ex Food and Energy YOY	Jun	2.6%	2.8%	2.4%	--
CPI MOM	Jun	0.2%	0.1%	0.2%	--
CPI Ex Food and Energy MOM	Jun	0.2%	0.2%	0.2%	--
CPI YOY	Jun	2.9%	2.9%	2.8%	--
CPI Ex Food and Energy YOY	Jun	2.3%	2.3%	2.2%	--
Retail Sales Ex Auto and Gas	Jun	0.4%	0.3%	0.8%	1.3%
Industrial Production MOM	Jun	0.5%	0.6%	-0.1%	-0.5%
Building Permits	Jun	1330k	1273k	1301k	--
Housing Starts MOM	Jun	-2.2%	-12.3%	5.0%	4.8%
Leading Index	Jun	0.4%	0.5%	0.2%	0.0%
Existing Home Sales	Jun	5.44m	5.38m	5.43m	5.41m
New Home Sales	Jun	668k	631k	689k	666k
Durable Goods Orders	Jun P	3.0%	1.0%	-0.4%	-0.3%
GDP Annualized QOQ	2Q A	4.2%	4.1%	2.0%	2.2%
U. of Mich. Sentiment	Jul F	97.1	97.9	97.1	--
Personal Income	Jun	0.4%	0.4%	0.4%	--
Personal Spending	Jun	0.4%	0.4%	0.2%	0.5%
S&P CoreLogic CS 20-City YOY NSA	May	6.4%	6.5%	6.6%	6.7%

P = Preliminary, T = Third, F = Final,   Source: Bloomberg