# Benchmark Review
## & Monthly Recap

## Highlights

Volatility was muted for most of November and the stock market enjoyed a steady rise to new all-time highs. The Dow Jones Industrial Average, S&P 500 Index and Nasdaq Composite all put in new highs during the month.

Yields moved higher in the early part of the month with the 10-year U.S. Treasury rising above 1.9%. By month's end, it had dropped to 1.78%, which was still above the October close of 1.69% and bond results were mixed.

International stocks outperformed U.S. equities in September and October, but that trend did not hold in November. As U.S. stocks enjoyed strong gains in November, developed international equities rose only modestly and emerging market stocks slipped lower. U.S. equities have dominated so far in 2019.

The current U.S. economic expansion continues to march on as the longest on record. However, some concern has developed that 4th quarter GDP looks weak, but a second reading on third quarter GDP was revised higher and signs continue to point to growth well into 2020. Holiday sales got off to a good start indicating consumer strength.

Ongoing concerns regarding the China trade situation still exist as we move into the last month of 2019 and U.S. manufacturing has continued to struggle. Manufacturing data released in early December covering November reflected ongoing contraction in U.S. manufacturing. Despite these and other long-standing concerns, equity markets rallied in November.

# Steady Gains and New Highs in November

## Equity Markets

Markets have been climbing the "wall of worry" for most of the year and November was no exception. Trade uncertainty with China continues to exist and that issue likely links directly with a manufacturing slowdown in the U.S. A growing political divide in Washington continues to expand as the formal impeachment hearings enter a new phase with the House Judiciary Committee.

There was some clarity on the future path of Fed rate activity as Chairman Powell indicated that, after cutting rates for a third time in October, the Fed would likely be on hold for some time, unless economic conditions changed. We have written about these issues for most of the year, yet the market continues to be resilient and climb higher.

Concerns about the pace of U.S economic growth have lingered in the market, with manufacturing and trade issues a key concern. However, the U.S. economy has continued to grow, and the job market has remained strong. Workers have made real wage gains, and consumers have continued to spend as well. In fact, Black Friday online sales were up about 20% from last year. We believe that broader economic fundamentals continue to point toward ongoing economic growth.

In 2019, we have generally seen U.S. large-cap growth companies outpace most other parts of the market. However, we have noted that some other areas of the market have made some headway against this broader trend in recent months. September saw value and small-cap companies with some leadership and international equities outperformed U.S. stocks in recent months as well.

November saw solid returns across the board for U.S. equities with small-caps once again enjoying some market leading gains. International equities were the clear laggard in November and continue to trail U.S. equities year-to-date. However, it is important to have some perspective because although it is true that international equities have lagged U.S. stocks, they are still showing double-digit gains through the first 11 months of the year.

Clark Capital employs value-oriented measures in our equity investment process and we believe that over a full market cycle, buying good companies at a good price will be rewarded. Earlier this year, we were seeing historical extremes in the market when looking at the discount that value stocks were trading at compared to the broader market. In many ways, this was reflecting the strong outperformance of large-cap growth companies over the last couple of years.

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We continue to believe that should this growth/value 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.

For example, high yielding sectors like Utilities, Real Estate, Consumer Staples and Energy have struggled the last couple of months. Meanwhile four of the five top performing sectors for the last two months were bottom dividend yielders, which is a significant change in market leadership. As more diverse areas of the market make gains, diversified portfolios should benefit as well.

The numbers for November were as follows: The S&P 500 advanced 3.63%, the Dow Jones Industrial Average gained 4.11%, the Russell 3000 increased 3.80%, the NASDAQ Composite rose an impressive 4.64% and the Russell 2000 Index, a measure of small-cap companies, improved by 4.12%. Growth stocks moved back into a leadership position for November with stronger results compared to value stocks in both the large and small-cap space. For example, the Russell 1000 Value Index gained 3.09% compared to the Russell 1000 Growth Index, which advanced 4.44%. The Russell 2000 Growth Index advanced 5.89%, while the Russell 2000 Value Index rose by less than half that at 2.34%.

The U.S. dollar hit its strongest level in late September since the first half of 2017. The dollar reversed course in October and weakened, which helped international equity results, but that decline paused in November. Overall, the U.S. dollar rose in November creating a headwind to international returns. Emerging market equities, as measured by the MSCI Emerging Markets Index, declined on a dollar basis during the month by -0.14%. The MSCI ACWI ex USA Index, a broad measure of international equities, advanced a modest 0.88% in November. These two indices of international stocks lag their U.S. counterparts year-to-date, but both are up double-digits over the last 11 months.

