Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

December 2019 was certainly no repeat of December 2018. After dropping over 9% to close out 2018, the S&P 500 gained 3.0% during the final month of 2019 and put in several new all-time highs as the year concluded. Overall, the S&P 500 gained 31.5% in 2019.

Volatility started and finished the month somewhat elevated, but the middle of December was rather calm as stocks marched higher to new all-time highs. Volatility will likely pick up as we move into the New Year, but fundamentals, which we believe drive results in the long-term, remain solid.

As stocks rallied amid a "risk-on" trade, bond prices moved down and yields rose in December with the 10-year U.S. Treasury rising to 1.92% by month's end compared to November's close of 1.78%.

International stocks enjoyed a stronger end to 2019, particularly emerging market equities, with returns above the major U.S. equity indices in December. However, U.S. stocks were the clear leader overall in 2019.

The longest U.S. economic expansion on record continued and coincided with stocks hitting all-time highs during 2019 and we believe economic growth will continue well into 2020.

A phase one trade deal with China appeared to be agreed upon late in 2019 and markets reacted positively to this pause in trade tensions. Concerns, as always, continue to exist. Moving into 2020, a final trade deal with China continues to be outstanding, the Trump impeachment trial will likely arrive early in the year, the long-awaited Brexit might finally take place and a U.S. presidential election awaits in November.

Despite these concerns, markets climbed the wall of worry and focused on economic and business fundamentals and stocks rallied in 2019.

Santa Claus Rally Came to Town in December

Equity Markets

Markets did not pause in the final quarter or final month of 2019 and major U.S. equity indices achieved new all-time highs as the year concluded. The trade situation with China had been an on-again, off-again weight on stocks in 2019. Late in the year, a so-called phase one trade deal with China had apparently been agreed upon with a signing ceremony scheduled for mid-January at the White House.

As this temporary amelioration in the trade war with China hit the markets, stocks rallied and closed the year out strongly. The backdrop of the Trump impeachment proceedings in the House and, ultimately, a vote of impeachment, appeared to have little impact on the market. Playing out along party lines, the formal impeachment in the House seemed a foregone conclusion. The trial in the Senate seems equally a foregone conclusion with very little chance of Trump being removed from office, so markets have largely dismissed this political event.

Fed Chairman Powell lowered policy rates three times in the second half of 2019, largely in line with expectations. Outside of engaging in notable liquidity operations, which has the effect of increasing its balance sheet, the Fed seems content with remaining on hold for the foreseeable future. After years of being on the front lines of market and economic expectations, the Fed appears to be heading to a quieter role in 2020 operating more in the background of the economy. This will likely be a welcome development for Powell who will no doubt enjoy being out of the limelight, at least temporarily, in 2020.

In 2019, we generally saw U.S. large-cap growth companies outpace most other parts of the market. However, we have noted that other areas of the market made some headway against this broader trend in the latter part of 2019. While hard to poke holes in any return data after such an exceptional year of widespread stock market results, the theme of growth outperforming value did hold overall in 2019.

At Clark Capital, we employ value-oriented measures in our investment process and 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. We continue to believe that this growth/value situation will revert closer to historical norms and value-oriented stocks should benefit in the long run. As more diverse areas of the market make gains (for example international stocks), we believe diversified portfolios should benefit as well.

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

The numbers for December were as follows: The S&P 500 advanced 3.02%, the Dow Jones Industrial Average gained 1.87%, the Russell 3000 increased 2.89%, the NASDAQ Composite rose an impressive 3.63% and the Russell 2000 Index, a measure of small-cap companies, improved by 2.88%. The large-cap and value focused Russell 1000 Value Index gained 2.75% compared to the Russell 1000 Growth Index, which advanced 3.02%.

While both indices showed strong results for the year, the dominance of growth was clear when looking at these indices with the growth index advancing 36.39% compared to its value counterpart, which gained 26.54% - a nearly thousand basis-point difference. The difference was not quite as dramatic in the small-cap universe, but it held nonetheless. Although small-cap value stocks, as measured by the Russell 2000 Value Index, were strong in December (up 3.50% compared to the Russell 2000 Growth Index gain of 2.29%), the returns for the year were 22.39% and 28.48%, respectively.

