



# MarketOutlook

## 2020

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Thursday, January 9, 2020

# 2019 Review

Domestic Equity		Since 12/24/2018	2 <sup>nd</sup> Half 2019	2019
	S&P 500	40.24%	10.92%	31.48%
	Russell 1000	40.22%	10.58%	31.42%
	Russell 2000	33.67%	7.28%	25.49%
	Russell 3000	39.77%	10.36%	31.01%
	Russell 1000 Value	34.03%	8.85%	26.52%
	Russell 1000 Growth	46.61%	12.27%	36.39%
International Equity				
	MSCI Emerging Market	20.28%	7.09%	18.42%
	MSCI All Country World (ex US)	23.13%	6.96%	21.51%
Fixed Income				
	BBgBarc U.S. Aggregate Bond	9.02%	2.45%	8.72%
	BBgBarc U.S. Treasury	7.16%	1.59%	6.86%
	BBgBarc U.S. Corporate	14.63%	4.27%	14.54%
	BBgBarc U.S. Corporate High Yield	15.00%	3.98%	14.32%
	BBgBarc Municipal	7.69%	2.32%	7.54%

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

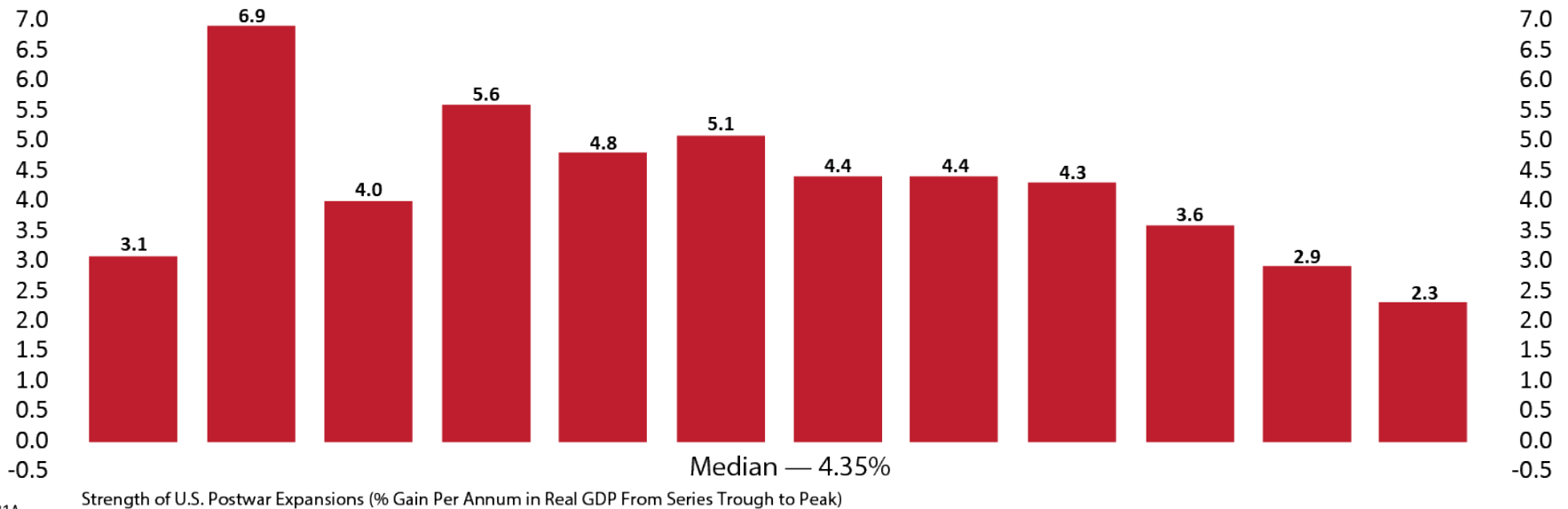
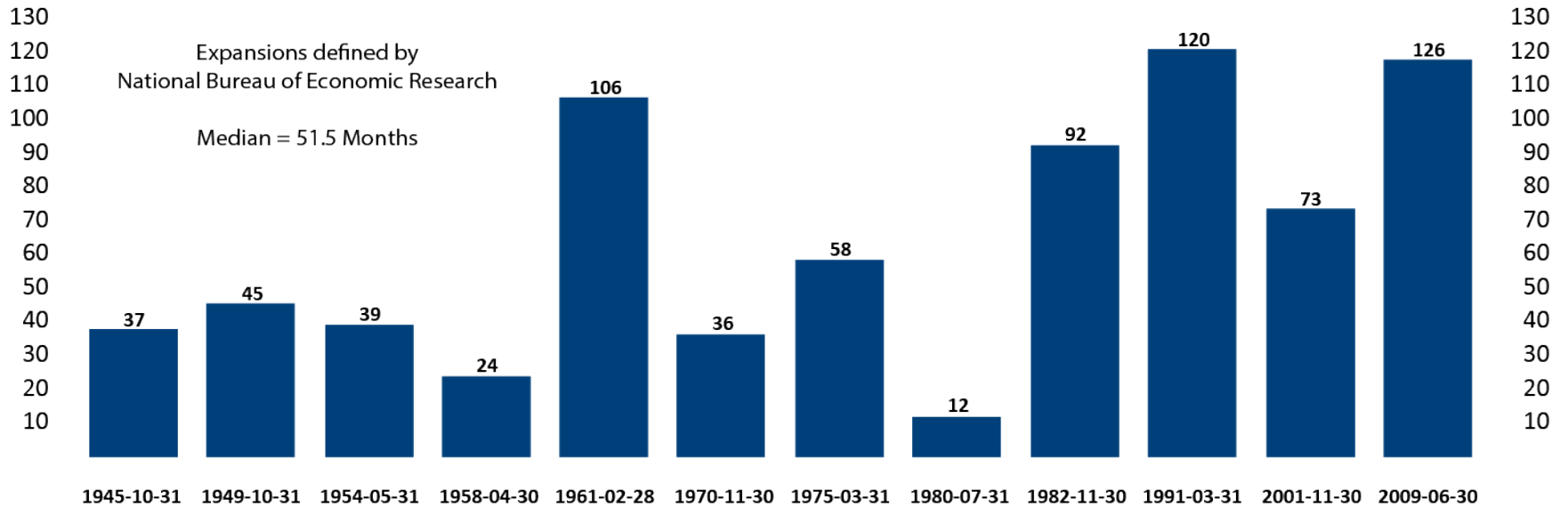
# 2020 Outlook – Executive Summary

- Continuation of Secular bull market. 2020 S&P 500 target of 3500.
- Presidential Election Year trends suggest choppy market early in 2020 then strength in second half of year.
- Weakening U.S. \$ supports international market outperformance, led by emerging markets.
- Economy – longest U.S. economic expansion on record set to continue. Monetary support adds to economic momentum, leading indicators, labor market, housing starts suggest continued economic growth. For U.S. economy, we expect trend growth of 2.25%. Global economy to grow 3.5%, up from 3% in 2019.
- Risks to the outlook – Equity market valuations, optimistic sentiment, unexpected rise in inflation and wage pressures, margin compression, growing budget deficit, China trade war, Brexit, politics in U.S., Middle East Crisis
- Federal Reserve – Fed on hold for the year. Very high bar to hike rates, not as high a bar to cut rates one more time.
- Fixed Income – rangebound between 1.5% - 2.5% for the 10-year Treasury yield. Very low credit spreads suggest perfectly priced markets. Continued economic expansion supportive of credit.



# Length of U.S. Postwar Expansion (Months)

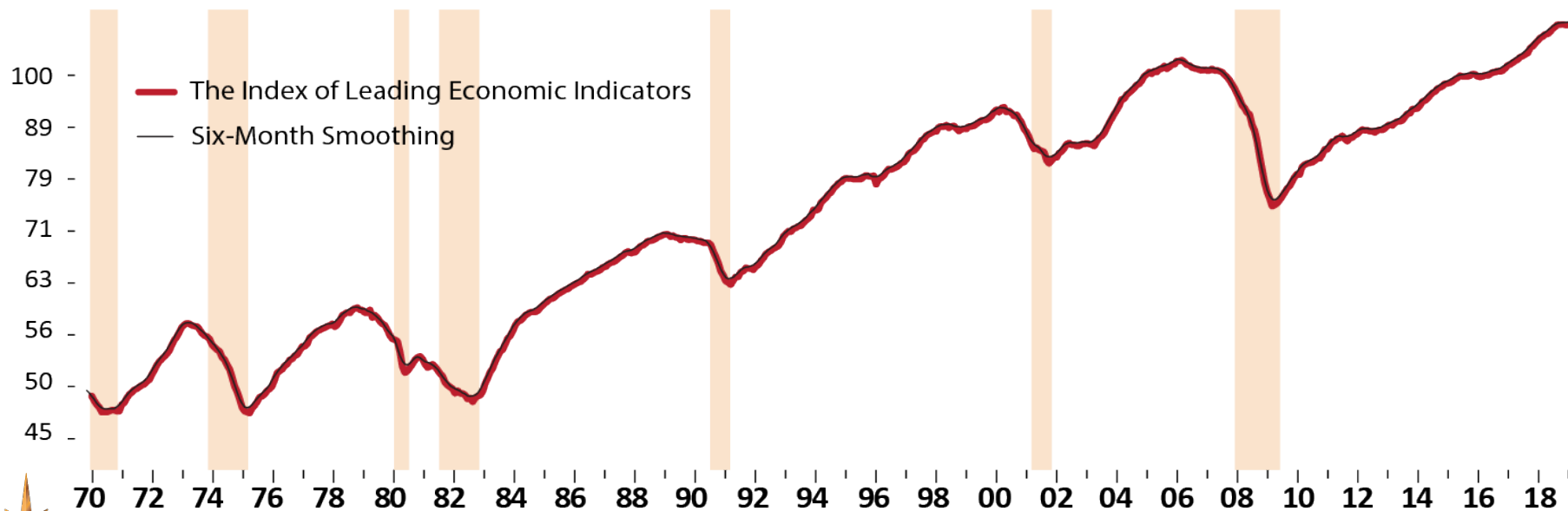
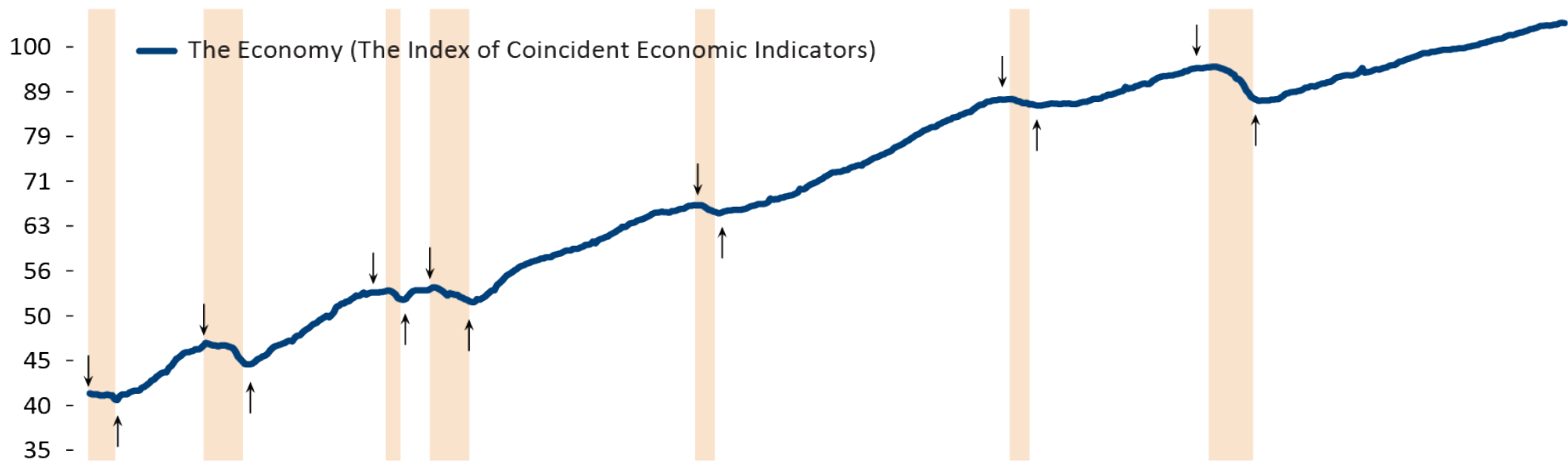
2019-12-20



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# The Index of Leading Economic Indicators