## Fixed Income

Most pockets of fixed income have enjoyed solid year-to-date gains as interest rates have dropped rather dramatically during 2019. However, yields hopped around in November and bond results were mixed as the yield on the 10-year U.S. Treasury ultimately settled higher from the October close. The closing yield for the 10-year U.S. Treasury for October was 1.69% and it closed November at 1.78%.

The "risk-on" nature of the stock market rally was reflected in bond returns as well, as credit and high yield bonds performed better than other areas of the fixed income market. We continue to believe it will be hard for U.S. rates to move too high with the current amount of global bonds with negative yields. Furthermore, we maintain our long-standing position of favoring credit versus rate exposure in this environment.

With this backdrop, fixed income results were mixed and were as follows: The Bloomberg Barclays U.S. Aggregate Bond Index was off -0.05% for the month, the Bloomberg Barclays U.S. Credit Index advanced 0.19%, the Bloomberg Barclays U.S. Corporate High Yield Index rose by 0.33% and U.S. Treasuries were generally down. TIPS and muni bonds both advanced in November.

## Economic Data and Outlook

The record length of this economic expansion continues to build on its decade-plus tenure. Concerns have lingered regarding how long this expansion can last and while data continues to be mixed, economic growth remains. We continue to believe that this expansion will run well into 2020.

Although the front end of the yield curve remains flat, when comparing the 10-year yield and either the 2-year or 3-month Treasury yields, the slope of the yield curve stayed positive throughout November. We know that recessions have occurred even after the slope turns positive and that the inversion itself has been the historical sign of potential economic weakness. However, the inversion also historically comes with some lead time to a recession and in the last five recessions, that time has been between 13 and 34 months. Also recall that we have experienced two inverted yield curves since the 1960s that did not lead to a recession.

It is also important to acknowledge that the Fed has made a clear U-turn from its tightening ways from December 2015-December 2018. October saw the Fed cut rates for the third time in three consecutive FOMC meetings as it clearly moved to a more expansionary bias versus contractionary in 2019. The key question, which continues to linger, is did the Fed reverse course in time?

Job market numbers reported in November remained solid. Non-farm payroll additions were 128,000 in October, which was well above expectations of 85,000. Furthermore, revisions for the prior two months showed 95,000 additional job gains than previously reported. The unemployment rate was 3.6% as expected and labor force participation improved in October when it was expected to decline.

Although the monthly increase was slightly below expectations, average hourly earnings came in at 3.0% on a year-over-year basis as anticipated. The strong job market in the United States continues and, as a consumption driven economy, financially healthy and employed consumers are an important key to economic growth.

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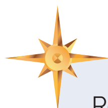

Retails sales growth (ex. auto and gas station sales) were more muted in October increasing by only 0.1% when expectations were for a 0.3% gain. We head into the all-important holiday shopping season with expectations that the consumer will still have an appetite to spend. Early headlines about Black Friday showed a solid kick off to holiday spending. Housing starts were below expectations in October, but building permits exceeded estimates and both readings for the prior month were revised slightly higher. New home sales exceeded expectations of 705,000 when results came in at 733,000.

The widely followed Institute for Supply Management (ISM) manufacturing index continued to linger below 50 in October. Despite coming in below expectations at 48.3, the October number was a slight improvement from the September reading of 47.8, but this marked the third month in a row below 50, which is the dividing line between expansion and contraction. (The November ISM Manufacturing reading was also disappointing and below 50 when released in early December.) Trade issues with China continue to remain unresolved despite some news of shorter-term progress being made and this ongoing uncertainty 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, came in at a better-than-expected 54.7 in October, which was also a strong improvement from the September level of 52.6.

The leading economic indicators index (LEI) from the Conference Board slipped lower in October by -0.1% as anticipated. The prior month's decline was revised down to reflect a -0.2% decline from a previously reported -0.1% drop. This is an indicator we watch closely as it tends to give some insight on the future direction of economic growth and we will continue to monitor it in the months ahead. The second reading of third quarter GDP showed 2.1% annualized growth compared to expectations and the prior reading of 1.9%. Preliminary durable goods orders for October showed a monthly increase of 0.6% compared to an expected decline of -0.9%.

