Benchmark Review
& Monthly Recap

Highlights

Despite some volatility at the start of the month, October turned out to be a rather steady ride for stocks as the S&P 500 Index put in a new all-time high.

Yields dropped in early October only to bounce higher for the rest of the month. Overall, there was little yield movement as the 10-year U.S. Treasury ended October at 1.69% compared to September's close at 1.68%. Bonds generally put in more gains for the month.

The yield curve inversion (comparing 10-year and 3-month U.S. Treasury yields) had persisted for most of the summer and fall, but in October, the slope went back to being positively shaped.

Not coincidentally, the Fed cut rates for the 3rd time in late October (helping push short-term rates down), but signaled that this would likely be the last rate cut for a while unless economic conditions changed.

The current U.S. economic expansion continues to march on as the longest on record. While some signs of slower growth are appearing, the advance reading of GDP for the 3rd quarter showed better-than-expected growth at a 1.9% annualized pace.

International stocks outperformed U.S. equities in September and that trend continued in October, but year-to-date results still clearly favor the U.S.

Ongoing concerns regarding the China trade situation, negative global bond yields, a formal impeachment inquiry and the path of future economic growth persist. However, other signs of economic progress continue and the market has proved to be resilient despite these long-standing concerns.

All Treats and No Tricks as S&P 500 Hits New Highs

Equity Markets

The S&P 500 pushed through to a new all-time high in October. We have been discussing a similar "wall of worry" for several months that focuses on continued trade uncertainty with China, the path of future Fed rate cuts, some economic uncertainty, and a growing political divide in Washington. Despite those concerns, markets were resilient in October. The fundamentals of the economy continue to show signs of growth and the Fed cut rates for a third time creating conditions that have helped equities grind higher.

Volatility, as measured by the VIX Index, was elevated early in the month (above 20), but it moved steadily lower as October progressed and closed the month in the low teens. We would not rule out higher volatility through year end as several uncertainties remain, but it's important to note that the market is entering a historically strong period of equity returns.

We have recently discussed a noteworthy change in leadership that occurred in September as value stocks outperformed growth stock and small and mid-cap equities outpaced large-caps. Some of those aspects continued in October as small-caps continued to outperform, but the growth/value differences were more mixed based on the market cap range.

Large-cap growth stocks dominated other categories of equities over the last couple of years, but we have noted in recent months that the value/growth relationship was stretched to historic extremes with the discount that value stocks were trading at compared to the rest of the market. Furthermore, we believed that should this situation revert to more historical norms, value-oriented stocks should benefit. While still too early to call a trend reversal, we have seen some pockets of the market perform better in recent months relative to areas that had dominated for some time.

The numbers for October were as follows: The S&P 500 advanced 2.17%, the Dow Jones Industrial Average gained only 0.59%, the Russell 3000 increased 2.15%, the NASDAQ Composite rose by 3.71% and the Russell 2000 Index, a measure of small-cap companies, improved by 2.63%. Overall, small-caps performed better than large-caps in October. Growth stocks outperformed in the large and small-cap space, but within mid-caps, value outperformed. The Russell 1000 Value Index gained 1.40% compared to the Russell 1000 Growth Index, which advanced 2.82%. We at Clark Capital employ value-oriented measures in our investment process and believe that over a full market cycle, buying quality companies at a good price will be rewarded.

Past performance is not indicative of future results.
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With few exceptions, the U.S. dollar has been strengthening rather steadily since the spring of 2018. This movement culminated in the U.S. dollar hitting its strongest level in late September since the first half of 2017. However, the dollar reversed course in October and weakened, helping international equities advance and outpace the S&P 500 Index.

Emerging market equities, as measured by the MSCI Emerging Markets Index, gained 4.22% in October and the MSCI ACWI ex USA Index, a broad measure of international equities, advanced 3.49% for the month. Those two indices of international stocks still lag their U.S. counterparts year-to-date, but the gap has closed over the last couple of months.

Fixed Income

Despite little movement for the 10-year U.S. Treasury yield during the month, most pockets of fixed income added to already solid gains this year. The closing yield for the 10-year U.S. Treasury for October at 1.69% was only 1 basis point higher than the September close of 1.68%, but that does mask some movement that occurred throughout the course of the month. We continue to believe it will be hard for U.S. rates to move too high with the current amount of global bonds trading at negative yields.

In this environment, fixed income results were as follows: The Bloomberg Barclays U.S. Aggregate Bond Index gained 0.30% for the month, the Bloomberg Barclays U.S. Credit Index advanced 0.57%, the Bloomberg Barclays U.S. Corporate High Yield Index rose by 0.28% and the Bloomberg Barclays U.S. Treasury Index inched higher by 0.07%. TIPS and muni bonds also advanced in October. Most fixed income sectors have shown strong gains through the first 10 months of 2019.