Monthly Data 1969-12-31 to 2019-10-31

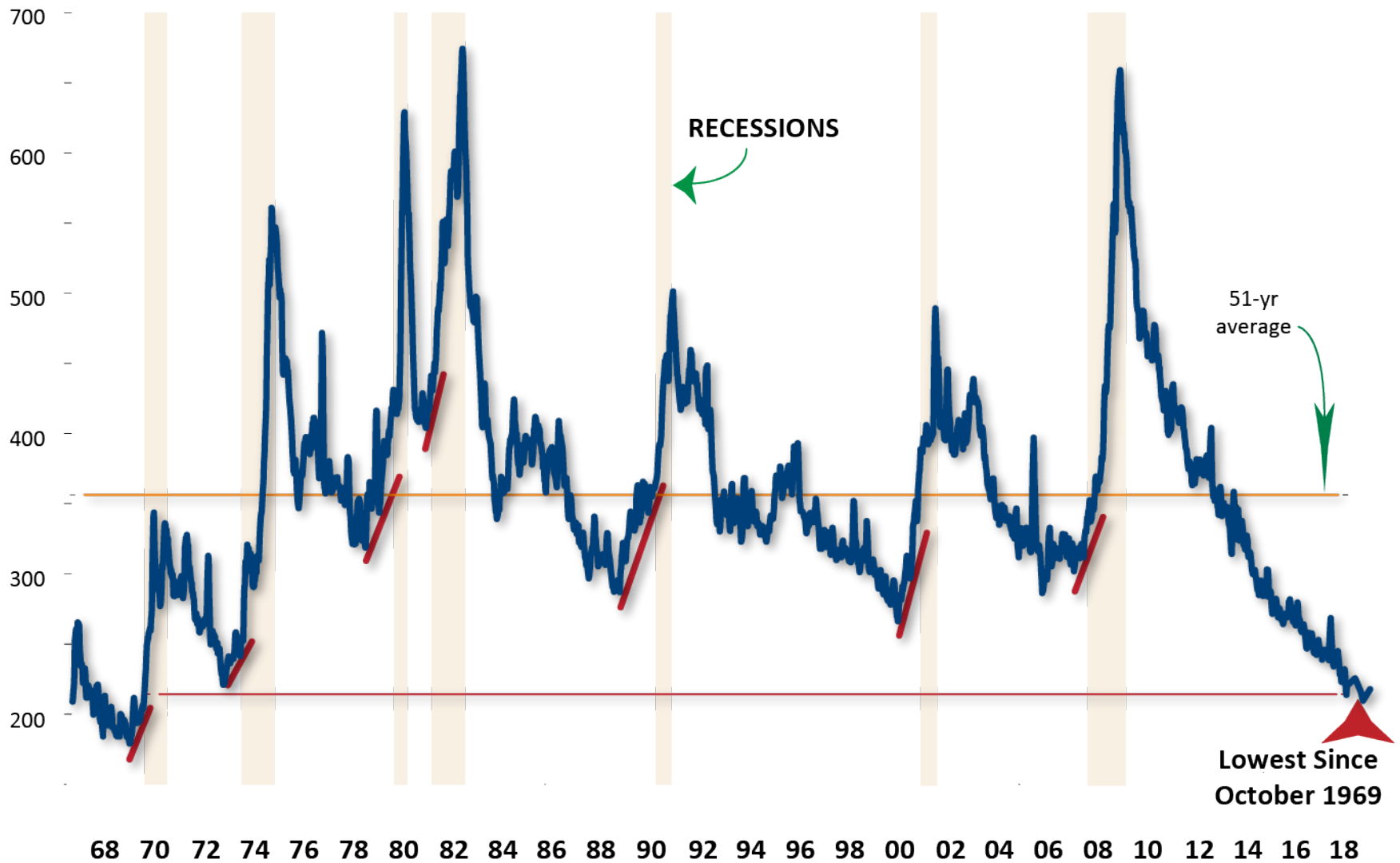


# LEI Recession Lead Times

LEI Peak	Recession Start	Months from Peak to Start
12/31/1959	4/30/1960	4
4/30/1969	12/31/1969	8
2/28/1973	11/30/1973	9
10/31/1978	1/31/1980	15
10/31/1980	7/31/1981	9
1/31/1989	7/31/1990	18
4/30/2000	3/31/2001	11
3/31/2006	12/31/2007	21



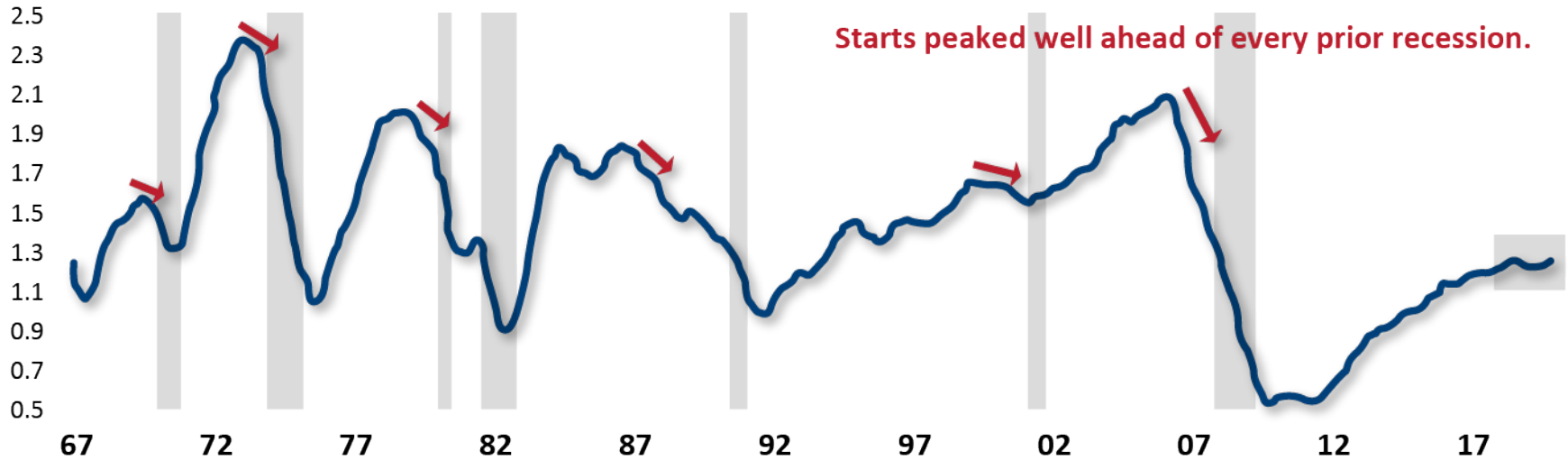
# Unemployment Claims (4-wk moving avg)



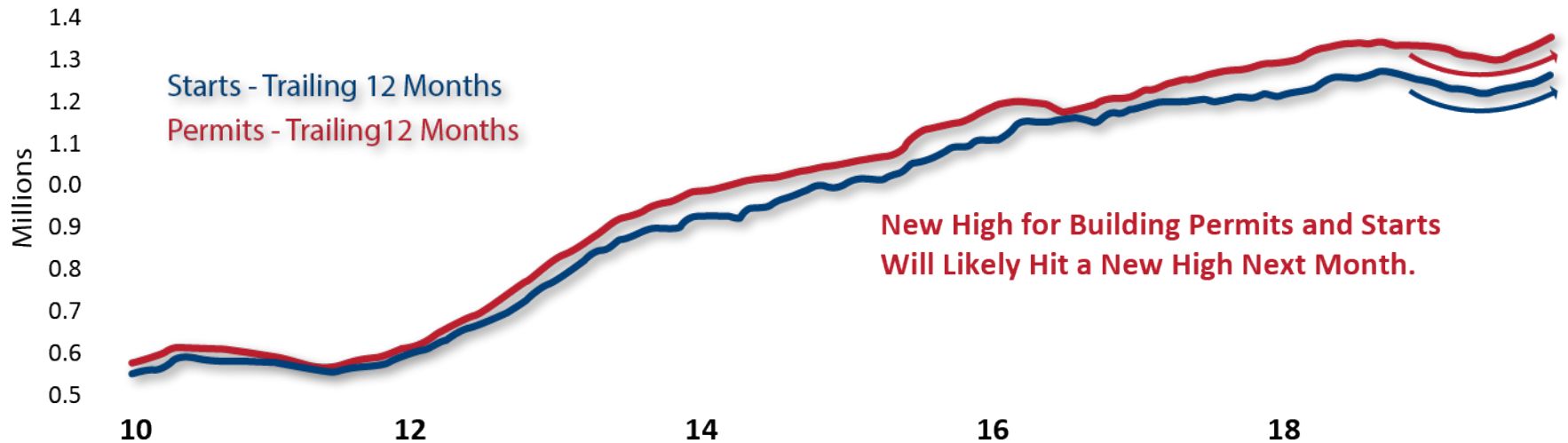
U.S. Bureau of Labor Statistics



## Housing Starts (12 Month Average, min): 1967 - 2019



## Housing Starts & Building Permits (12 Month Average, min): 2010 - 2019





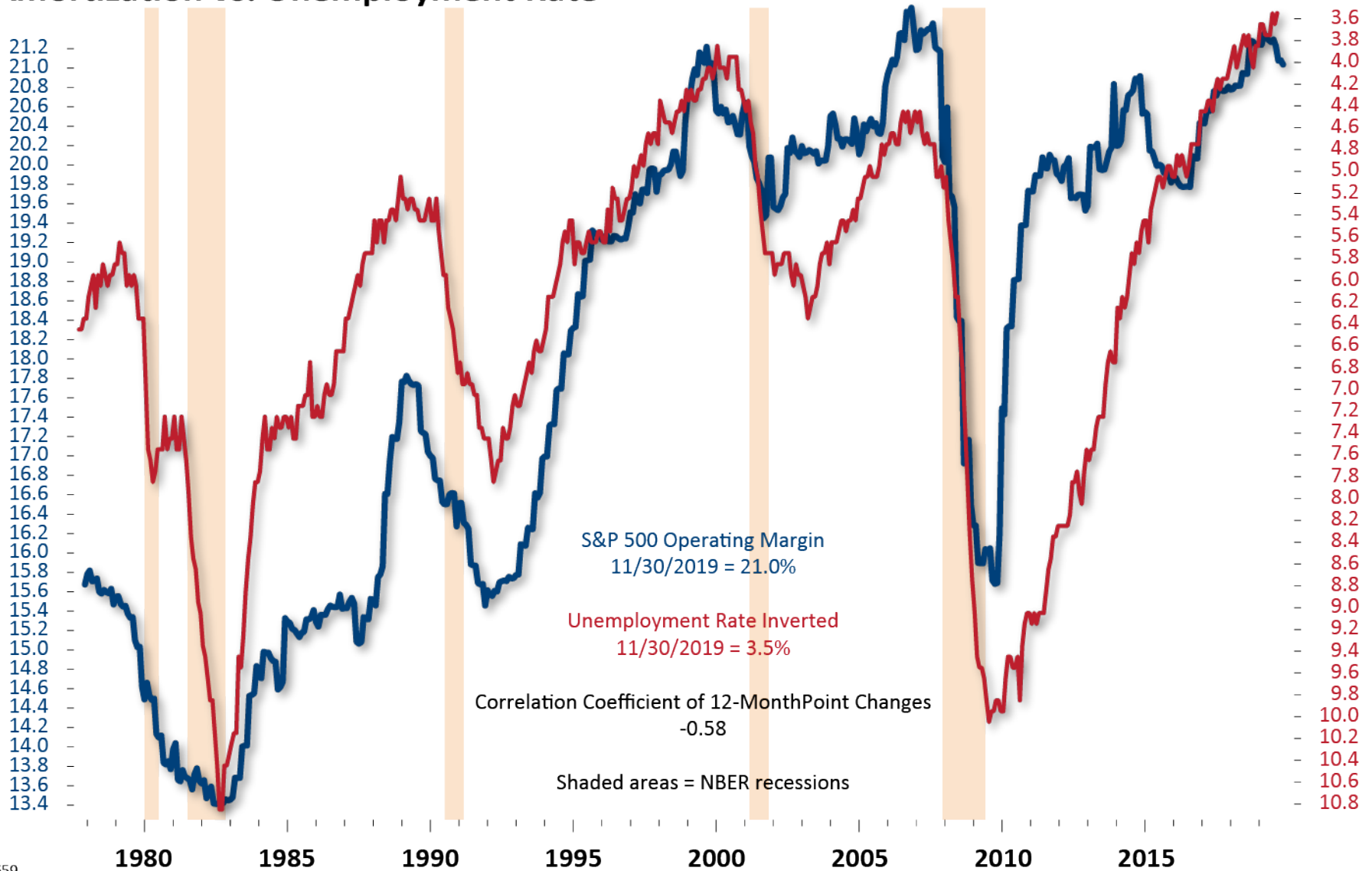
# Housing Starts as a Long Leading Indicator

Peak	Trough	Recession	Peak to Recession (months)
Feb-06	May-09	Dec-07	22
Mar-99	Dec-00	Mar-01	24
May-86	May-91	Jul-90	50
Aug-78	Jul-80	Jan-80	17
Jan-73	Apr-75	Nov-73	10
Jan-69	Jan-70	Dec-69	11
		<b>Average</b>	<b>22</b>



