Clark Capital Management Group

Benchmark Review & Monthly Recap

Record Setting Rally Continues

HIGHLIGHTS:

- U.S. equities continued their recent rally in August. The S&P 500 Index finally eclipsed its January peak and put in a new all-time high in August.
- Continued U.S. dollar strength and ongoing trade uncertainties kept the pressure on international equities, which were broadly lower for the month.
- Most bond sectors enjoyed positive results in August as the yield on the 10-year U.S. Treasury dropped during the month. High-yield bond returns continued to lead the other fixed income sectors on a year-to-date basis.
- The second revision to Q2 2018 GDP growth reflected a 4.2% annualized growth rate — a slight increase from the initial estimate and the best mark since Q3 2014.

EQUITY MARKETS:

The S&P 500, NASDAQ Composite and Russell 2000 indices each hit new all-time highs in August. The Dow Jones Industrial Average has yet to reach its prior high set in January. General themes for 2018 persisted in August with small caps outperforming large caps, growth stocks outperforming value stocks and U.S. equities outperforming international equities. All major U.S. equity indices advanced in August and added to positive year-to-date gains. The S&P 500 advanced 3.3%, the Russell 2000 rose 4.3%, and the Russell 3000 climbed 3.5%. The disparity between growth and value widened further in August as the Russell 1000 Growth Index gained 5.5% and the Russell 1000 Value Index advanced only 1.5%, leaving year-to-date results at 16.4% and 3.7%, respectively.

The disparity between U.S. and international equities also widened in August. While progress was made with trade negotiations between the U.S. and Mexico late in the month, no resolution was found with Canada, and trade tensions continued to linger with China. The U.S. dollar rose to its strongest level of 2018 in mid-August, which was another headwind to international equity results. Overall, international equities continued to struggle in August as the MSCI ACWI ex USA Index, a broad measure of international equities, dropped about -2.1% and the MSCI Emerging Markets Index declined -2.9%. International equities are broadly lower so far in 2018 with emerging markets showing the largest declines in the global equity markets on a year-to-date basis.

FIXED INCOME:

After starting the month around 2.96%, the 10-year U.S. Treasury yield declined to 2.86% by the end of August. The backdrop of declining rates helped most sectors of the bond market advance during the month. The Bloomberg Barclays U.S. Aggregate Bond Index and the Bloomberg Barclays U.S. Credit Index gained 0.64% and 0.51%, respectively. Despite this progress, these two indices remained in negative territory year to date. Longer-dated U.S. Treasuries showed some of the best results for the month reflecting their sensitivity to dropping interest rates in August, but they too continued to show negative year-to-date results as rates have risen overall since the end of 2017.

The Bloomberg Barclays U.S. Aggregate Corporate High Yield Index advanced 0.74% in August and continued to stand out on a year-to-date basis with a 2.0% gain. Muni bonds and TIPS have also shown some modest positive year-to-date results. High yield bonds have been the best performing fixed income asset class in 2018 as investors continue to be rewarded for taking on credit exposure during this ongoing economic expansion.

ECONOMIC DATA AND OUTLOOK

Economic data continued to reflect the ongoing expansion of the U.S. economy. Consumer confidence remained high and, more importantly, retail spending data reflected that the consumer's confidence is translating into spending activity. Although non-farm payroll additions of 157,000 were below expectations in July, the prior two-month's net revisions were increased by 59,000. The unemployment rate dropped to 3.9% as expected, while average hourly earnings increased 2.7% from the prior year matching expectations as well. The July ISM manufacturing and non-manufacturing indices were both below expectations, but both also remained well above 50, the dividing line between expansion and contraction for these indices. Finally, the second reading of Q2 2018 GDP growth was revised modestly higher to a 4.2% annualized growth rate, when it was expected to be reduced slightly to 4.0% compared to the preliminary reading of 4.1%.

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	July	59.4	58.1	60.2	—
ISM Non-Manf. Composite	July	58.6	55.7	59.1	—
Change in Nonfarm Payrolls	July	193k	157k	213k	248k
Unemployment Rate	July	3.9%	3.9%	4.0%	—
Average Hourly Earnings YoY	July	2.7%	2.7%	2.7%	—
JOLTS Job Openings	Jun	6625k	6662k	6638k	6659k
PPI Final Demand MoM	July	0.2%	0.0%	0.3%	—
PPI Final Demand YoY	July	3.4%	3.3%	3.4%	—
PPI Ex Food and Energy MoM	July	0.2%	0.1%	0.3%	—
PPI Ex Food and Energy YoY	July	2.8%	2.7%	2.8%	—

Event	Period	Estimate	Actual	Prior	Revised
CPI MoM	July	0.2%	0.2%	0.1%	—
CPI YoY	July	2.9%	2.9%	2.9%	—
CPI Ex Food and Energy MoM	July	0.2%	0.2%	0.2%	—
CPI Ex Food and Energy YoY	July	2.3%	2.4%	2.3%	—
Retail Sales Ex Auto and Gas	July	0.4%	0.6%	0.3%	0.2%
Industrial Production MoM	July	0.3%	0.1%	0.6%	1.0%
Building Permits	July	1310k	1311k	1273k	1292k
Housing Starts	July	1264k	1168k	1173k	1158k
Leading Index	July	0.4%	0.6%	0.5%	—
Existing Home Sales	July	5.40m	5.34m	5.38m	—
New Home Sales	July	645k	627k	631k	638k
Durable Goods Orders	July P	-1.0%	-1.7%	0.8%	0.7%
GDP Annualized QoQ	2Q S	4.0%	4.2%	4.1%	—
U. of Mich. Sentiment	Aug F	95.5	96.2	95.3	—
Personal Income	July	0.4%	0.3%	0.4%	—
Personal Spending	July	0.4%	0.4%	0.4%	—
S&P CoreLogic CS 20-City YoY NSA	Jun	6.40%	6.31%	6.51%	6.54%