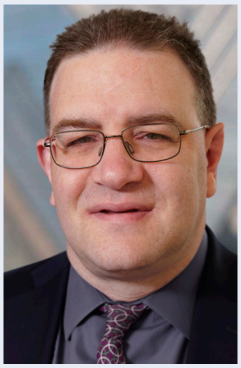
ClarkCapital MANAGEMENT GROUP

Portfolio Commentary

Navigator® MultiStrategy

Author



Mason Wev, CFA®, CMT®, CAIA®
Portfolio Manager

Navigate Your Future. Enjoy the Journey.

Failed Recession Fears Highlight 2019's Climb of the Wall of Worry

2019 represented a tremendous turnaround year. As of January 4th, market psychology turned quickly and the Fed turned strongly dovish, which then drove risk assets higher. However, the worries continued, and in March the yield curve inverted (3-month Treasury yield higher than 10-year Treasury yield), causing recession fears that quickly reach the mainstream media.

As tactical and risk-conscious managers, an event like a yield curve inversion causes us to become extremely alert and aware, scouring indicators for confirming signs of economic troubles. We were poised to take in the reins and play defense, but we didn't find any further indications of trouble. Key economic indicators like the jobless rate, jobless claims, and the leading economic indicators were rock solid through August, when recession fears and yield curve inversions peaked. It was not a coincidence that trade war and recession fears began to ease at the same time in late August, and markets surged into year end.

As 2020 begins, valuations and sentiment are excessively optimistic, heightening risks of a larger correction of five to ten percent. Such a correction is most likely to occur in the first half of the year, in line with the pattern of presidential election years. However, an accommodating U.S. Federal Reserve and global central banks should provide tremendous support for markets and the economy. Recession odds have been reduced, and there are growing signs of green shoots in the global economy.

With a 30% rally in the S&P 500 this year, the biggest losers were the bears, who always warn "the time for the big decline is NOW." What has recently alarmed the bears is the proliferation of government and, particularly, corporate debt. As of December 31st, 50% of the Bloomberg Barclays Investment Grade Corporate Bond Index was rated BBB, one level away from junk status. In the U.S., the ratio of corporate debt to GDP has reached a record high.

Over the long-term, we share these concerns and believe that when a recession hits, its magnitude will be enhanced by borrowing levels too difficult to dig out of. Additionally, as taxes and interest rates increase, financing these debts will be a problem. However, the bears conveniently forget to mention that at low interest rates, the current debt levels are affordable.

Corporate cash flow-to-debt ratios are at 25-year lows, and free cash flow margins are at 25-year highs. Companies are well-positioned to pay their debts, and many are positioned to even pay it down and be upgraded. Given the panic and urgency with which the bears often speak, it is difficult to believe that it could get better. However, they often do, and long-term, disciplined investors can benefit from riding out uncertainty with a strong stomach and allowance for efficiency, innovation, the fruits of hard work and patience to pay off.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

U.S. Equity – Style Rotation: High Beta and Quality Outperform in 2019

The U.S. equity portion of the MultiStrategy portfolios ranks U.S. equity styles and factors using Clark Capital's relative strength-based ranking methodology, and then purchases those ETFs with higher rankings. This process creates a broad-based portfolio that attempts to outperform the S&P 500. The portfolio emphasized large-caps during the quarter and favored value stocks, albeit modestly. The S&P 500, quality stocks, and buybacks top our ETF rankings matrix, and though we currently favor value over growth, we see no discernible trend favoring either. Large-caps are clearly favored over small, as they have been for most of last year.

Value may have had a temporary advantage in 2019, as damage from the trade war turned Apple temporarily into a value. After a spectacular last half of 2019 and new price highs, Apple has now transitioned into the largest stock in the S&P 500 Growth ETF (SPYG). The equity portion of MultiStrategy was hurt at the beginning of 2019 as Powell and the Fed reversed course and we were too conservative.