Emerging market equities rallied sharply to close out 2019 and more broadly, international stocks closed out the year on a strong note. While choppy, the U.S. dollar moved lower in December and aided international results. However, those international returns still lagged the U.S. markets overall in 2019. Emerging market equities, as measured by the MSCI Emerging Markets Index, rallied 7.46% in December, pushing gains for the year to 18.42%. The MSCI ACWI ex USA Index, a broad measure of international equities, advanced 4.33% in December, which helped increase the gains for 2019 to 21.51%.

Fixed Income

Fixed income results were mixed in December as rates moved higher. In a month defined by a more risk-on tone to the rally, high-yield bonds performed the best and safer and more interest sensitive pockets of the market struggled. Despite more mixed results in December, most areas of fixed income enjoyed solid gains in 2019 as interest rates ended the year dramatically lower than where they began 2019.

The closing yield for the 10-year U.S. Treasury in 2019 was 1.92% compared to 2.69% in December 2018. We believe that rates will be rather range-bound in 2020 between 1.5% and 2.5% and we maintain our long-standing position favoring credit versus interest rate exposure in this environment.

For the second consecutive month, the Bloomberg Barclays U.S. Aggregate Bond Index was off a fraction of a percent, down -0.07% for the month, the Bloomberg Barclays U.S. Credit Index advanced 0.29%, the Bloomberg Barclays U.S. Corporate High Yield Index rose by 2.00% and longer-dated U.S. Treasuries were down. For example, the Bloomberg Barclays U.S. 30 Year Treasury Index slumped -3.50% in December. TIPS and muni bonds both advanced in December.

Economic Data and Outlook

The record length of this economic expansion continues to build on its decade-plus tenure as we close out 2019. Concerns have lingered regarding how long this expansion can last and, while data is mixed, slow economic growth continues. We continue to expect that this expansion will run well into 2020.

The inversion of the yield curve occurred in 2019, but we closed out the year with the yield curve positively sloped once again. We have written several times about the historical importance of a yield curve inversion and how every recession we have had since the 1960s has been preceded by an inverted yield curve.

However, there have also been two instances of an inverted yield curve without a recession. It is also important to acknowledge that the Fed has made a clear U-turn in 2019 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. The key question we will continue to focus on is did the Fed reverse course in time?

Job market numbers reported in December for November were well above expectations. Non-farm payroll additions were 266,000, which were well above the projected 180,000. Furthermore, revisions for the prior two months showed 41,000 additional job gains than previously reported. The unemployment rate declined to 3.5% when it was expected to stay at 3.6%. Although the monthly increase was slightly below expectations, average hourly earnings came in at 3.1% on a year-over-year basis, which was better than anticipated.

The strong job market in the United States continues and, as a consumption driven economy, we believe financially healthy and employed consumers are an important factor to economic growth. One topic of discussion moving into 2020 is whether this tight job market with wages moving higher will ultimately put upward pressure on inflation. Inflation readings have moved somewhat higher, but pressures do not seem to be building and the Fed's preferred inflation measure, the Personal Consumption Expenditures Core Index, only showed a year over year gain of 1.6% in November.

Retails sales growth (ex. auto and gas station sales) were flat in November when a 0.4% monthly gain was expected. While modest, prior month retail sales data was increased to show a 0.2% monthly gain instead of the previously reported 0.1% advance. Although the holiday shopping season was

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

cut short in 2019 with the late Thanksgiving holiday, reports have showed solid spending by consumers. Housing starts and building permits both exceeded estimates, but new home and existing home sales both were below expectations.

The widely followed Institute for Supply Management (ISM) Manufacturing Index continued to linger below 50 in November (released in December), the dividing line between expansion and contraction. Despite news of a phase one trade deal being reached with China, the broader trade uncertainty is likely directly impacting 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 53.9 in November, just below expectations of 54.5. This reading has remained comfortably in expansion territory during 2019.

The Leading Economic Indicators Index from the Conference Board was flat in November when a monthly gain of 0.1% was 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. The third reading of third quarter GDP showed 2.1% annualized growth as expected.

As previously discussed, Chairman Powell signaled after the third rate cut at the FOMC 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. With stocks at record highs, inflation benign, and the job market showing some of its strongest readings in 50 years, it would be hard to imagine the Fed continuing to cut rates. We might be in for a period where the Fed moves out of the limelight in 2020.

