Clark Capital Management Group

Benchmark Review & Monthly Recap

Market Momentum Continues

HIGHLIGHTS:

- Equity market gains continued in April following one of the best first quarters in years. The S&P 500 Index ended April at an all-time closing high.
- Global equity markets continued to advance as well, but they were not able to keep pace with U.S. equities in April or for the first four months of 2019.
- The 10-year U.S. Treasury yield rose in April after hitting its lowest level in March since 2017. The short-lived yield curve inversion in late March reversed and, while rather flat, the yield curve stayed positively sloped in April.
- Economic data released in April continued to reflect an economy that we believe looks likely to grow in the months ahead. The advanced reading of first quarter 2019 GDP epitomized the positive data when growth came in at a 3.2% annualized rate compared to estimates of 2.3%.

EQUITY MARKETS

The equity market rally from the first quarter showed no signs of letting up in April. While still early in the process, first quarter earnings announcements, which were feared to be weak after strong 2018 results, have largely exceeded expectations. These first Q1 earnings releases seemed to ease some of the fears in the market and helped propel equities higher.

The S&P 500 and the NASDAQ Composite indices each posted new all-time highs in April, while the Dow Jones Industrial Average came up short of hitting a new record. Many recent equity market trends continued to hold in April. Large-cap stocks continued to outpace small companies during the month, although gains were enjoyed across the market-cap spectrum. U.S. stocks advanced more that international equities, but again, all enjoyed solid gains for the month.

From a style perspective, large-cap growth stocks continued to outperform large-cap value in April, but in the mid and small-cap universe, value enjoyed better returns. Generally speaking, growth has dominated value over the last couple of years and that trend has continued in 2019. It will be important to monitor whether the value style in large-cap equities starts seeing some better relative results as was experienced in mid and small-cap value stocks in April. As would be expected during a month of strong equity market gains, volatility remained subdued during this period.

The numbers for April were as follows: The S&P 500 advanced 4.05%, the Dow Jones Industrial Average (DJIA) rose by 2.66%, the NASDAQ Composite gained 4.77%, and the Russell 2000 Index, which had declined in March, was up 3.40%. As previously discussed, the long-running leadership of growth stocks continued in April for large-cap names. Large cap growth stocks, as measured by the Russell 1000 Growth Index, advanced 4.52% for the month and large-cap value stocks, as measured by the Russell 1000 Value Index, gained 3.55% in April.

International equity results were strong in April and year-to-date gains are up double-digits, but they have not been able to keep pace with U.S. equity markets, which are having one of their best starts to a year in decades. The U.S. dollar strengthened in April to its highest level of the year, but it came off that level settling only slightly higher in April than where it ended March.

We continue to believe the headwinds faced by international equities in 2018, driven in large part by the strength of the U.S. dollar, which will be less intense in 2019 as the Fed appears to be on hold for the balance of the year. With this backdrop, emerging market equities, as measured by the MSCI Emerging Markets Index, gained 2.11% in April and the MSCI ACWI ex USA Index, a broad measure of international equities, gained 2.64% for the month. Strong gains have been enjoyed across the international equity landscape, but developed international markets held an advantage compared to emerging market equities so far in 2019.

FIXED INCOME

The 10-year U.S. Treasury yield dropped in March to its lowest level since 2017. In April, however, yields moved modestly higher closing the month at 2.51% compared to March's close at 2.41%. This increase in interest rates put pressure on fixed income results, especially those more interest-rate sensitive parts of the market, like U.S. Treasuries.

The short-lived inversion of the yield curve at the end of March (comparing 10-year U.S. Treasury and 3-month T-bill yields) reversed on March 29 and the yield curve remained positively sloped throughout April as longer-dated yields rose. One difference between this yield curve inversion and some prior periods of inversion is that the Fed has clearly signaled it will be on hold for some time.

In some prior inverted yield curve situations, the Fed continued to raise rates, which further exacerbated the inversion, and that appears highly unlikely this time around. At this point, it is too early to draw any definitive conclusions by this recent yield curve action, as other leading economic indicators we monitor remain positive. We will continue to watch the yield curve closely as we assess the economic outlook.

Most fixed income sectors advanced in April, but the gains were more modest than the results experienced earlier in the year. The notable exception was U.S. Treasuries, which experienced losses for longer-dated maturities. High-yield bonds were the clear leader in the first quarter and that leadership grew in April.

Overall, the Bloomberg Barclays U.S. Aggregate Bond Index was fractionally higher, up 0.03%, the Bloomberg Barclays U.S. Credit Index gained 0.49% and the Bloomberg Barclays U.S. High Yield Index advanced by 1.42% in April. TIPS and muni bonds gained in April as well. Consistent with our expectation of credit outperforming interest rate risk, the Bloomberg Barclays U.S. Treasury Index fell -0.28% and the Bloomberg Barclays U.S. 30-Year Treasury Index declined -2.00% in April.