Economic Data and Outlook

The length of this expansion moved further into historic territory through the third quarter, but concerns seem to be developing around how long this expansion can last. Economic data (as shown in the chart at the end of the commentary) was rather mixed last month, but our expectation is that this expansion will run well into next year.

Although the slope of the yield curve did invert this year (whether looking at the 10-year year and the 2-year or 3-month Treasury yields), the slope has become positive once again. We know historically that the inversion taking place is what matters and that a recession can begin even after the slope turns positive once again. We also know that in the last five recessions, the amount of lag time between the inversion and a recession beginning has been between 13 and 34 months. We still acknowledge that an inverted yield curve has historically been a negative sign for the economy and has preceded each of our last seven recessions. At the same time however, other economic data we monitor does not confirm this more cautionary signal.

Job market numbers remained solid in October. Non-farm payroll additions were 136,000 in September, which was below expectations. However, payroll numbers covering October (which came out November 1) were at 128,000, which was ahead of modest expectations of 85,000 new jobs in part due to the anticipated impact of the GM strike. Equally as important, prior payroll readings were revised sharply higher with September going up to 180,000 from 136,000 and overall revisions to the prior two months adding a total of 95,000 more jobs than previous estimates.

The unemployment rate dropped unexpectedly to 3.5% in September, and increased to 3.6% in October as expected, remaining near a 50-year low. Average hourly earnings grew by 3.0% on an annual basis in October, matching estimates and a revised higher number from last month of 3.0%. Data for October, in conjunction with readings over the prior couple of months, continued to paint a picture of a strong job market in the United States. As a consumption driven economy, financially healthy and employed consumers are key to economic growth.

Retail sales (ex. auto and gas station sales) were flat in September when a gain of 0.3% was anticipated. However, prior month retail sales data for August was revised higher to show a gain of 0.4% from a prior estimate 0.1% reflecting a stronger consumer than previously thought. Housing starts were below expectations in September, but building permits exceeded estimates. New home sales were more or less in-line with expectations for September (702k expected versus a reported 701k annual pace).

The widely followed Institute for Supply Management (ISM) manufacturing index unexpectedly remained below the 50 level in September at 47.8 and the release of the October reading of 48.3 (on November 1) marked the third month in a row below 50, the dividing line between expansion and contraction. This was a modest improvement from the September low, but below estimates. Trade uncertainly is likely one central cause of slower manufacturing in the U.S. However, the ISM non-manufacturing index, which covers the much larger service industries in the U.S. economy, was at 52.6 in September – below expectations of 55, but still above the 50 mark. (October data had not been released at the time of this writing.)

The leading economic indicators index from the Conference Board declined -0.1% in September and August was revised down to show a drop of -0.2% from a previously flat reading. This is an indicator we watch closely as it tends to give some insight on the future direction of economic growth and we

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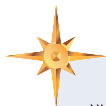

will continue to monitor it in the months ahead. The advance reading of Q3 GDP growth came in at an annualized pace of 1.9% compared to expectations of 1.6% growth.

The Federal Reserve (Fed) cut rates in October for the third time this year. The market was expecting this cut and indeed, the Fed followed through. However, Chairman Powell also signaled that the Fed would hold off on further cuts unless economic conditions deteriorated.

The three rate cuts that took place in recent months were widely anticipated by the market, but the question has been what the direction of future rate cuts would look like, and the Fed has tempered expectations for further cuts at this point. We will continue to monitor market expectations for rate cuts and commentary from the Fed and how that interplay develops. However, we believe a more aggressive rate cutting cycle seems unlikely as the job market remains strong, stocks sit near all-time highs, and inflation remains only modestly below target.

While not new, the political discord in Washington certainly seems elevated now that the House has formally voted to go ahead with an impeachment inquiry. With the presidential election only one year away, it is likely little will be done by Congress heading toward next November. The race for the White House has already begun and the impeachment situation might dominate headlines in the months to come creating additional volatility.

We continue to expect economic growth well into 2020. The Fed now appears to be on hold for the near term, but China trade uncertainty, a presidential election year and some signs of slowing U.S. economic activity remain outstanding. Capital market volatility might elevate as we continue to work through these issues, but stocks have been resilient in the face of these ongoing concerns. Despite last year, we are now entering a historically favorable period for stocks as we head into the final months of 2019.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Smaller capitalization companies and international markets outperformed during September. We have witnessed a shift in our relative strength models towards slightly favoring value and international equities. In many of our tactical oriented portfolios, we increased exposure to value, mid-cap stocks, and international equities.