After cutting rates in October for the third time in three meetings, no FOMC meetings occurred in November. Chairman Powell signaled at the last meeting in October that the Fed would be on hold for some time, unless economic conditions changed. The three rate cuts appear to be all that the Fed has an appetite for at this stage in the economic cycle.

The Fed has been on quite a ride over the last year moving from a hawkish stance at the end of 2018 to a more dovish tone in 2019. After three rate cuts in the second half of this year, the Fed concluded that further cuts will likely be on hold as the year ends, and we expect no change in rates at the 2-day meeting that concludes on December 11th. With ongoing strength in the job market, stocks at all-time highs, and inflation rising at a measured pace, we might be in for a period where the Fed moves out of the limelight. (Quite a change compared to the last few years.)

The House held public impeachment hearings in November and the political discord in Washington seems as elevated as it has been for some time. The likely outcome continues to hold along party lines with an expected impeachment vote from the House, but no removal from office vote by the Senate. The presidential election is less than a year away and gridlock appears to be the likely state of play in Washington until we get through November 2020.

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. Despite these concerns, the market made steady progress in November. Although this time of year tends to be a historically favorable period for stocks, investors cannot rule out the possibility of elevated volatility heading into year-end after what a has been a very calm recent period for the markets.

## Investment Implications

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

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 and 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.

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

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.

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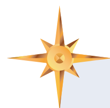

## Economic Data

| Event | Period | Estimate | Actual | Prior | Revised |
|---|---|---|---|---|---|
| ISM Manufacturing | Oct | 48.9 | 48.3 | 47.8 | — |
| ISM Non-Manf. Composite | Oct | 53.5 | 54.7 | 52.6 | — |
| Change in Nonfarm Payrolls | Oct | 85k | 128k | 136k | 180k |
| Unemployment Rate | Oct | 3.6% | 3.6% | 3.5% | — |
| Average Hourly Earnings YoY | Oct | 3.0% | 3.0% | 2.9% | 3.0% |
| JOLTS Job Openings | Sept | 7063k | 7024k | 7051k | 7301k |
| PPI Final Demand MoM | Oct | 0.3% | 0.4% | -0.3% | — |
| PPI Final Demand YoY | Oct | 0.9% | 1.1% | 1.4% | — |
| PPI Ex Food and Energy MoM | Oct | 0.2% | 0.3% | -0.3% | — |
| PPI Ex Food and Energy YoY | Oct | 1.5% | 1.6% | 2.0% | — |
| CPI MoM | Oct | 0.3% | 0.4% | 0.0% | — |
| CPI YoY | Oct | 1.7% | 1.8% | 1.7% | — |
| CPI Ex Food and Energy MoM | Oct | 0.2% | 0.2% | 0.1% | — |
| CPI Ex Food and Energy YoY | Oct | 2.4% | 2.3% | 2.4% | — |
| Retail Sales Ex Auto and Gas | Oct | 0.3% | 0.1% | 0.0% | -0.1% |
| Industrial Production MoM | Oct | -0.4% | -0.8% | -0.4% | -0.3% |

| Event | Period | Estimate | Actual | Prior | Revised |
|---|---|---|---|---|---|
| Building Permits | Oct | 1385k | 1461k | 1387k | 1391k |
| Housing Starts | Oct | 1320k | 1314k | 1256k | 1266k |
| New Home Sales | Oct | 705k | 733k | 701k | 738k |
| Existing Home Sales | Oct | 5.49m | 5.46m | 5.38m | 5.36m |
| Leading Index | Oct | -0.1% | -0.1% | -0.1% | -0.2% |
| Durable Goods Orders | Oct P | -0.9% | 0.6% | -1.2% | -1.4% |
| GDP Annualized QoQ | 3Q S | 1.9% | 2.1% | 1.9% | — |
| U. of Mich. Sentiment | Nov F | 95.7 | 96.8 | 95.7 | — |
| Personal Income | Oct | 0.3% | 0.0% | 0.3% | — |
| Personal Spending | Oct | 0.3% | 0.3% | 0.2% | — |
| S&P CoreLogic CS 20-City YoY NSA | Sept | 2.01% | 2.10% | 2.03% | 2.02% |

Source: Bloomberg as of November 30, 2019

F=Final, P=Preliminary, S=Second

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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 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 2000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected growth values.

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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