# S&P 500 Operating Margin before Depreciation & Amortization vs. Unemployment Rate

Monthly 12/31/1977 - 11/30/2019

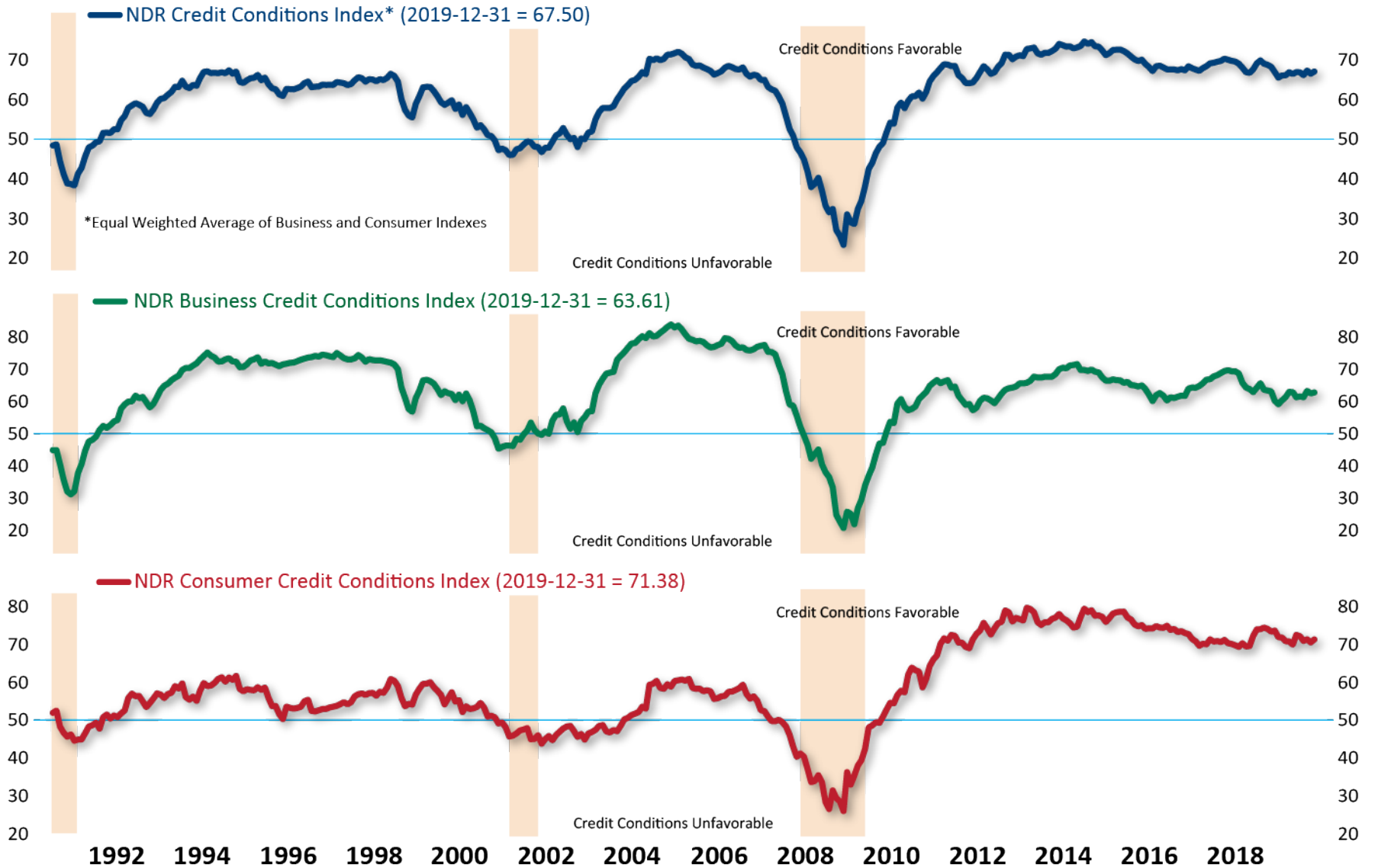


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# NDR Credit Conditions Index and Its Components

Monthly Data 1990-08-31 to 2019-12-31

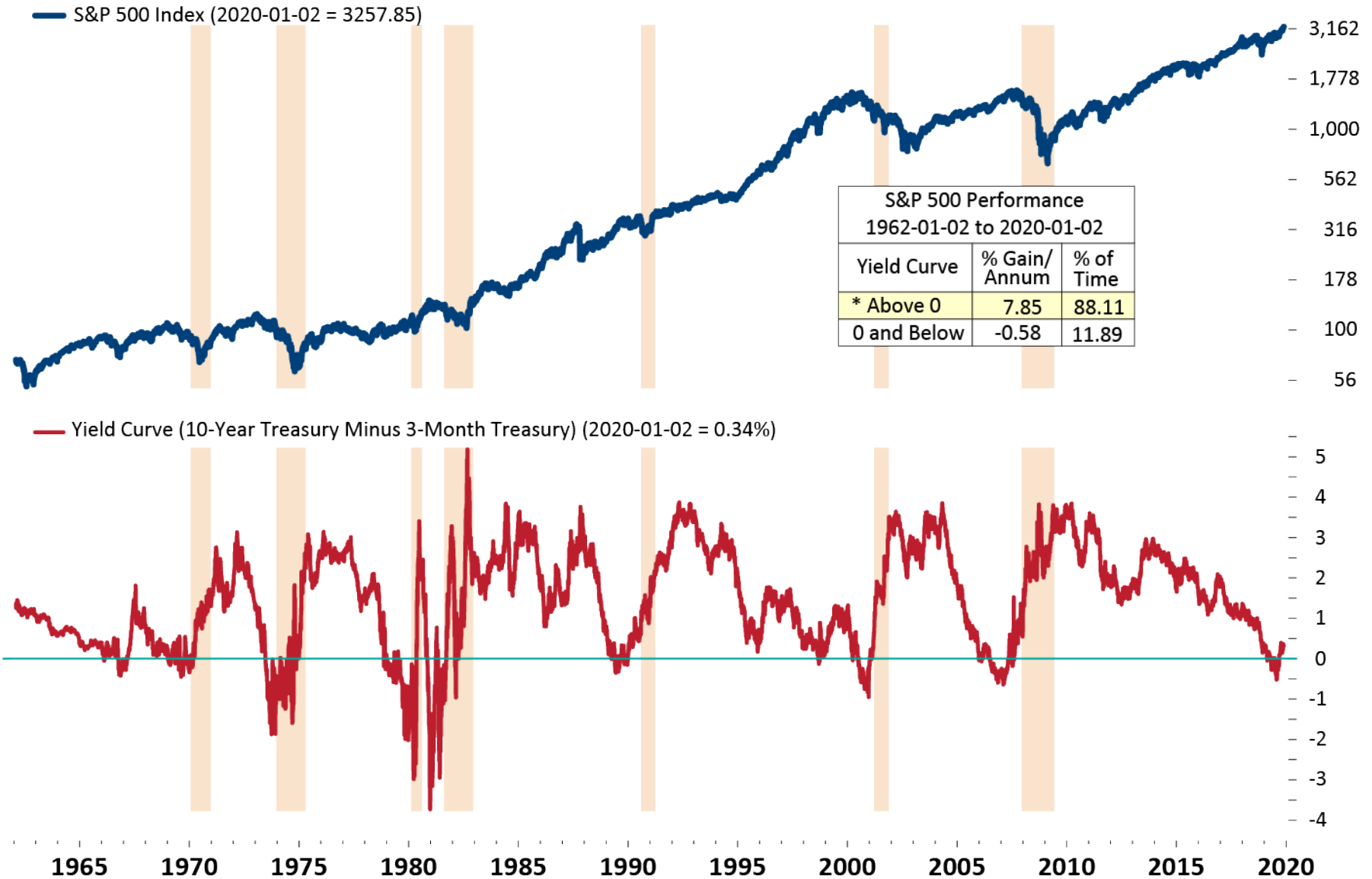


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# S&P 500 vs. Yield Curve (10-Year Minus Three-Month)

Daily Data 1962-01-02 to 2020-01-02 (Log Scale)

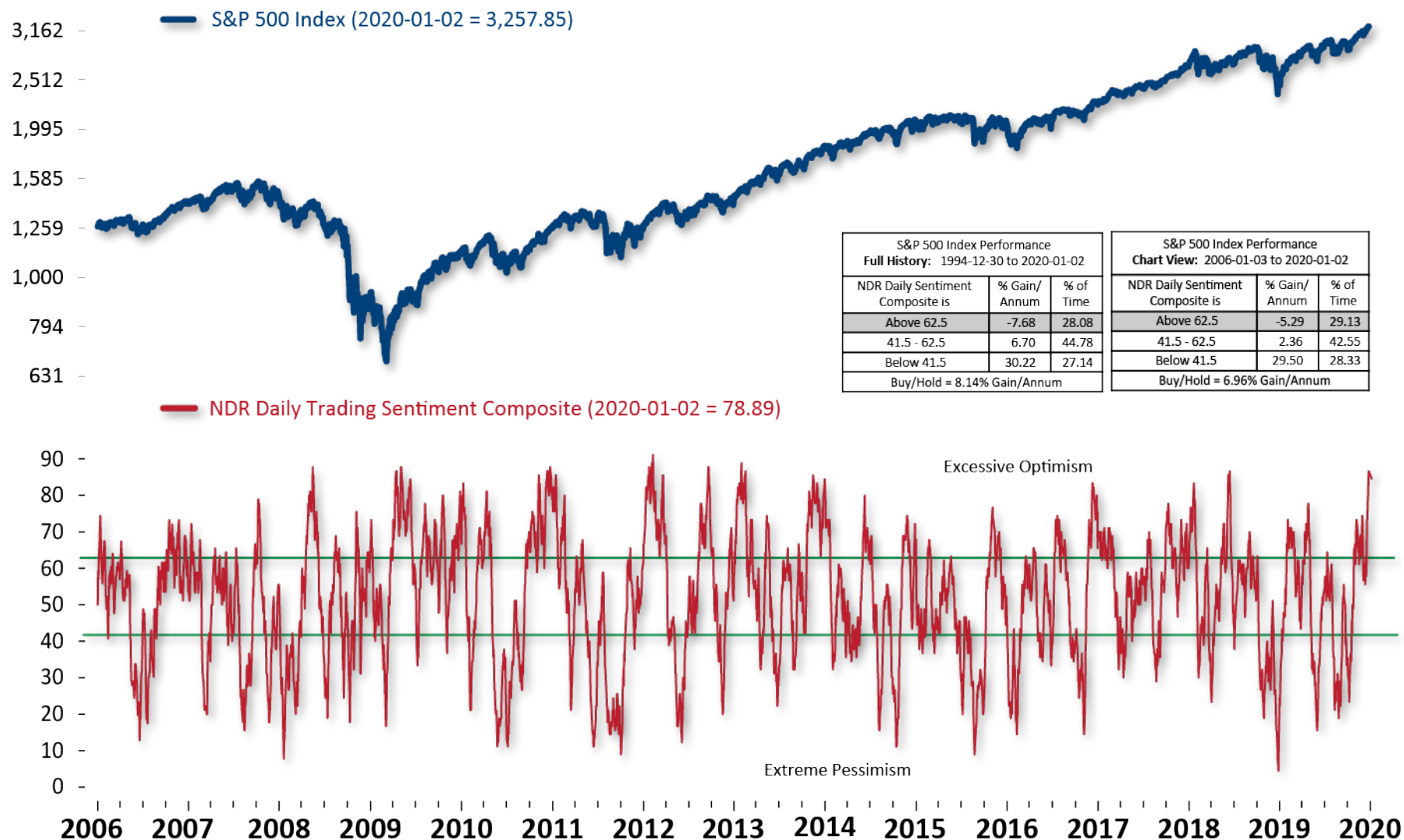


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# S&P 500 vs. NDR Daily Trading Sentiment Composite