On the fixed income side, both U.S. Treasuries and high yield advanced marginally, with high yield bonds hitting a new all-time high. The Fixed Income Total Return portfolio remains fully allocated to high yield bonds.

Clark Capital's Bottom-Up, Fundamental Strategies

Over the month, growth outperformed value aided by a strong showing in the Technology sector. The Healthcare and Communication sectors also rallied versus lagging bond-proxy sectors such as Utilities, Staples and REITs. So far in Q3, 57% of S&P 500 companies have reported with 71% beating 3Q earnings and 56% surpassing revenue estimates. We believe ultra-low interest rates will continue to drive demand for dividend stocks into 2020 although higher P/E sectors such as Utilities remain at risk for a correction.

Momentum stocks, which have been the darling of the markets during the first eight months of 2019, have continued to suffer over the last two months underperforming both the Russell 2000 and Russell Large Value by 5% since the end of August. The market shift away from momentum and more toward value, cyclical and small cap stocks has benefited our fundamentally driven equity portfolios.

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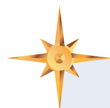

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Sept	50.0	47.8	49.1	—
ISM Non-Manf. Composite	Sept	55.0	52.6	56.4	—
Change in Non-farm Payrolls	Sept	145k	136k	130k	219k
Unemployment Rate	Sept	3.7%	3.5%	3.7%	—
Average Hourly Earnings YoY	Sept	3.2%	2.9%	3.2%	—
JOLTS Job Openings	Aug	7250k	7051k	7217k	7174k
PPI Final Demand MoM	Sept	0.1%	-0.3%	0.1%	—
PPI Final Demand YoY	Sept	1.8%	1.4%	1.8%	—
PPI Ex Food and Energy MoM	Sept	0.2%	-0.3%	0.3%	—
PPI Ex Food and Energy YoY	Sept	2.3%	2.0%	2.3%	—
CPI MoM	Sept	0.1%	0.0%	0.1%	—
CPI YoY	Sept	1.8%	1.7%	1.7%	—
CPI Ex Food and Energy MoM	Sept	0.2%	0.1%	0.3%	—
CPI Ex Food and Energy YoY	Sept	2.4%	2.4%	2.4%	—
Retail Sales Ex Auto and Gas	Sept	0.3%	0.0%	0.1%	0.4%

Event	Period	Estimate	Actual	Prior	Revised
Industrial Production MoM	Sept	-0.2%	-0.4%	0.6%	0.8%
Building Permits	Sept	1350k	1387k	1419k	1425k
Housing Starts	Sept	1320k	1256k	1364k	1386k
New Home Sales	Sept	702k	701k	713k	706k
Existing Home Sales	Sept	5.45m	5.38m	5.49m	5.50m
Leading Index	Sept	0.0%	-0.1%	0.0%	-0.2%
Durable Goods Orders	Sept P	-0.7%	-1.10%	0.2%	0.3%
GDP Annualized QoQ	3Q A	1.6%	1.9%	2.0%	—
U. of Mich. Sentiment	Oct F	96.0	95.5	96.0	—
Personal Income	Sept	0.3%	0.3%	0.4%	0.5%
Personal Spending	Sept	0.3%	0.2%	0.1%	0.2%
S&P CoreLogic CS 20-City YoY NSA	Aug	2.10%	2.03%	2.00%	2.03%

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

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The Dow Jones Industrial Average indicates the value of 30 large, publicly owned companies based in the United States.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

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 1000 Index measures the performance of the highest ranking 1,000 stocks in the Russell 3,000 Index, which represent about 90% of the total market capitalization of that index.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The MSCI Emerging Markets Index is used to measure large and mid-cap equity market performance in the global emerging markets.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 developed market countries and 24 emerging market countries, covering approximately 85% of the global equity opportunity set outside of the U.S.

Bloomberg Barclays U.S. Aggregate Bond Index: The index is unmanaged and measures the performance of the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries and government-related and corporate securities that have a remaining maturity of at least one year.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

ISM Manufacturing Index – A widely-watched indicator of recent U.S. economic activity. The index is often referred to as the Purchasing Manager's Index (PMI). Based on a survey of purchasing managers at more than 300 manufacturing firms by the Institute for Supply Management (ISM), the index monitors changes in production levels from month to month. The index is the core of the ISM Manufacturing Report.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

The Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. The index is composed of 10 economic components whose changes tend to precede changes in the overall economy. The Conference Board is an independent research association that provides its member organizations with economic and financial information.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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