ECONOMIC DATA AND OUTLOOK

The disjointed couple of months of economic releases at the start of the year due to the government shutdown seems to have passed and most economic data is now back on track. The fears of a recession, which were swirling late last year, appear to have ameliorated as economic data released so far in 2019 shows ongoing growth. While still somewhat mixed, economic data continues to support the conclusion that the U.S. economy has more runway in front of it in 2019.

The first reading of Q1 2019 GDP (there will be two updates to this reading in coming months) was a highlight when released in April as it showed a 3.2% annualized pace of growth compared to expectations of 2.3%. GDP growth is not expected to be as strong as it was in 2018 when the economy grew by 2.9%, but we expect the economy will continue to expand and believe this growth will be closer to growth rates experienced during much of the post credit-crisis period, just above 2% (our expectation for GDP growth in 2019 currently stands at 2.3%).

Job market data has been rather volatile so far in 2019 when it went from a remarkably strong number in January to a remarkably weak number in February. Non-farm payroll additions for March (released in April) showed 196,000 job gains, ahead of the estimate of 177,000. The unemployment rate remained at 3.8% in March as expected. Average hourly earnings were below expectations at a 3.2% year-over-year gain in March, when it was expected to remain at the prior month's level of 3.4% annual growth.

The Institute for Supply Management (ISM) manufacturing index for March was ahead of expectations and improved from the prior month at 55.3. However, the ISM non-manufacturing index, which represents the much larger service industries in the U.S. economy, declined to 56.1, which was below expectations of 58 and the prior month's strong reading of 59.7. Recall that ISM readings above 50 indicate expansion and both readings remained comfortably in growth territory. Housing starts and building permits were both below expectations in March. Consumer confidence continued to improve in April, likely helped in part by strong equity market gains. Finally, the Conference Board's leading economic indicators index (the Leading Index) increased by 0.4% in March matching expectations.

The dovish tone from the Fed continues to reverberate in 2019 and is likely one of the key factors behind the strength in capital markets to begin the year. The FOMC began a meeting on April 30, which concluded May 1. As expected, the Fed kept rates on hold at this latest meeting. At this point, no rate hikes are expected in 2019 with probabilities leaning to a higher likelihood of no rate hike or even a rate cut by the end of the year.

The Fed seems to have moved out of the way of the markets so far in 2019. The Fed is in a wait-and-see mode and the market has embraced this more dovish stance compared to expectations at the end of 2018 that suggested at least one rate hike in 2019.

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Mar	54.5	55.3	54.2	—
ISM Non-Manf. Composite	Mar	58.0	56.1	59.7	—
Change in Nonfarm Payrolls	Mar	177k	196k	20k	33k
Unemployment Rate	Mar	3.8%	3.8%	3.8%	—
Average Hourly Earnings YoY	Mar	3.4%	3.2%	3.4%	—
JOLTS Job Openings	Feb	7550k	7087k	7581k	7625k
PPI Final Demand MoM	Mar	0.3%	0.6%	0.1%	—
PPI Final Demand YoY	Mar	1.9%	2.2%	1.9%	—
PPI Ex Food and Energy MoM	Mar	0.2%	0.3%	0.1%	—
PPI Ex Food and Energy YoY	Mar	2.4%	2.4%	2.5%	—
CPI MoM	Mar	0.4%	0.4%	0.2%	—
CPI YoY	Mar	1.8%	1.9%	1.5%	—

Event	Period	Estimate	Actual	Prior	Revised
CPI Ex Food and Energy MoM	Mar	0.2%	0.1%	0.1%	—
CPI Ex Food and Energy YoY	Mar	2.1%	2.0%	2.1%	—
Retail Sales Ex Auto and Gas	Mar	0.4%	0.9%	-0.6%	-0.7%
Industrial Production MoM	Mar	0.2%	-0.1%	0.1%	0.1%
Building Permits	Mar	1300k	1269k	1296k	1291k
Housing Starts	Mar	1225k	1139k	1162k	1142k
New Home Sales	Mar	649k	692k	667k	662k
Existing Home Sales	Mar	5.30m	5.21m	5.51m	5.48m
Leading Index	Mar	0.4%	0.4%	0.2%	0.1%
Durable Goods Orders	Mar P	0.8%	2.7%	-1.6%	-1.1%
GDP Annualized QoQ	1Q A	2.3%	3.2%	2.2%	—
U. of Mich. Sentiment	April F	97.0	97.2	96.9	—
Personal Income	Mar	0.4%	0.1%	0.2%	—
Personal Spending	Mar	0.7%	0.9%	—	0.1%
S&P CoreLogic CS 20-City YoY NSA	Feb	2.95%	3.00%	3.58%	3.51%

Source: Bloomberg F = Final P=Preliminary A= Advance