Clark Capital Management Group

Benchmark Review & Monthly Recap

Interest Rates March Higher Amid Ongoing Growth

HIGHLIGHTS:

- The rally in large-cap U.S. equities continued in September and the Dow Jones Industrial Average put in a new high during the month as well.
- It was a steady march higher for 10-year U.S. Treasury yields in September, which put pressure on returns for most fixed income sectors.
- As expected, the Federal Reserve raised rates in September for the third time in 2018.
- In the late hours of September 30, Canada and the U.S. were able to agree on a deal that, along with Mexico, will replace NAFTA.

EQUITY MARKETS:

The S&P 500 and Dow Jones Industrial Average indices each posted new all-time highs in September as large-cap stocks stood out during the month with the S&P 500 advancing 0.57%, and the Dow Jones Industrial Average rising by 1.97%. Although small-cap stocks continued to show strength on a year-to-date basis, the Russell 2000 Index struggled in September and turned in negative results (-2.41%). Large-cap stocks showed the best returns in September, but all major U.S. equity indices turned in positive gains for the third quarter of 2018. The Russell 3000 Index posted modestly higher returns during the month, increasing by 0.17%.

Style played less of a role on results in September. Large-cap growth stocks, as measured by the Russell 1000 Growth Index, advanced 0.56% in September, while large-cap value stocks, as measured by the Russell 1000 Value Index, inched higher by 0.20%. Mid and small cap stocks from both a growth and value perspective declined in September, which seemed to be a month where market capitalization mattered more than style. However, through three quarters of 2018, growth has still been the clear leader from a style perspective.

In general, developed international equities advanced in September, while emerging markets continued to struggle and declined further during the month. Overall, developed international equities improved as the MSCI ACWI ex USA Index, a broad measure of international equities, gained 0.46% and the MSCI Emerging Markets Index declined -0.76%. International equities are still broadly lower through three quarters of 2018, with emerging markets showing some of the largest declines in the global equity markets year to date.

Trade and tariff concerns continued to be front and center throughout the month, but developments seemed to be better than they could have been, and markets largely shrugged off those concerns. In the late hours of September 30th, Canada and the U.S. were able to agree on a deal that, along with Mexico, will replace NAFTA. The late-month trade agreement, which has initially been termed the United States-Mexico-Canada Agreement (USMCA), sent equity markets rallying on the first trading day of October. The U.S. dollar finally moved off its high from mid-August. Although the dollar drifted lower for much of September, a late-month bounce erased most of that weakness.

FIXED INCOME:

The yield on the 10-year U.S. Treasury rose 19 basis points during the month from about 2.86% to around 3.05%. As would be expected during a month when rates rose, most fixed income sectors declined in September. The one notable exception continued to be high-yield bonds, which enjoyed gains for the month and added to already positive year-to-date returns. The Bloomberg Barclays U.S. Aggregate Bond Index and the Bloomberg Barclays U.S. Credit Index fell -0.64% and -0.34%, respectively. These two indices remained in negative territory through the first three quarters of 2018. Interest-rate sensitive U.S. Treasuries dropped in September with longer-dated U.S. Treasuries having some of the largest monthly and year-to-date declines in fixed income. Muni bonds and TIPS also dropped in September.

The Bloomberg Barclays U.S. Aggregate Corporate High Yield Index advanced 0.56% in September, 2.4% for the third quarter, and 2.57% on a year-to-date basis. 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 released in September remained solid and the U.S. economy continues to look poised for ongoing growth. The latest reading for the ISM manufacturing index in August recorded a strong increase to 61.3, well above expectations of 57.6 and the prior month's mark of 58.1. The ISM non-manufacturing index, which represents the much larger service industries in the U.S. economy, also exceeded expectations, rising to 58.5. ISM readings above 50 indicate economic expansion.

Employment gains also surpassed expectations in August with 201,000 non-farm payroll additions compared to expectations of 190,000, but the unemployment rate stayed at 3.9%, when it was expected to drop to 3.8%. Revisions to payroll additions for the prior two months were moved lower showing 50,000 fewer jobs added than previously reported.

Average hourly earnings increased by 2.9% on a year-over-year basis in August, when a more modest increase of 2.7% was expected. The Conference Board's leading economic indicators index (the Leading Index) continued to show progress as it rose 0.4% for the month. Finally, the third reading of Q2 2018 GDP growth remained at the previously reported 4.2% annualized growth rate as expected.

The Federal Open Market Committee met in September and increased policy rates as expected by 0.25%, marking the eighth rate increase since this tightening cycle began in December 2015. The Fed will continue to monitor developments in the economy to determine whether one more rate increase will take place in 2018. Overall, this continues to be a slow-paced and measured rate-hike cycle.

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Aug	57.6	61.3	58.1	—
ISM Non-Manf. Composite	Aug	56.8	58.5	55.7	—
Change in Nonfarm Payrolls	Aug	190k	201k	157k	147k
Unemployment Rate	Aug	3.8%	3.9%	3.9%	—
Average Hourly Earnings YoY	Aug	2.7%	2.9%	2.7%	—
JOLTS Job Openings	July	6675k	6939k	6662k	6822k
PPI Final Demand MoM	Aug	0.2%	-0.1%	0.0%	—
PPI Final Demand YoY	Aug	3.2%	2.8%	3.3%	—
PPI Ex Food and Energy MoM	Aug	0.2%	-0.1%	0.1%	—
PPI Ex Food and Energy YoY	Aug	2.7%	2.3%	2.7%	—
CPI MoM	Aug	0.3%	0.2%	0.2%	—
CPI Ex Food and Energy MoM	Aug	0.2%	0.1%	0.2%	—
CPI YoY	Aug	2.8%	2.7%	2.9%	—
CPI Ex Food and Energy YoY	Aug	2.4%	2.2%	2.4%	—
Retail Sales Ex Auto and Gas	Aug	0.5%	0.2%	0.6%	0.9%
Industrial Production MoM	Aug	0.3%	0.4%	0.1%	0.4%
Building Permits	Aug	1310k	1229k	1311k	1303k
Housing Starts	Aug	1240k	1282k	1168k	1174k
New Home Sales	Aug	630k	629k	627k	608k
Existing Home Sales	Aug	5.37m	5.34m	5.34m	—
Leading Index	Aug	0.5%	0.4%	0.6%	0.7%
Durable Goods Orders	Aug P	2.0%	4.5%	-1.7%	—
GDP Annualized QoQ	2Q T	4.2%	4.2%	4.2%	—
U. of Mich. Sentiment	Sept F	100.6	100.1	100.8	—
Personal Income	Aug	0.4%	0.3%	0.3%	—
Personal Spending	Aug	0.3%	0.3%	0.4%	—
S&P CoreLogic CS 20-City YoY NSA	July	6.20%	5.92%	6.31%	6.36%