



# Portfolio Perspectives

## Late Year Correction or Looming Bear Market?

### What is Clark Capital's Market Outlook?

We believe the recent volatility we've been experiencing is a normal market correction within a longer-term, secular bull market. While we are now down -15.8% from the high on September 20th, economic fundamentals remain solid. Economic growth for 2019 is projected at about 2.5% and earnings growth is expected at +7-11% in the year ahead.

### What's Causing the Recent Market Downturns?

There are a few factors contributing to recent market volatility. First, concerns about a trade war with China are still ongoing. However, we believe this will be resolved in negotiations before it comes to a full-blown trade war. The second factor is the recent fears of a government shutdown. However, it's important to note that government shutdowns have happened before and have never had a lasting impact on the economy. Another factor impacting the markets is year-end tax loss selling, which is putting pressure on stocks, which are already down. However, this is cyclical and should run its course by December 31st.

And lastly, fear among retail investors has returned—last week was the second biggest outflow from equity mutual funds in history. While fear may have returned, panic has not set in. For reference, the VIX Index, which is a measure of volatility, often moves in the opposite direction of the stock market. The VIX closed at 33.46 when the market hit its low on February 8th (-10.16% from the high on January 26). Yesterday, the VIX closed at 28.38, a significant move from the 18.07 level on November 30th, but short of the panic levels we have seen at market bottoms, which are typically greater than 30.

### How are Valuations Holding Up?

As of yesterday, the forward P/E ratios of the S&P 500, 400 and 600 were down to 14.8, 13.9, and 14.6, respectively. That's the lowest P/E for Large Cap stocks since February 2016 and the lowest reading since November 2012 for Mid-Cap and Small Cap stocks. These indices peaked at the beginning of this year at 18.6 (large caps), 18.6 (mid-caps), and 20.1 (small caps).

### How is Clark Capital Positioning its Strategies to Manage Volatility?

Our tactical strategies Fixed Income Total Return (FITR) and Global Tactical recently transitioned out of high yield and into cash equivalents on November 16th and remain in cash equivalents today. Our other tactical strategies have raised between 10-15% in cash to be more defensive.

In addition, we are redeploying some cash in our U.S. Style Opportunity, U.S. Sector Opportunity, Multi-Strategy, International Opportunity, and Global Equity ETF/Global Balanced strategies. Our strategic portfolios have aggressively been tax harvesting losses for non-qualified accounts, and our High Dividend Equity, All Cap Core, and International ADR currently hold between 5%-10% in cash.

Since transitioning out of high yield in our FITR strategy, the indices have performed as follows for the period November 16th- December 20th:

S&P 500	-9.65
Russell 2000	-13.06
MSCI Emerging Markets	-2.59
MSCI ACWI ex-U.S.	-4.95
Bloomberg Barclays High Yield Bond	-2.08

Source: Bloomberg, December 20, 2018

### What Should Investors be Focusing on Now?

Historically, we experience a 10% correction about once a year. While this is our second correction this year, we did not have one in 2017. We have also historically experienced a 15% correction about every two years. The S&P 500 was down 15% from its high at close yesterday but remember — the last time we had a 15% correction was June 2012!

While volatility remains, now is not the time to panic. We believe this is a normal correction within an ongoing bull market, and the best thing investors can do is to stay the course.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



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Chief Investment Officer

## About The Author

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the firm's portfolio team. Sean joined the firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Investment Committee and the Executive Team. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean holds the Chartered Financial Analyst® designation and is a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean has been featured in a number of articles in nationally distributed business journals and newspapers.

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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 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 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. MSCI All Country World Index 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 and is comprised of stocks from both developed and emerging markets. The Bloomberg Barclays High Yield Bond Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment grade or high yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, and Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be U.S. dollar denominated and nonconvertible. Bonds issued by countries designated as emerging markets are excluded. The volatility (beta) of an account may be more or less than that of an index. It is not possible to invest directly in an index.

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