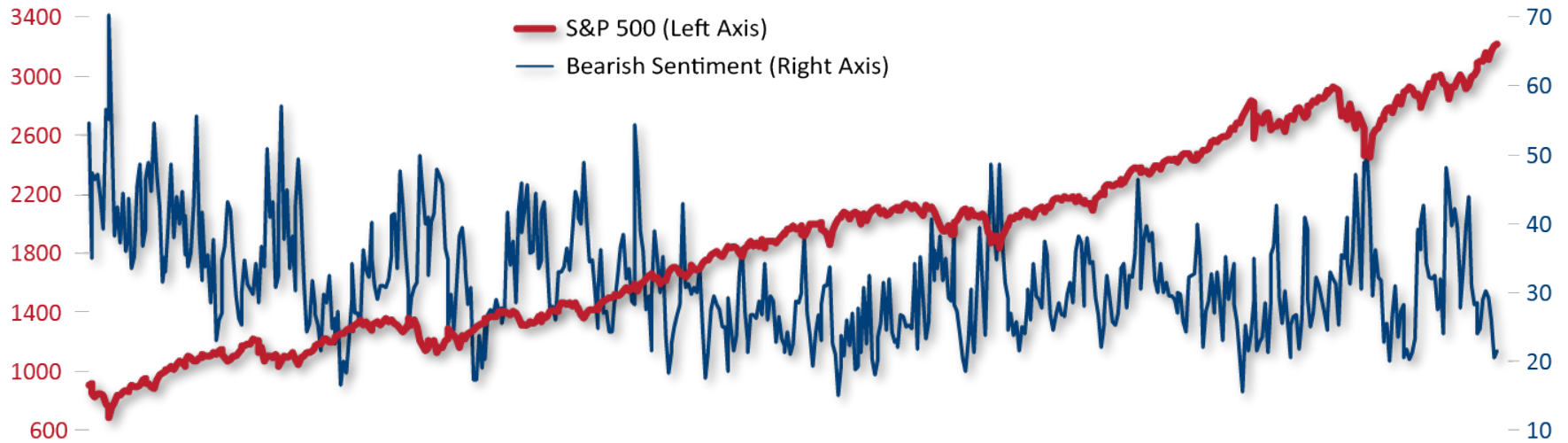
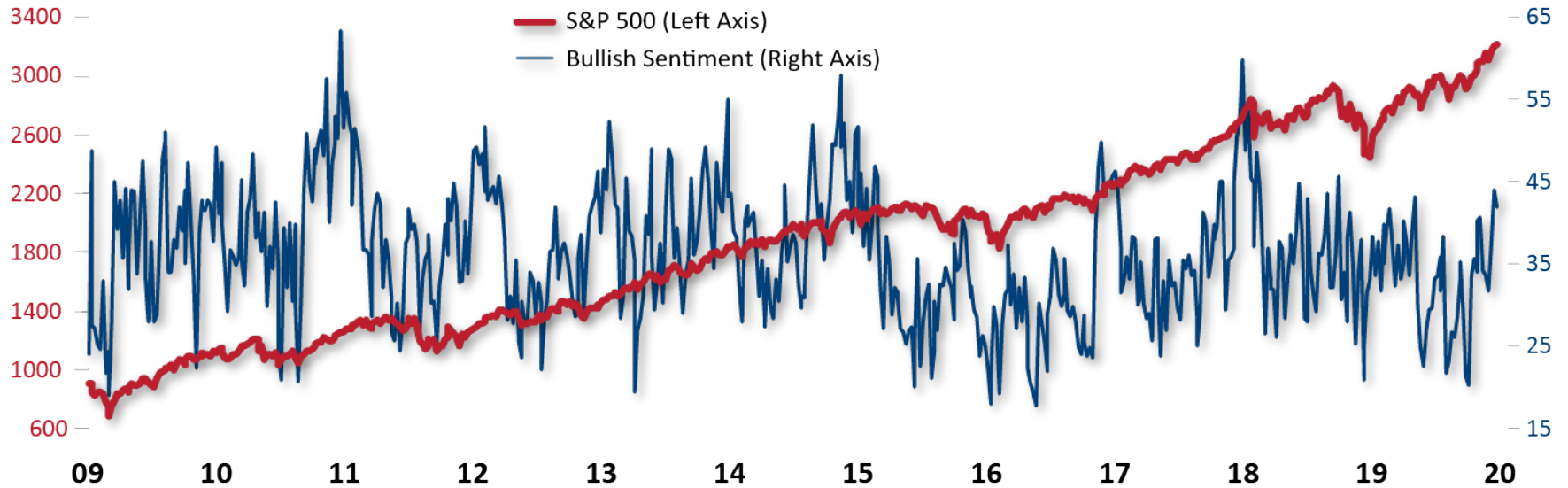
Daily Data 2006-01-03 to 2020-01-02



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## AAll Bullish Sentiment: 2009 - 2019