A whipsaw in small-caps during the first quarter and being overweight large-cap growth and momentum during September's "momentum crash" also reduced our upside capture. After a long run favoring relative strength and momentum, the relative strength of buying recent winners has stalled and was recently at the same level in late 2017. Thus, our methodology has recently faced some headwinds, but we remain confident since relative strength and momentum have been the strongest factors over the longer term.

The following were other developments in the portfolio during the quarter:

- For the quarter, large-cap value (SPYV) gained 9.9%, while large-cap growth (SPYG) rose by 8.2%. small-cap value (IJS) was up 7.7%, while small-cap growth (IJT) gained 8.7%. Momentum (MTUM) was a laggard and gained only 5.7%, while quality (QUAL) increased by 9.8%. Minimum volatility (USMV) lagged during risk-on and was up only 2.9%. High beta (SPHB) was the clear winner, up 13.3%, while the S&P 500 (IVV) was up 9.0%. Among major factors, both high beta and quality were the top performers in 2019, while small-cap value and small-cap growth were the weakest.
- For all of 2019, growth trounced value again; the Russell 3000 Growth gained 35.9% while the Russell 3000 Value gained 26.3%. The growth versus value gap becomes even more massive over three- and five-year periods. Growth beats value by 19.9% to 9.3% over three years, and 14.0% to 8.0% over five years.
- Near record-low interest rates have been one cause of this gap, but we would also note that growth companies have strong and stable cash flows and less debt. As a result, growth companies can plow that cash into buying back their stock. In today's world of closely managed corporate equity and balance sheets, we believe buybacks will continue to play an outsized role. Thus, despite being pricier, growth stocks could continue to outpace value as they have done.
- The top contributors to the portfolio during the quarter were the iShares S&P 500 ETF (IVV) and the SPDR S&P 500 Value ETF (SPYV). The top detractors were the iShares Edge MSCI USA Momentum ETF (MTUM) and the iShares Edge MSCI USA Minimum Volatility ETF (USMV).

Fixed Income—High Yield Bonds See Renewed Price Strength

The fixed income portion of MultiStrategy portfolios engages in segment rotation within fixed income, high yield bonds, Treasuries, or cash, whichever our models determine has favorable relative trends. The MultiStrategy portfolio purchased high yield bonds on September 13th and held high yield throughout the quarter.

We continue to own and favor lower quality credits into 2020. A stable and accommodative Fed, a steady and growing U.S. economy, and an improving global economy should bode well for credit investors this year. Thus, we don't foresee any changes in our high yield position on the horizon. As always, our model is prepared to play defense if credit markets take a turn for the worse.

- While we favor high yield and own the asset class, we must acknowledge that it is richly priced, particularly higher quality high yield Bonds. Yield on BB-rated high yield bonds, the highest credit quality within the space, is 3.63%, an all-time low. B-rated bonds yield 5.1%, which is in the second percentile of yield historically.
- It is important to note that low yields on corporate credit can persist for multiple quarters or even years, so rich valuations in and of themselves are not an indication to sell. Our models follow and pursue this strong performance but are ready to play defense once a trend towards weakness is established. We do not know when a major adjustment in the high yield markets will come, but at these valuation levels we know that active risk management will be a necessary tool for success in the future.
- Counterintuitively, the huge runup in BB and B high yield bonds has been offset by considerable dam-

age in the lowest quality CCC bonds that are closest to bankruptcy. Confidence in these highly levered companies plummeted, and at end of 2019 there were more CCC bonds at deep discounts (below 70 cents per dollar) than there were in 2018.

- Bears could take this as a sign of overleverage and stress in companies despite a strong economy. On the other hand, bulls could say that CCC bonds are attractively priced, and could be a source of outperformance in an otherwise richly priced space.
- Our models comparing high yield to Treasuries are both near and at all-time highs favoring high yield. With Treasury yields falling over 50% between October 2018 and August 2019, Treasuries present a less compelling yield opportunity – though their safety in risk-off periods remains an essential feature. At these lower Treasury yield levels, high yield still offers yields that are over two and a half times Treasuries. If the economy remains stable, that may keep them in good stead.

