Clark Capital Management Group

Benchmark Review & Monthly Recap

Turning the Page

HIGHLIGHTS:

- After one of the worst months for the S&P 500 Index in almost a decade, equities bounced back strongly in January to begin 2019 on a positive note.
- The yield on the 10-year U.S. Treasury dipped sharply in early January, hitting its lowest intraday yield level since early 2018. Although markets were more in a "risk on" mode for most of January, a more dovish stance by the Fed kept rates in check in the latter part of the month. Most pockets of fixed income turned in gains to begin the year.
- The government remained shut down for most of January, although a temporary agreement was made late in the month to re-open the government through mid-February. As a result, some economic data was not released in January, but data that was released continues to point to economic growth.
- Despite ongoing headline risks, we believe fundamentals are what matter in the long-run and current economic indicators remain positive.

EQUITY MARKETS

After a tough December and fourth quarter for equities, most investors were glad to turn the page from 2018 and move on to 2019. Pessimism had reached extreme levels and market metrics pointed toward oversold conditions late in 2018. Stocks across the board snapped back sharply to begin the new year as a "risk on" attitude ensued. January turned out to be a much more positive environment for equity investors with broad gains enjoyed across many parts of the equity markets.

The numbers for January were as follows: The S&P 500 advanced 8.01%, the Dow Jones Industrial Average rose by 7.29%, the NASDAQ Composite gained 9.79%, and the Russell 2000 Index, after being one of the worst pockets of equities in 2018, rallied 11.25% for the month. Growth stocks, as measured by the Russell 1000 Growth Index, resumed their leadership compared to value stocks, as measured by the Russell 1000 Value Index, gaining 8.99% and 7.78%, respectively, in January.

International equities also rallied in January. Trade issues with China continue to loom, but headwinds like multiple rate hikes in the U.S. and dollar strength will likely be less intense for international equities in 2019. With this backdrop, emerging market equities, as measured by the MSCI Emerging Markets Index, gained 8.77% in January. The MSCI ACWI ex USA Index, a broad measure of international equities, performed strongly as well as it advanced by 7.56% during the month.

FIXED INCOME

Although there was more of a "risk on" appetite to the markets in January, yields moved lower and created a positive backdrop for broad areas of fixed income to begin the New Year as well. The yield on the 10-year U.S. Treasury declined during the month from 2.69% to 2.63%.

High-yield bonds were exceptionally strong in January and benefited from the "risk on" attitude, but most pockets of fixed income also advanced in January. Overall, the Bloomberg Barclays U.S. Aggregate Bond Index gained 1.06% in January, keeping up strong momentum from December.

The Bloomberg Barclays U.S. Credit Index gained 2.16% and the Bloomberg Barclays U.S. Aggregate Corporate High Yield Index advanced by 4.52% in January. TIPS and muni bonds also gained during the month.

ECONOMIC DATA AND OUTLOOK

Economic data released in January largely reflected an economy that continued to grow to close out 2018. Importantly, however, the government shutdown postponed the release of some economic data as many sources of economic information come from government entities. Although broader macro issues like the uncertain pace of rate hikes by the Federal Reserve (the Fed) in 2019, ongoing trade issues with China, and the government shutdown continued to exist during much of January, markets largely looked beyond those concerns as stocks and bonds enjoyed gains to begin the New Year.

The December Institute for Supply Management (ISM) manufacturing index dropped more than expected to 54.1. Furthermore, the ISM non-manufacturing index, which represents the much larger service industries in the U.S. economy, also dropped more than anticipated to 57.6. Although both numbers did disappoint, recall that ISM readings above 50 indicate expansion, with both readings remaining comfortably in growth territory.

Non-farm payroll additions in December were strikingly strong at 312,000 job gains, which easily surpassed expectations of 184,000. Although the unemployment rate moved higher to 3.9% when it was expected to remain 3.7%, it rose in the context of the labor force participation rate increasing as well. Average hourly earnings rose by 3.2% on a year-over-year basis in December, which was more than the expected 3.0% annual increase.

Not surprisingly, with recent market gyrations and a government shutdown, consumer confidence took a hit in January as the Conference Board's consumer confidence index and the preliminary University of Michigan sentiment indicator both dropped more than expected for the month. The Conference Board's leading economic indicators index (the Leading Index) dropped as expected by -0.10% in December. Readings covering preliminary Q4 GDP, retail sales, building permits and housing starts were among those postponed in January due to the government shutdown.

The Federal Open Market Committee (FOMC) met in late January and kept policy rates unchanged as expected. With this rate hike cycle in its latter stages, markets will closely scrutinize comments and actions by the Fed in 2019. Markets were encouraged by comments from Chairman Powell following the January meeting, which were perceived as more dovish. This helped equity markets rally late in the month. The next FOMC meeting is scheduled for March, but speeches and commentary by Fed officials will be analyzed closely as we approach that next formal meeting.

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Dec	57.5	54.1	59.3	58.8
ISM Non-Manf. Composite	Dec	58.5	57.6	60.7	60.4
Change in Nonfarm Payrolls	Dec	184k	312k	155k	176k
Unemployment Rate	Dec	3.7%	3.9%	3.7%	—
Average Hourly Earnings YoY	Dec	3.0%	3.2%	3.1%	—
JOLTS Job Openings	Nov	7050k	6888k	7079k	7131k
PPI Final Demand MoM	Dec	-0.1%	-0.2%	0.1%	—
PPI Final Demand YoY	Dec	2.5%	2.5%	2.5%	—
PPI Ex Food and Energy MoM	Dec	0.2%	-0.1%	0.3%	—
PPI Ex Food and Energy YoY	Dec	2.9%	2.7%	2.7%	—
CPI MoM	Dec	-0.1%	-0.1%	0.0%	—
CPI YoY	Dec	1.9%	1.9%	2.2%	—
CPI Ex Food and Energy MoM	Dec	0.2%	0.2%	0.2%	—
CPI Ex Food and Energy YoY	Dec	2.2%	2.2%	2.2%	—
Retail Sales Ex Auto and Gas	Dec	Postponed	—	—	—
Industrial Production MoM	Dec	0.2%	0.3%	0.6%	0.4%
Building Permits	Dec	Postponed	—	—	—
Housing Starts	Dec	Postponed	—	—	—
New Home Sales	Dec	Postponed	—	—	—
Existing Home Sales	Dec	5.24m	4.99m	5.32m	5.33m
Leading Index	Dec	-0.1%	-0.1%	0.2%	
Durable Goods Orders	Dec P	Postponed	—	—	—
GDP Annualized QoQ	4Q A	Postponed	—	—	—
U. of Mich. Sentiment	Jan P	96.8	90.7	98.3	—
Personal Income	Dec	Postponed	—	—	—
Personal Spending	Dec	Postponed	—	—	—
S&P CoreLogic CS 20-City YoY NSA	Nov	4.89%	4.68%	5.03%	5.02

P = Preliminary; A = Advance

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