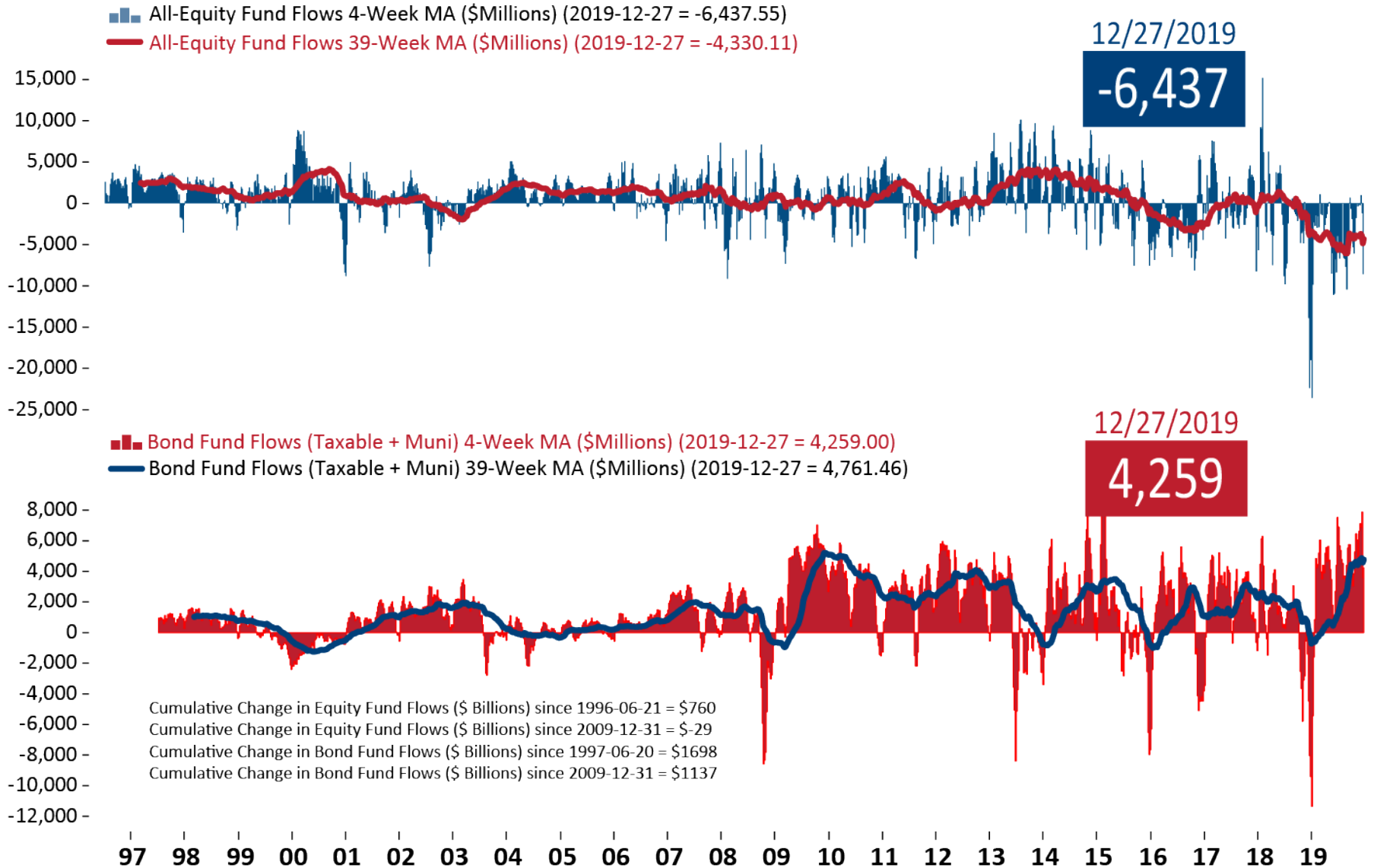


## AAll Bearish Sentiment: 2009 - 2019



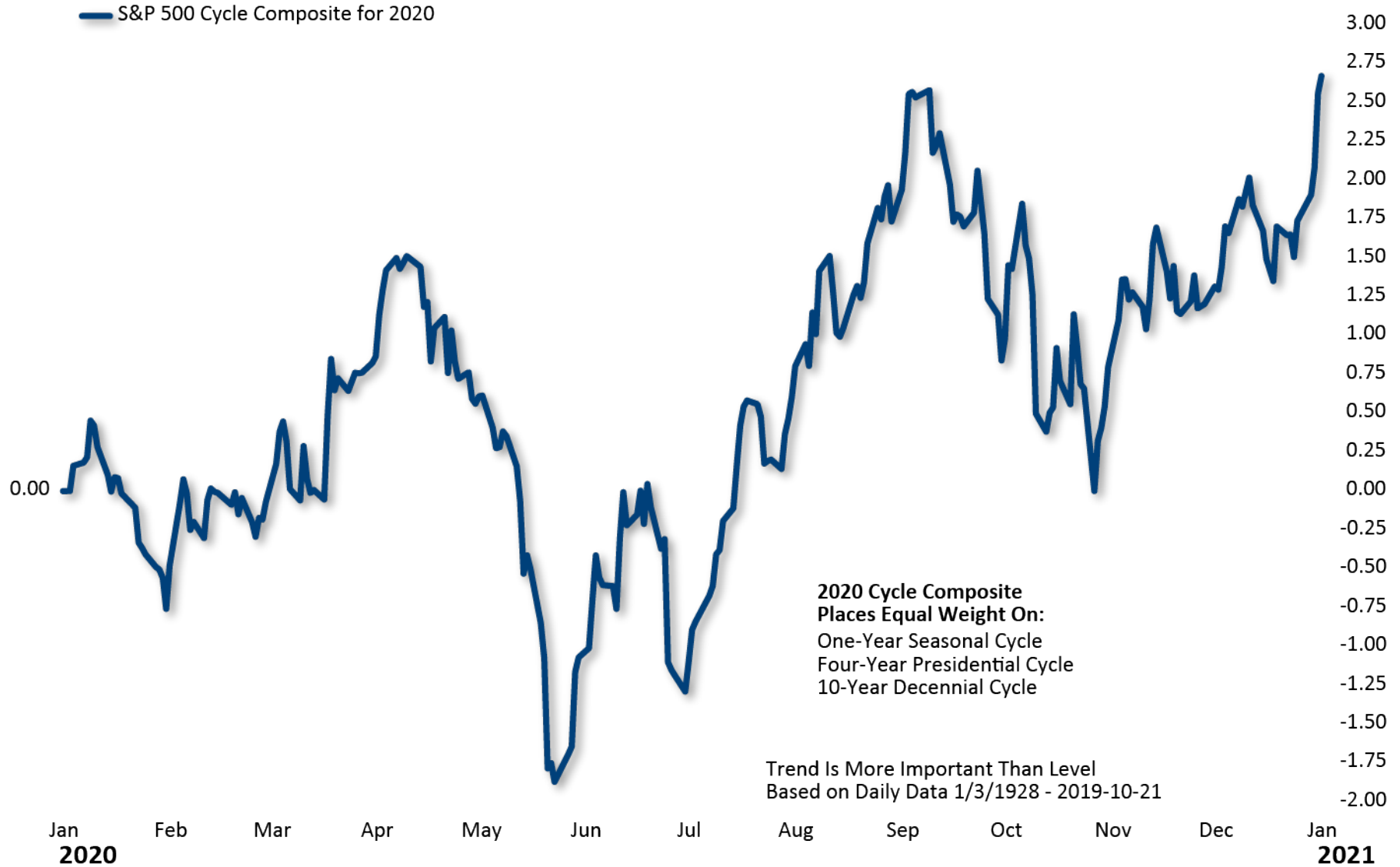
# Equity and Bond Flows Including ETFs

Weekly Data 1996-06-21 to 2019-12-27



# S&P 500 Cycle Composite for 2020

Daily Data 2019-12-31 to 2020-12-31

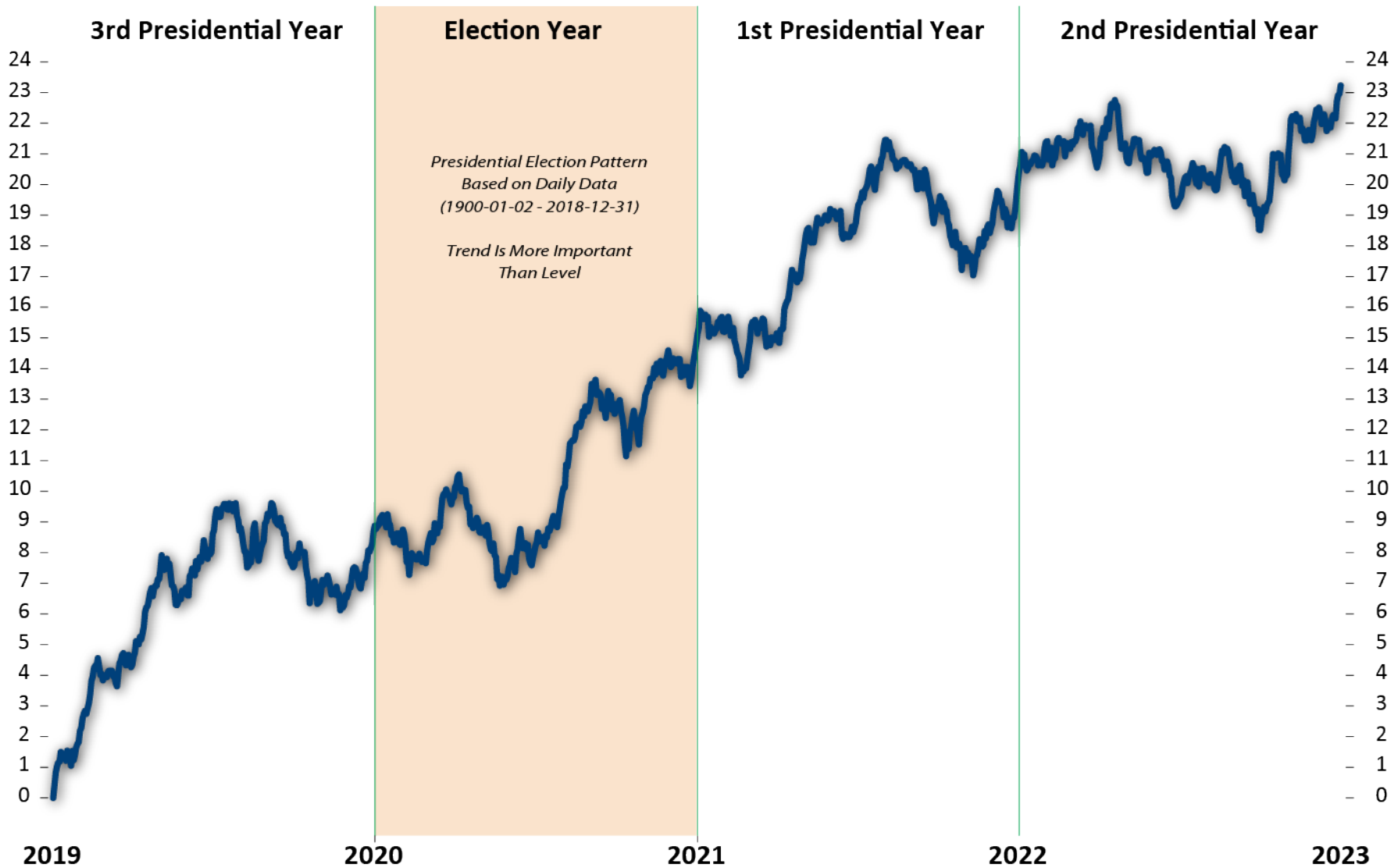


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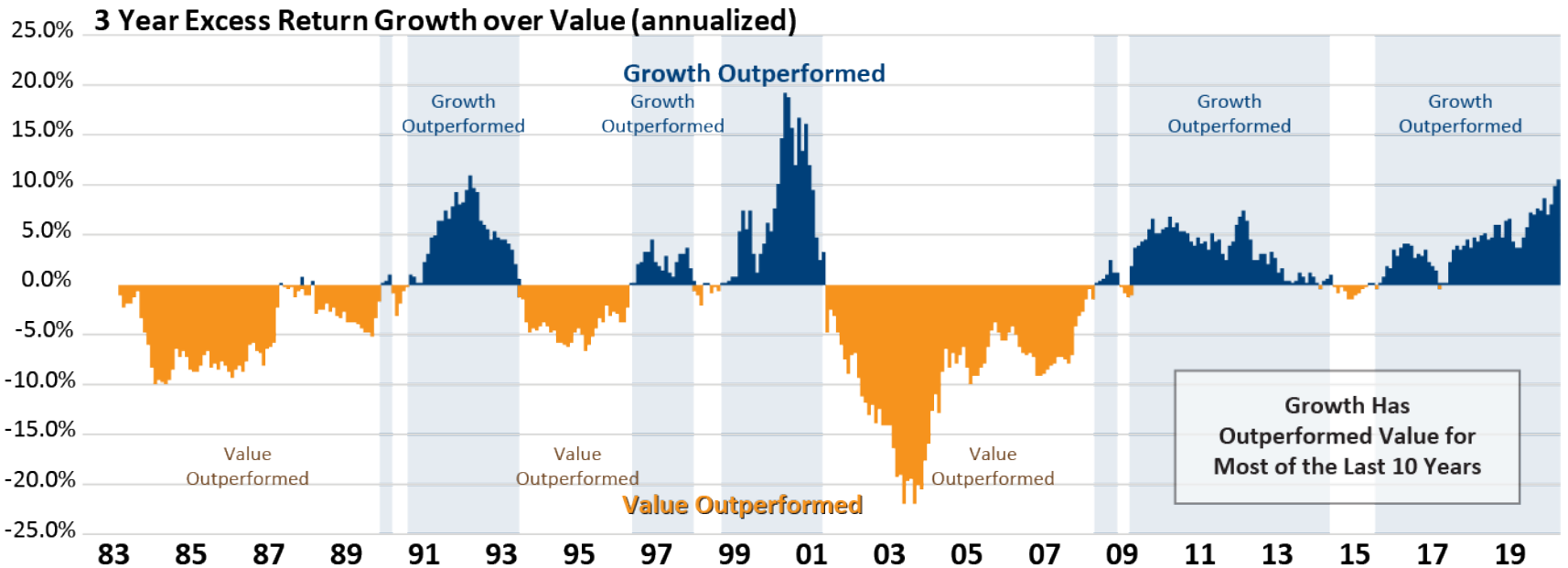
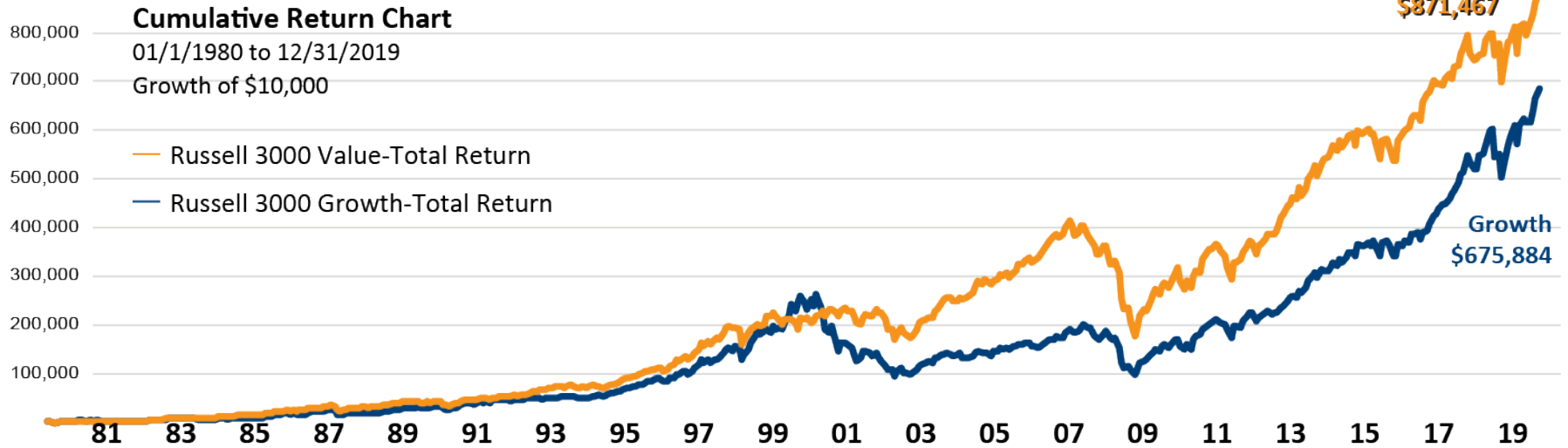
# Dow Industrials Four-Year Presidential Cycle



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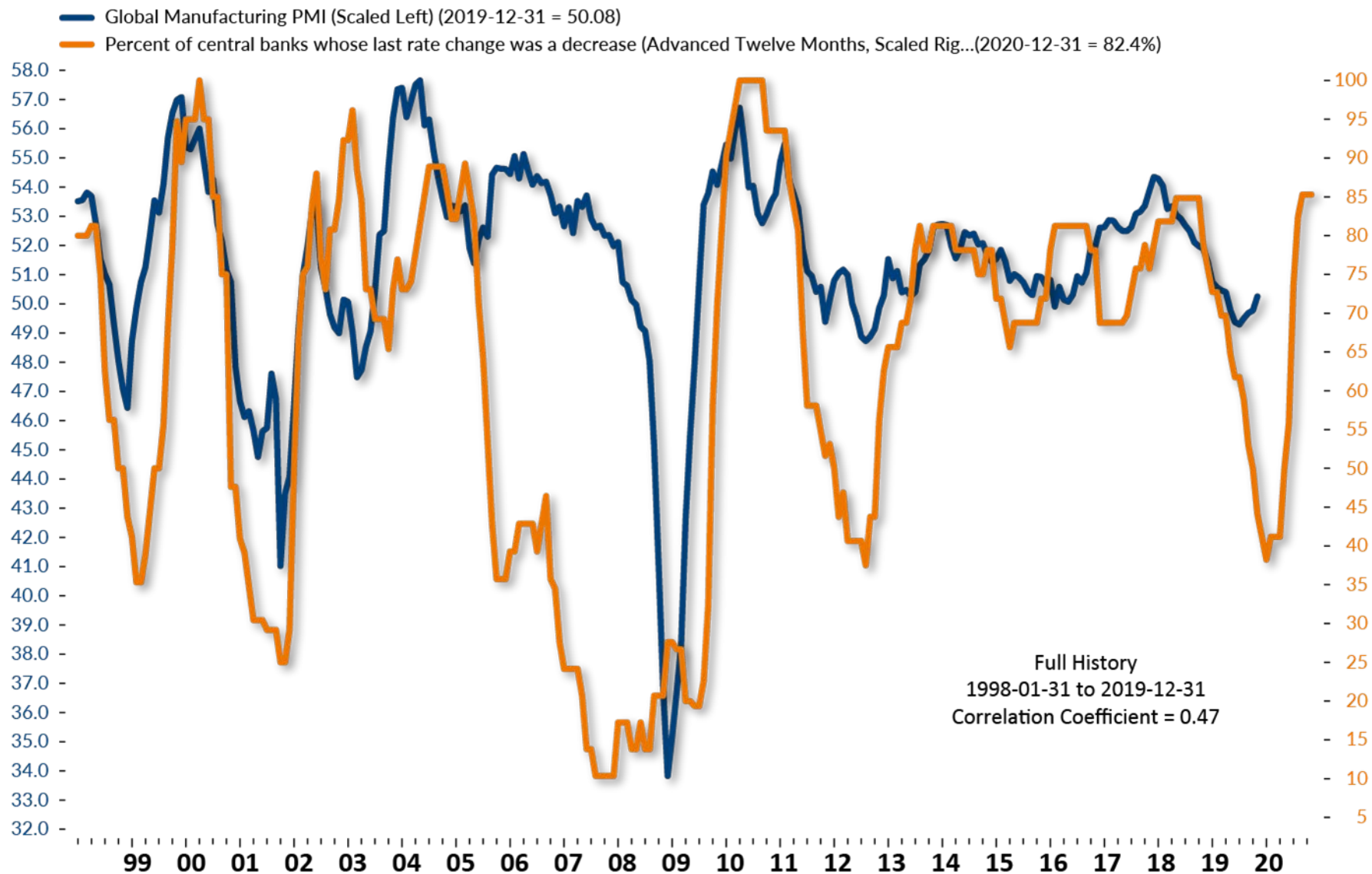


# Growth vs. Value



# Global PMI vs. Central Bank Breadth

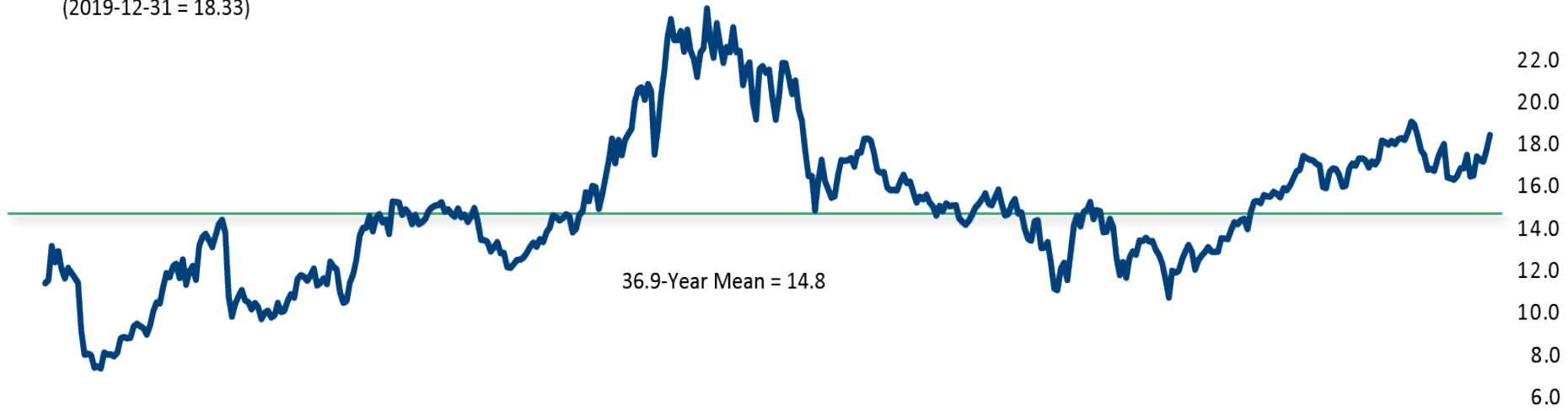
Monthly Data 1998-01-31 to 2020-12-31



# S&P 500 Forward vs. Trailing Price/Earnings Ratios

Monthly Data 1983-02-28 to 2019-12-31

— S&P 500 One-Year Forward Price/Earnings Ratio  
(2019-12-31 = 18.33)



— S&P 500 Trailing 4Q Price/Operating Earnings Ratio  
(2019-12-31 = 20.43)