Outlook

Our outlook for 2020 envisions an upmarket by year end, but a more volatile journey than 2019's strong up move. Rich valuations combine with extremely optimistic sentiment to make a larger five to over ten percent correction possible at really any time. What could be the catalyst? Among the causes could be: earnings that don't live up to very lofty expectations, volatility and a delay in knowing the 2020 Democratic nominee, unexpected inflation, and Middle East or China-related turmoil.

Volatility surrounding the election is likely, just as we saw in 2016, when stalwarts in both parties were convinced we would face economic disaster if the other party were to win. Markets declined into election day, and then surged upon knowing a result. Polarization of the electorate has continued, as we all know, and a similar selling panic by investors of both political sides must be considered a possibility. The most unexpected risk would be an uptick in inflation, and while that would be likely to cause a sharp selloff, we don't view higher inflation as sustainable.

It is important to keep in mind that in our view we are in the midst of a secular bull market that began in 2009. Secular bulls like this normally last 16 to 21 years, so while a bear market may come at any time, it may not be until 2025 to 2030 that the headwinds for stocks begin to really kick in. By that time, not only will the secular bull market have aged, but the growing burden of corporate debt will be bigger.

Of bigger importance will be demographics and the costs of paying for seniors, which will begin to press upon the U.S. and other developed nation budgets with size and scale. Furthermore, according to Ned Davis Research, demographics could also force inflation. While that may partly be due to higher budget deficits caused by an aging population, the U.S. labor force will actually begin to grow at that time, and simple growth in the labor force has historically been tied to inflation. For now, these secular forces are at our back, and we will make our clients aware as they become more and more relevant in the coming years.

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 25-75			
NTBIX	Navigator Tactical Fixed Income Fund Class I	72.34	1.93
SPYV	SPDR Portfolio S&P 500 Value ETF	9.84	0.91
IVV	iShares Core S&P 500 ETF	8.53	0.88

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 25-75			
IJS	iShares S&P Small-Cap 600 Value ETF	0.26	-0.13
MDYV	SPDR S&P 400 Mid Cap Value ETF	1.78	0.05
USMV	iShares Edge MSCI Min Vol USA ETF	1.93	-0.04

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 50-50			
IVV	iShares Core S&P 500 ETF	18.19	1.90
SPYV	SPDR Portfolio S&P 500 Value ETF	19.45	1.83
NTBIX	Navigator Tactical Fixed Income Fund Class I	46.96	1.26

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 50-50			
MDYV	SPDR S&P 400 Mid Cap Value ETF	3.27	0.09
USMV	iShares Edge MSCI Min Vol USA ETF	3.53	-0.07
IJS	iShares S&P Small-Cap 600 Value ETF	0.62	-0.30

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 75-25			
IVV	iShares Core S&P 500 ETF	29.12	3.01
SPYV	SPDR Portfolio S&P 500 Value ETF	28.36	2.69
NTBIX	Navigator Tactical Fixed Income Fund Class I	22.15	0.60

Ticker	Quarter Ending December 31, 2019	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 75-25			
IJS	iShares S&P Small-Cap 600 Value ETF	0.89	-0.44
MDYV	SPDR S&P 400 Mid Cap Value ETF	4.62	0.14
USMV	iShares Edge MSCI Min Vol USA ETF	5.13	-0.10

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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.

A S&P 'BBB' rated obligation exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Russell 3000 Growth Index is a market capitalization weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the United States.

Russell 3000 Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.

Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security, sector or industry. There is no assurance that any securities, sectors or industries discussed herein will be included in an account's portfolio. Asset allocation will vary and the samples shown may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request. CCM-1027

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.