ClarkCapital MANAGEMENT GROUP

# Market Moves

## Charting Our Strategies

### Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

### Clark Capital's Bottom-Up, Fundamental Strategies

U.S. equity and bond investors have experienced strong returns after the Federal Reserve reversed course by cutting rates three times in 2019. In November, the markets rallied with small-caps taking the lead as U.S.-China trade negotiations inched closer to a deal for Phase One. Year-to-date, all U.S. sectors have posted double digit returns except for the Energy sector.

Our underweight position in the Utilities sector added alpha as its stocks had negative returns amidst a broader market rally. Technology stocks continued to drive higher and while we have a healthy exposure to these stocks, our slight underweight position was a slight drag in our equity portfolios. The Financial sector continued to move higher supported by some of the lowest valuations in the market and a steepening of the yield curve. International markets also performed well with what looks like a bottoming in global manufacturing. Some of the strongest growth rates remain in emerging markets where we have a strong overweight position in the International ADR portfolio relative to its benchmark.

Below are strategy updates from November:

#### All Cap Core U.S. Equity

- Healthcare remains our largest sector weight at 18.5%, which is 4.6% overweight relative to the benchmark.
- Our exposure to real estate brokers helped us during the month as our holdings continued to rally post earnings. Conversely, our underweight to Technology hurt performance as growth stocks continued to outperform.
- Although we are underweight Technology relative to the benchmark, it remains at 17.1% of the portfolio and our second largest sector weight.
- We added a semiconductor equipment company this month as it continues to benefit from 5G semi spending and have removed a telecommunications equipment company as the networking space continues to show slow growth.
- Additionally, we have reduced our position in a specialty materials company and added a chemical manufacturing company with some agricultural materials exposure.

#### High Dividend Equity

- In November, the High Dividend Equity portfolio trailed the benchmark with weakness in the Communication Services and Staples sectors.
- Our underweight in the Utilities sector added alpha as its stocks had negative returns amidst a broader market rally.
- The Financial sector continued to move higher supported by some of the lowest valuations in the market.
- For the month, the top contributing sectors were Financials, Utilities, Information Technology and detractors were Staples, Communication Services and Healthcare.

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### International Equity ADR

- The strategy has a larger than typical weight of 20.9% in emerging and frontier market companies as lower interest rates and firm energy prices tend to favor less developed economies.
- While safer, higher quality countries like Canada and Japan continue to represent our largest country allocations, we are beginning to look for anti-fragile companies in developed countries in recession as those companies may present opportunities.
- While underweight relative to the benchmark, Financials represent our largest sector weight at 19.2%.
- We continue to have a large weight in Healthcare as European pharmaceutical companies have robust product lineups and pipelines.

### Small Cap Core U.S. Equity

- 21.1% of the portfolio is in Industrial companies and 18.2% is in Consumer Discretionary companies.
- Over the month, we added a drug company to the portfolio to add to our Healthcare exposure.

### SMID Cap Core U.S. Equity

- At 21.1%, Industrials represent our largest sector weight.
- We slightly raised our position in Consumer Discretionary to 16.8% as housing and housing related companies are benefiting from low rates.
- During the month, we added a chemical manufacturing company with some agricultural materials exposure.

### Taxable Fixed Income

- High yield represents 19% of the portfolio's holdings.
- The portfolio is overweight BBB and BBB- bonds versus the benchmark.
- The portfolio's added credit risk has been a beneficial driver of relative performance and we continue to utilize a barbell strategy with 24% of holdings with less than 2 years in duration and 30% of holdings in 6 to 10-year duration.
- The portfolio's top overweights are in Materials, Consumer Discretionary and Energy. The portfolio's top underweights are in Financials, Utilities and Information Technology.

### Tax-Free Fixed Income

- The portfolio is overweight the 5 to 5.99-year duration bucket versus the benchmark and is underweight the 4 to 4.99-year duration bucket versus the benchmark.
- As yields have rallied on the 10-year Treasury bond, we have purchased 4% coupons with 2026-2027 par calls to lower overall premiums versus buying 5% coupons. This has resulted in a current yield of 4.01% versus 4.10% for the benchmark.
- The portfolio is positioned for a slightly rising yield curve and the calendar roll of the municipal yield curve as we enter 2020.

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### Clark Capital's Top-Down, Quantitative Strategies

Markets rallied strongly in November with small-cap stocks leading the way and the U.S. outperforming international stocks. Growth outperformed value, gaining back a portion of the August and September underperformance of the fastest growers. Three Federal Reserve reductions in short-term interest rates have stabilized economic growth forecasts for 2020 and normalized the yield curve.

We have witnessed a broadening out of the market with the advance-decline line hitting new highs and participation across sectors including Healthcare and Financials, which had been lagging. The Style Opportunity portfolio added exposure this month to quality while maintaining an overweight to value. Credit has done well with high yield bond indices trading near record highs. Our Fixed Income Total Return strategy remains invested in high yield bonds and as long as economic data remains firm, investors will continue to seek the yield advantage that high yield bonds offer over Treasuries.

Below are strategy updates from November:

#### Alternatives

- The core portion of the portfolio makes up 49%, and the explore portion 49%, with 4% cash.
- In the tactical portion of the Alternative portfolio, we continue to focus on tactical equity, including emerging markets (7%), Energy Infrastructure (5%), Oil Equipment and Services (5%), European Financials (3%), Timber and Forestry (3%), and Farmland (1%).
- We sold out of our position in Global Natural Resources and added to emerging markets and European Financials. We believe European Financials have displayed a very nice relative strength breakout.
- We continue to like precious metals and own gold, platinum and gold miners.

#### Fixed Income Total Return

- The FITR models turned positive on high yield on September 13th and since then, high yield bonds have slowly marched higher in tandem with other risk assets.
- High yield bonds are trading near their record highs as economic news continues to surprise to the upside including employment statistics and GDP revisions.
- As long as economic data remains firm, we believe investors will continue to seek the yield advantage that high yield bonds offer over Treasuries.

#### Style Opportunity

- The portfolio continues to hold a value bias, and now owns large value at 43%, quality at 15%, buybacks at 10%, along with the S&P 500 itself at 30%..
- The most recent trades in the portfolio were a sale of mid-cap value and buys of quality and buyback achievers.

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## Author

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