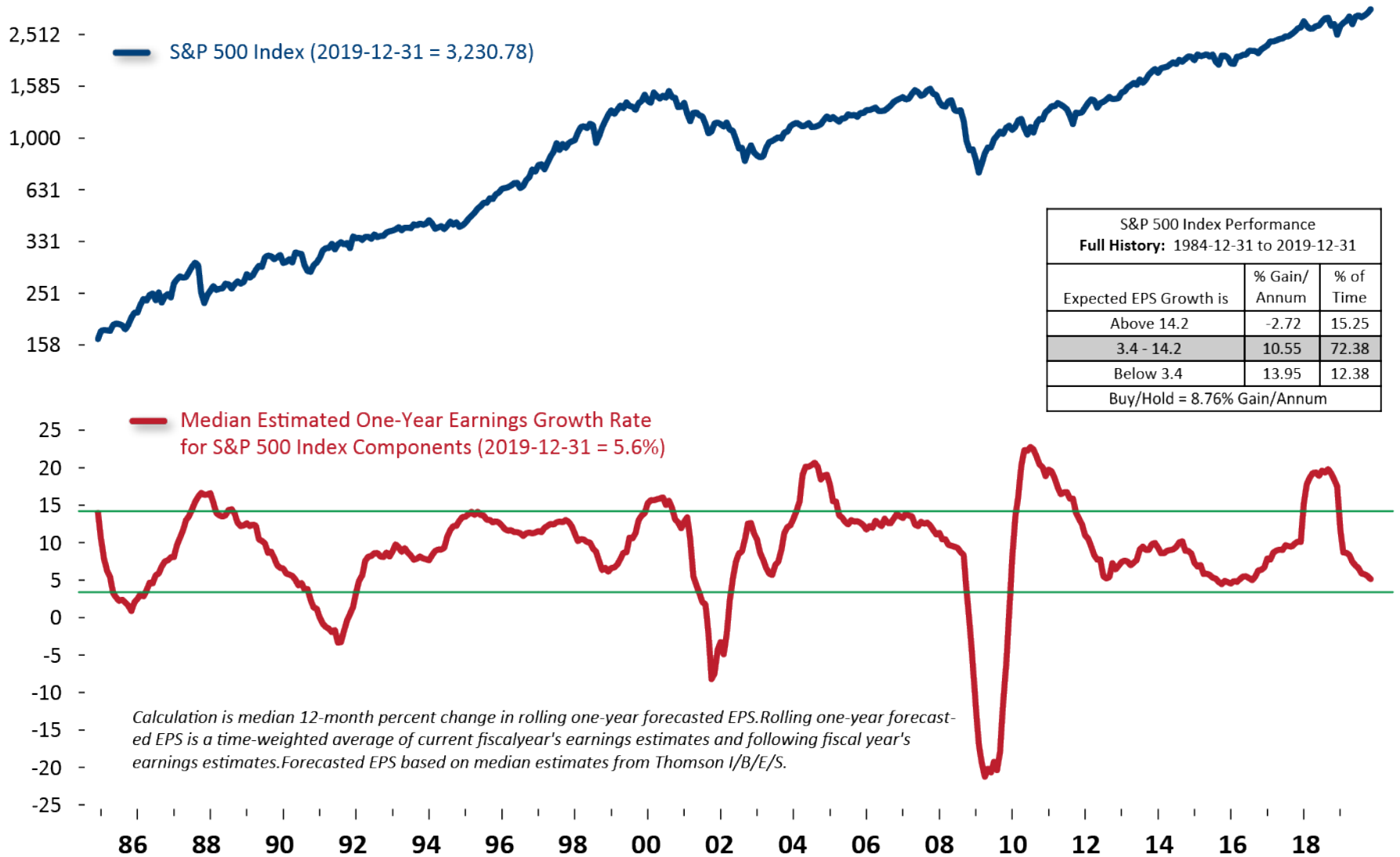


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# S&P 500 Index vs. Median Expected Earnings Growth

Monthly Data 1984-12-31 to 2019-12-31

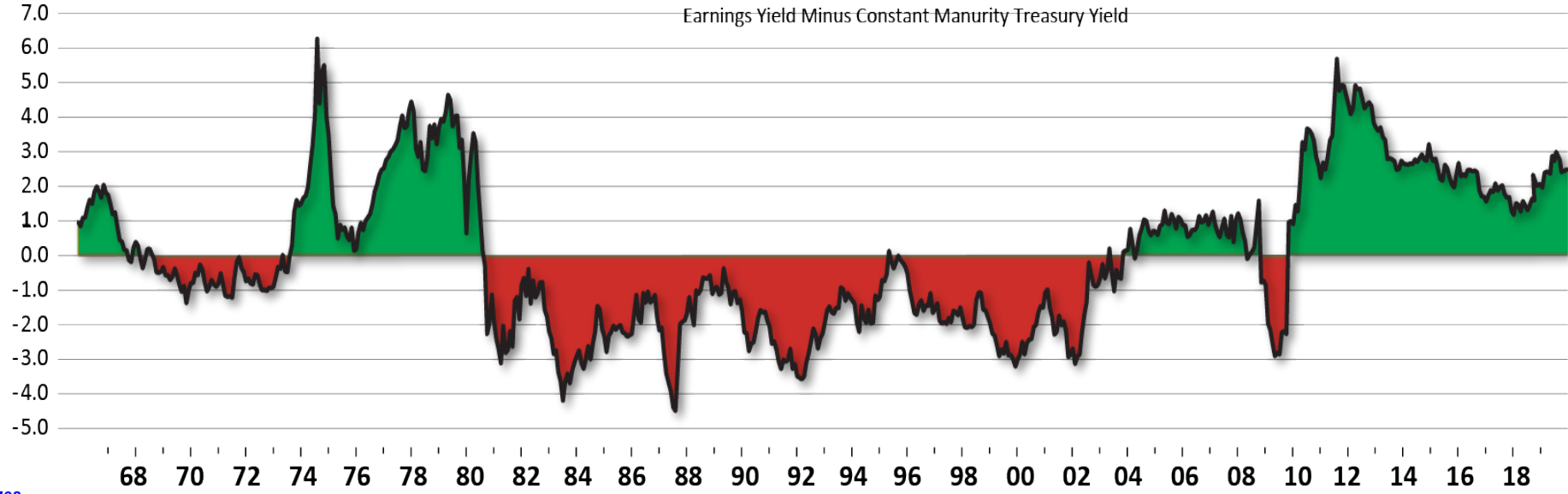
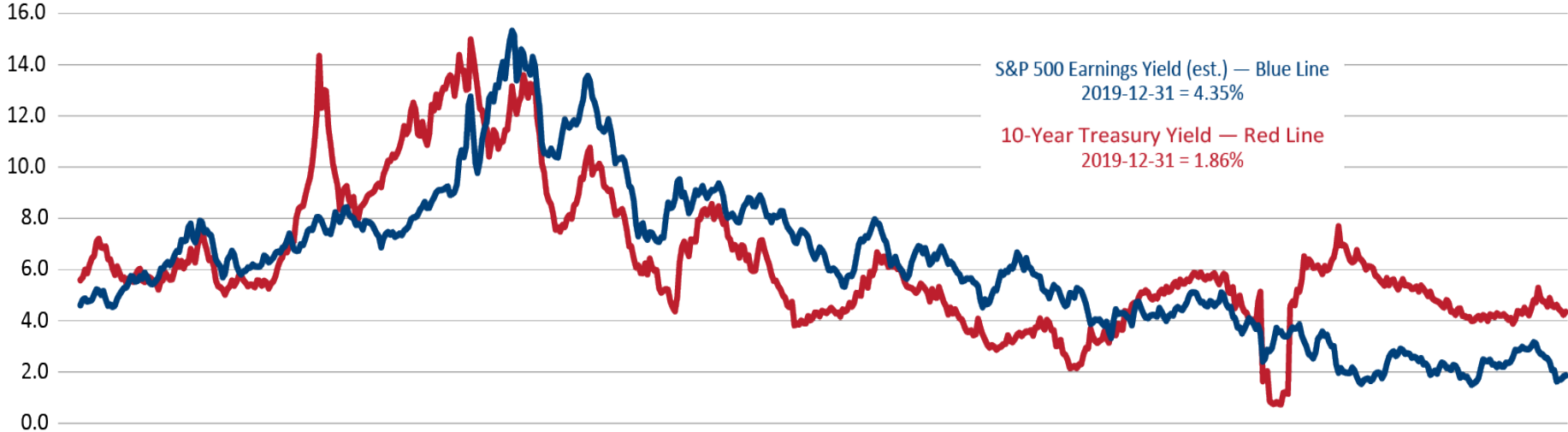


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# S&P 500 Earnings Yield vs. 10-Year Treasury Yield