We continue to expect economic growth well into 2020. The Fed now appears to be on hold for now, but the wrap up to the impeachment and a presidential election still loom in 2020. In the near-term, the China trade situation seems improved and markets have responded accordingly. Stock valuations are elevated, but we are still in a period of low historical interest rates and earnings growth is expected to be stronger in 2020 compared to last year. After such a strong close to the year, profit taking and volatility might materialize in the early part of the year, but we believe fundamentals will drive long-term results. The economy looks poised to continue to grow and should the global growth picture stabilize, corporate America should continue to grow earnings in 2020.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

The markets remained in risk-on mode in December, capping off the 12th strongest total return year for the S&P 500 in the post WWII era. Our Style Opportunity portfolio models continue to favor value stocks and buybacks. We are witnessing most style and factors performing similarly – a sign of market strength.

Credit markets remain firm, with our models recently making new highs favoring high-yield bonds over U.S. Treasuries and cash equivalents. High-yield spreads are very narrow, which translates to little price appreciation potential, but we believe that continued economic growth supports credit.

Clark Capital's Bottom-Up, Fundamental Strategies

Dividend stocks kept pace with the strongest U.S. market in six years fueled by a shift in monetary policy by the Fed, which cut rates in July for the first time in a decade. Although a handful of big technology stocks dominated in 2019, the S&P 500 Index gains for the year were broad, with over 90% of its stocks rising. Bank stocks were among the biggest gainers of the supportive Fed policy with the Nasdaq KBW Bank Index up over 35% and the largest U.S. banks posting solid gains.

According to FactSet, S&P 500 revenues are due to rise in the high single digits in 2020 after subpar growth in 2019. As such, we believe historically low interest rates are poised to continue into the next decade as investors continue to invest in dividend growth stocks as one of the few viable income plays.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Nov	49.2	48.1	48.3	—
ISM Non-Manf. Composite	Nov	54.5	53.9	54.7	—
Change in Nonfarm Payrolls	Nov	180k	266k	128k	156k
Unemployment Rate	Nov	3.6%	3.5%	3.6%	—
Average Hourly Earnings YoY	Nov	3.0%	3.1%	3.0%	3.2%
JOLTS Job Openings	Oct	7009k	7267k	7024k	7032k
PPI Final Demand MoM	Nov	0.2%	0.0%	0.4%	—
PPI Final Demand YoY	Nov	1.3%	1.1%	1.1%	—
PPI Ex Food and Energy MoM	Nov	0.2%	-0.2%	0.3%	—
PPI Ex Food and Energy YoY	Nov	1.7%	1.3%	1.6%	—
CPI MoM	Nov	0.2%	0.3%	0.4%	—
CPI YoY	Nov	2.0%	2.1%	1.8%	—
CPI Ex Food and Energy MoM	Nov	0.2%	0.2%	0.2%	—
CPI Ex Food and Energy YoY	Nov	2.3%	2.3%	2.3%	—
Retail Sales Ex Auto and Gas	Nov	0.4%	0.0%	0.1%	0.2%
Industrial Production MoM	Nov	0.9%	1.1%	-0.8%	-0.9%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Nov	1410k	1482k	1461k	—
Housing Starts	Nov	1345k	1365k	1314k	1323k
New Home Sales	Nov	732k	719k	733k	710k
Existing Home Sales	Nov	5.44m	5.35m	5.46m	5.44m
Leading Index	Nov	0.1%	0.0%	-0.1%	-0.2%
Durable Goods Orders	Nov P	1.5%	-2.0%	0.5%	0.2%
GDP Annualized QoQ	3Q T	2.1%	2.1%	2.1%	—
U. of Mich. Sentiment	Dec F	99.2	99.3	99.2	—
Personal Income	Nov	0.3%	0.5%	0.0%	0.1%
Personal Spending	Nov	0.4%	0.4%	0.3%	—
S&P CoreLogic CS 20-City YoY NSA	Oct	2.10%	2.23%	2.10%	2.08%

Source: Bloomberg as of December 31, 2019

F=Final, P=Preliminary, T=Third

Past performance is not indicative of future results. This is not financial advice or an offer to sell any product. Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. It should not be assumed that any of 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 can be found in its Form ADV which is available upon request. 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 to buy, sell or hold any securities, other investments or to adopt any particular investment strategy or strategies. For educational use only.

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 KBW Bank Index is designed to track the performance of the leading banks and thrifts that are publicly-traded in the U.S.

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.

CCM-993