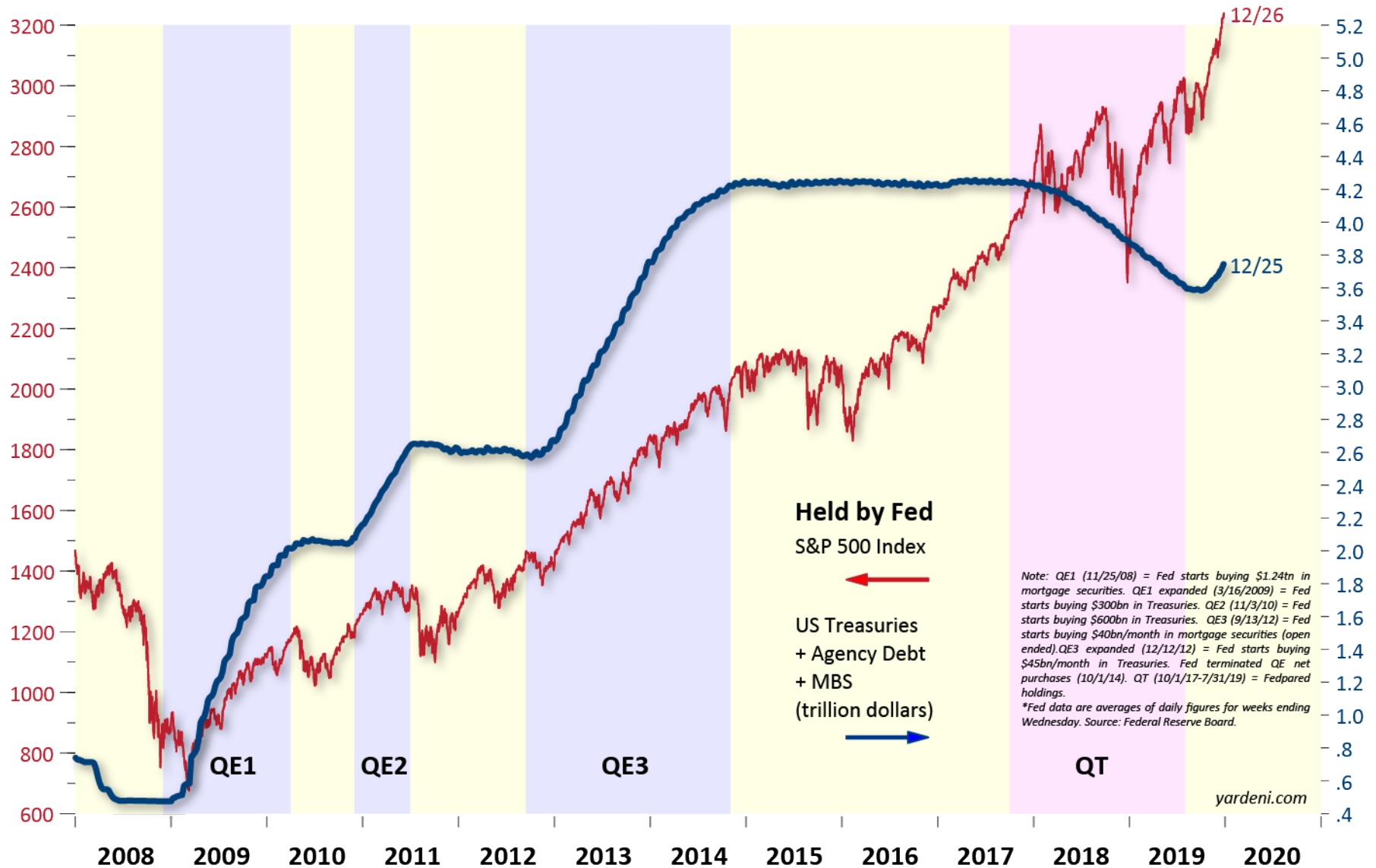
Monthly Data 1966-01-31 to 2019-12-31



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# S&P 500 & FED'S ASSETS\*



# 10-Year Constant Maturity Treasury Note Yields

Daily 1/02/1979 - 01/02/2020

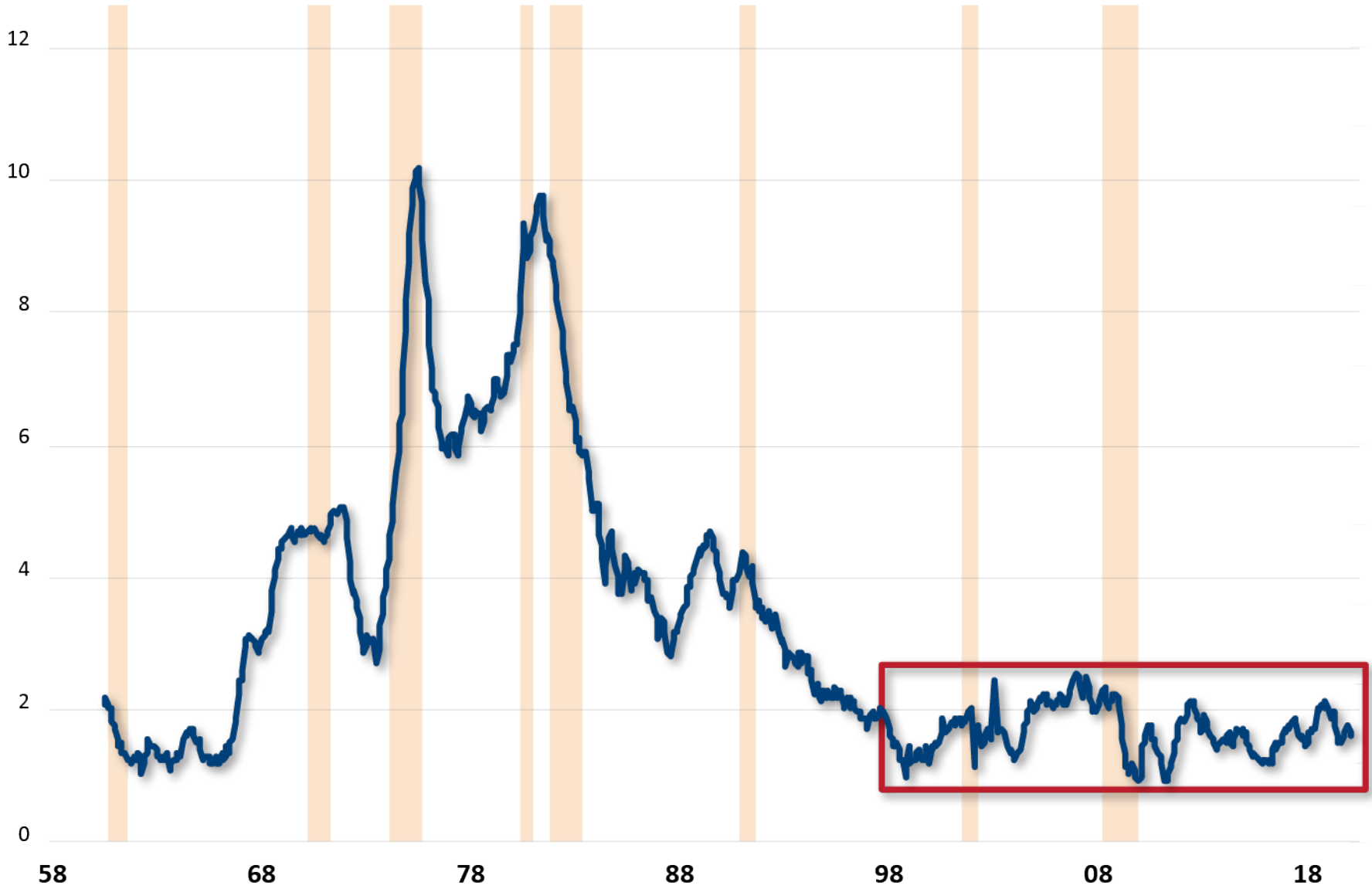


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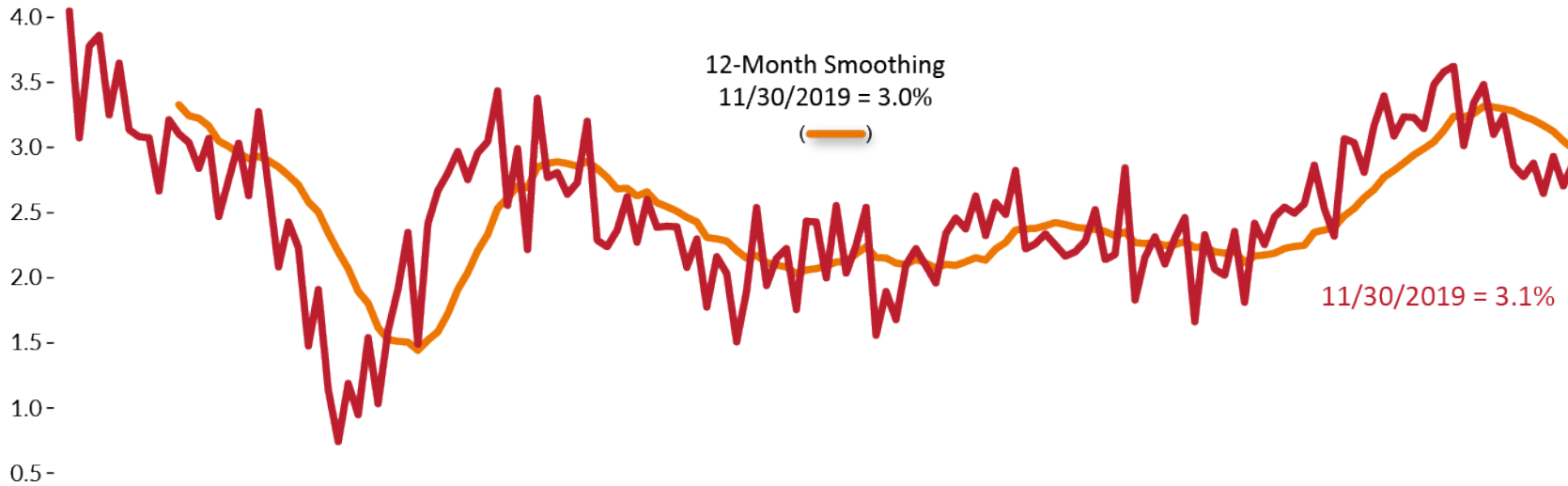
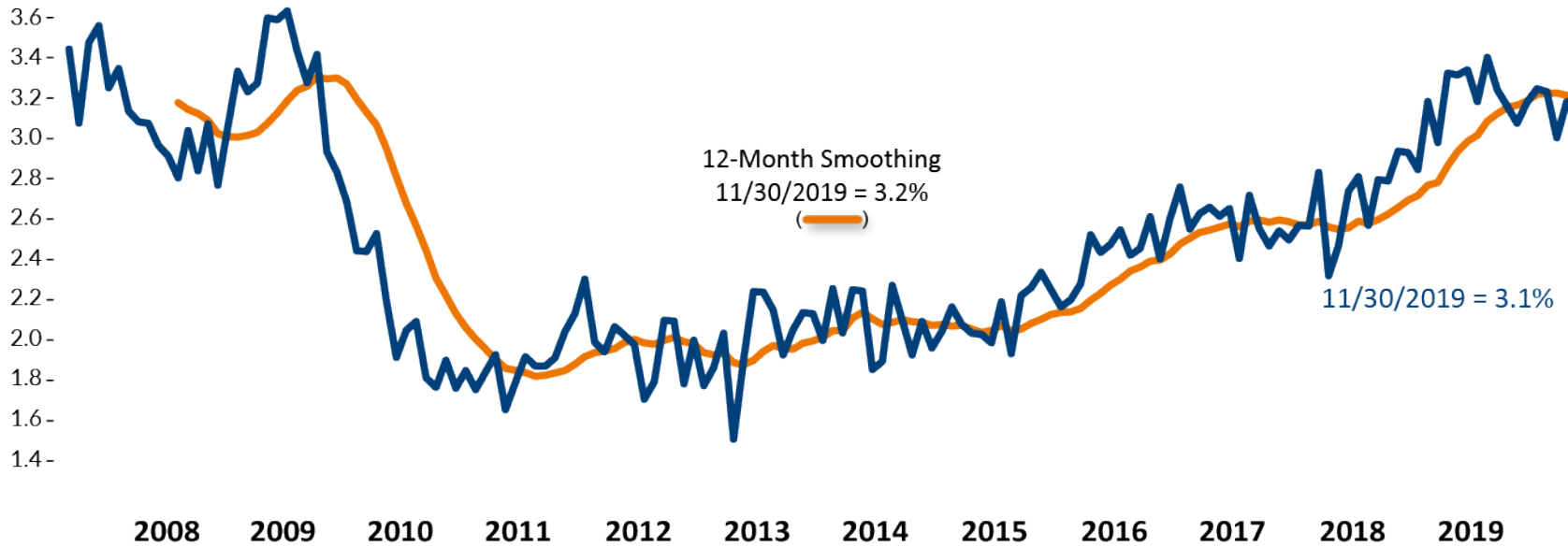


# Inflation - Core PCE (Y/Y)



# Average Hourly Earnings of All Workers (Year-to-Year Change)

Monthly 3/31/2007 - 11/30/2019



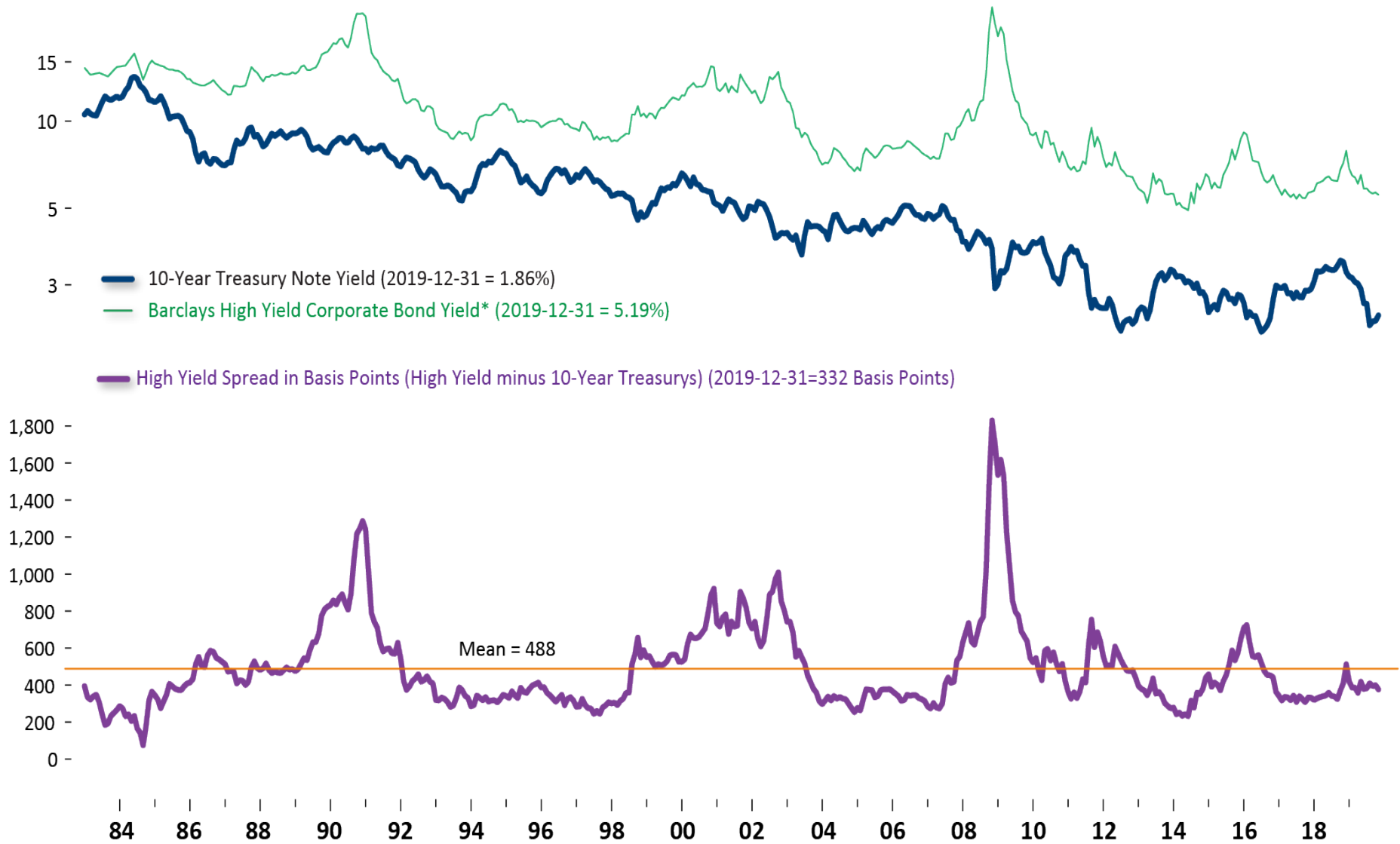
# Average Weekly Earnings of All Workers (Year-to-Year Change)

(E736A)



# High Yield Corporate Spreads (Relative to 10-Year Treasuries)

Monthly Data 2000-01-03 to 2019-12-31

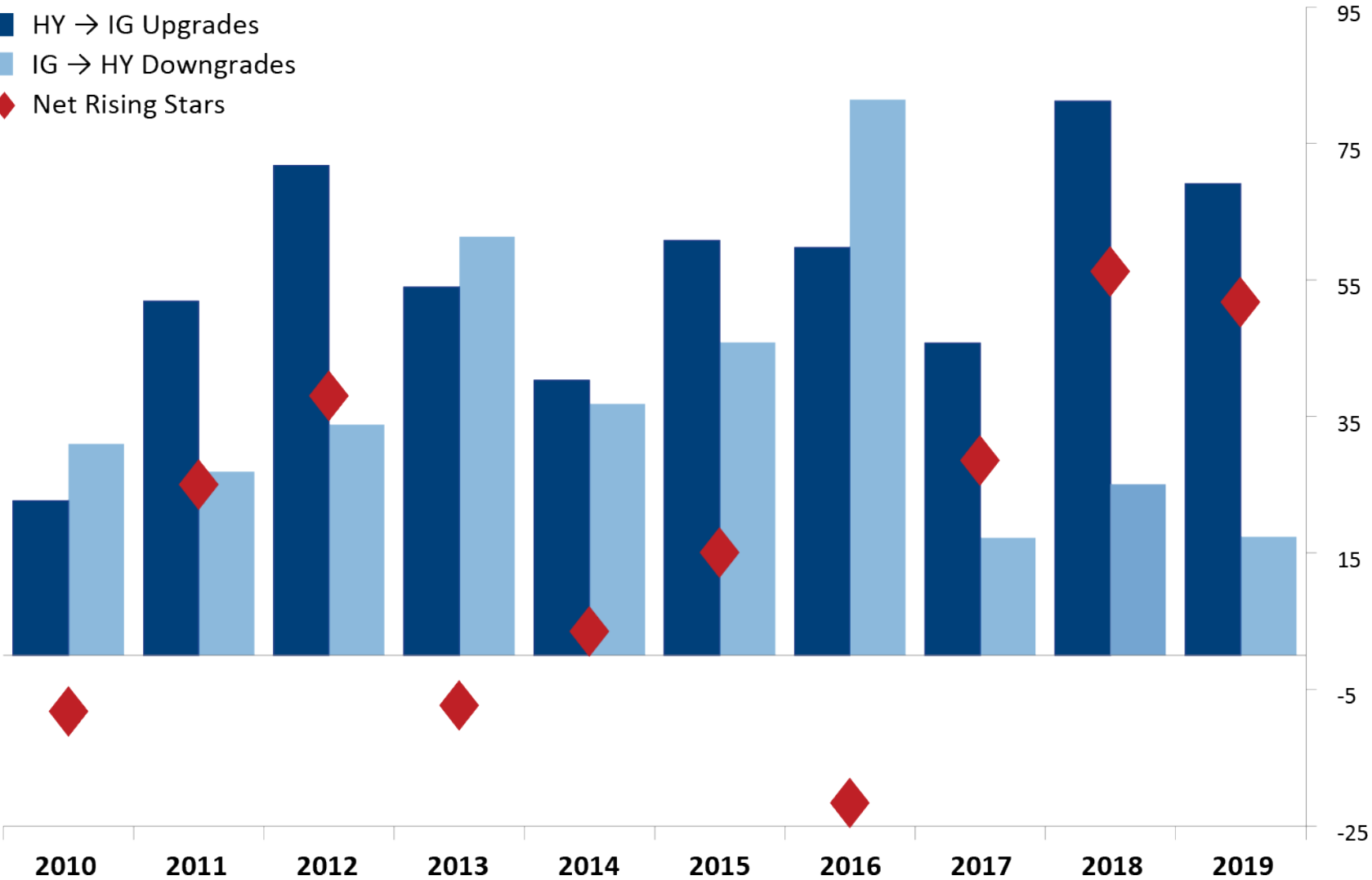


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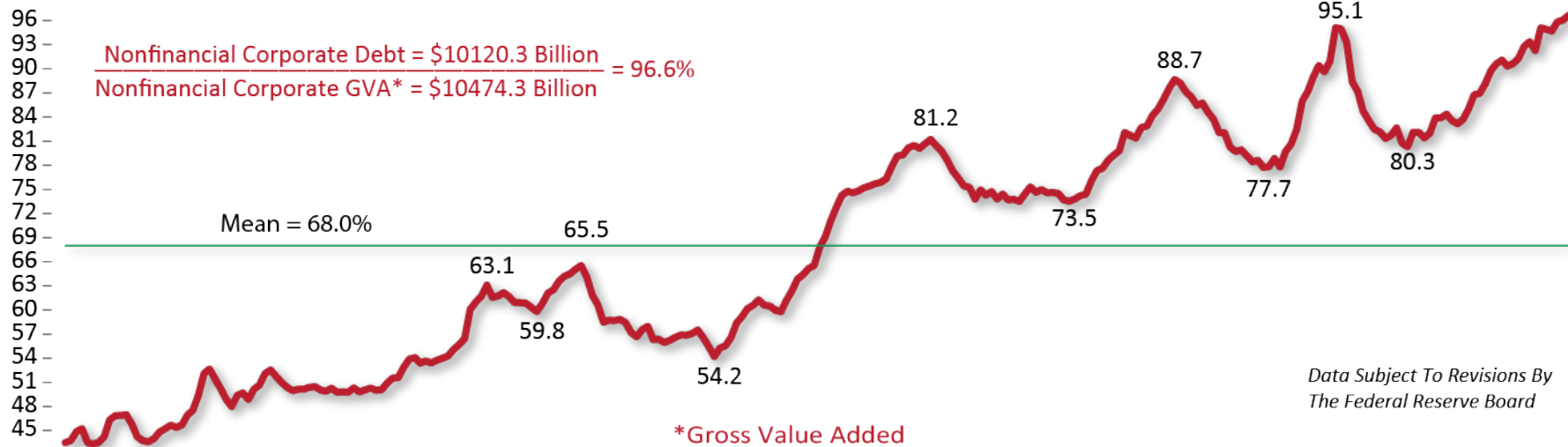
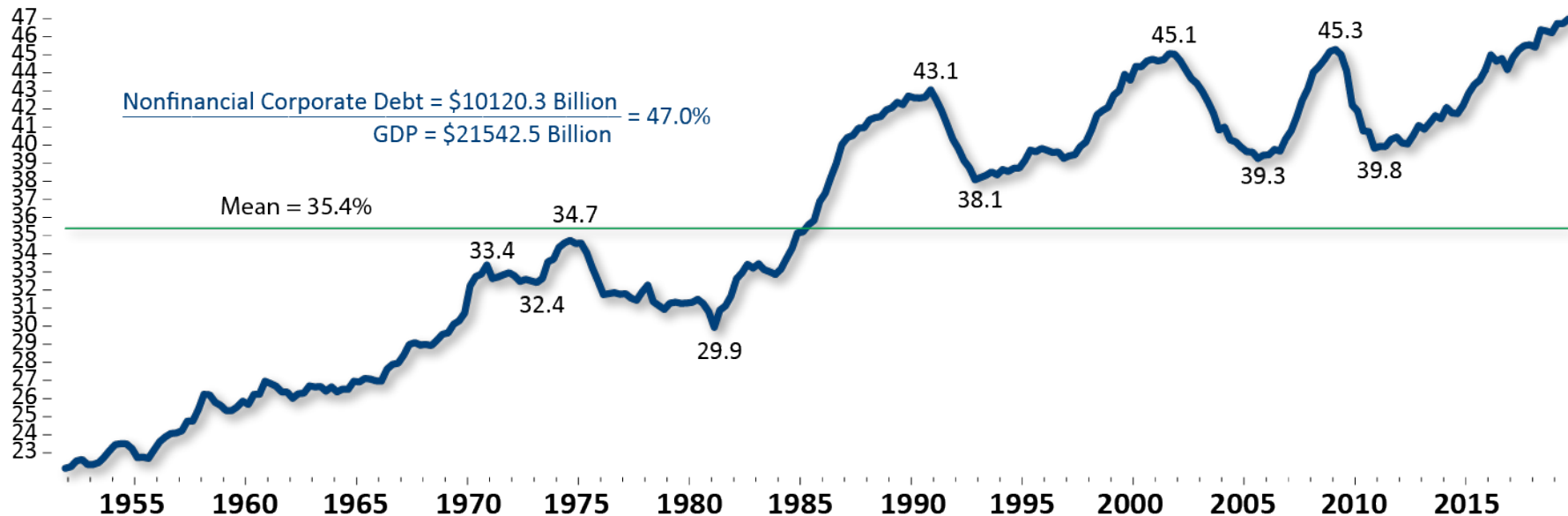
# Upgrades Vs Downgrades

- HY → IG Upgrades
- IG → HY Downgrades
- ◆ Net Rising Stars



# Nonfinancial Corporate Debt as a Percentage of GDP

Quarterly Data 1951-12-31 to 2019-09-30



Data Subject To Revisions By  
The Federal Reserve Board

# Nonfinancial Corporate Debt as a Percentage of Nonfinancial Corporate GVA

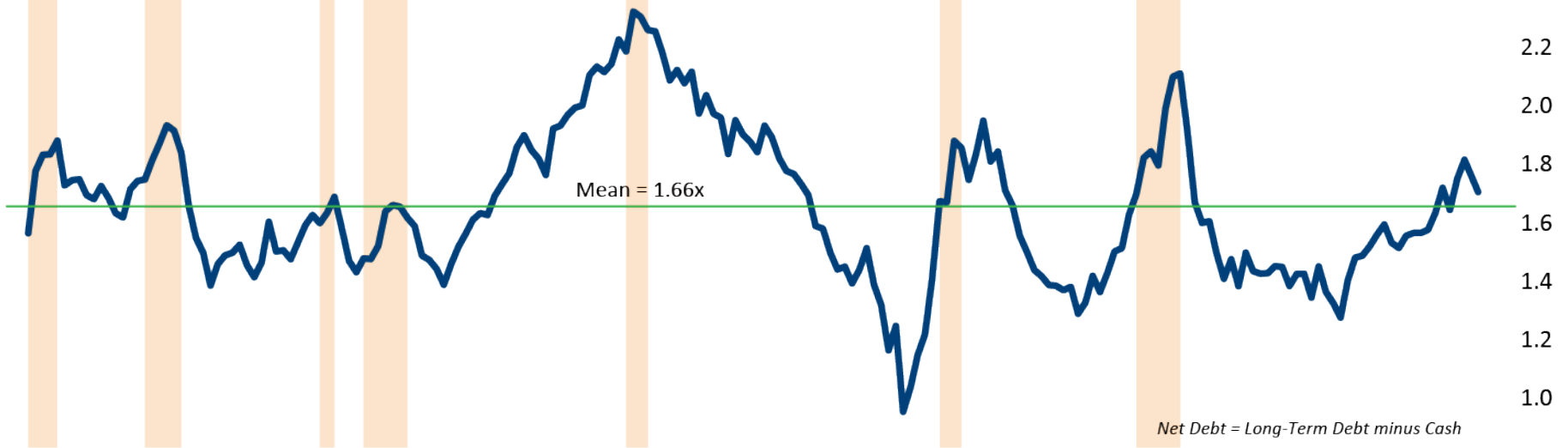
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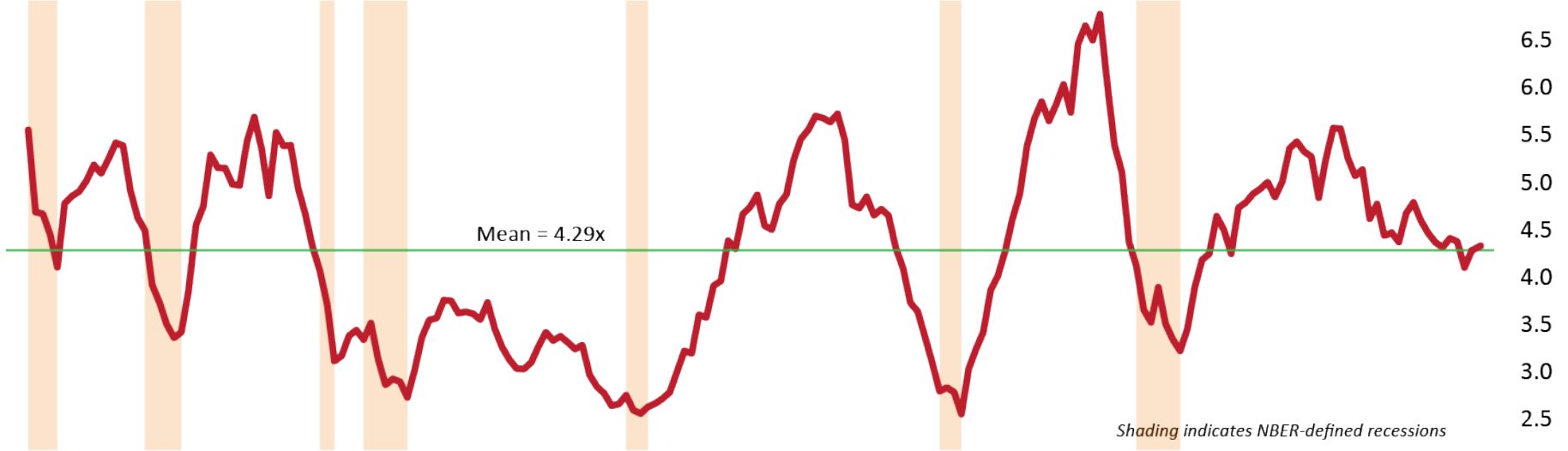
# Corporate Leverage and Interest Coverage Ratio

Quarterly Data 1969-12-31 to 2019-09-30

— Net Debt of Nonfinancial Corporations Relative to Cash Flow (EBITDA) (2019-09-30= 1.71x)



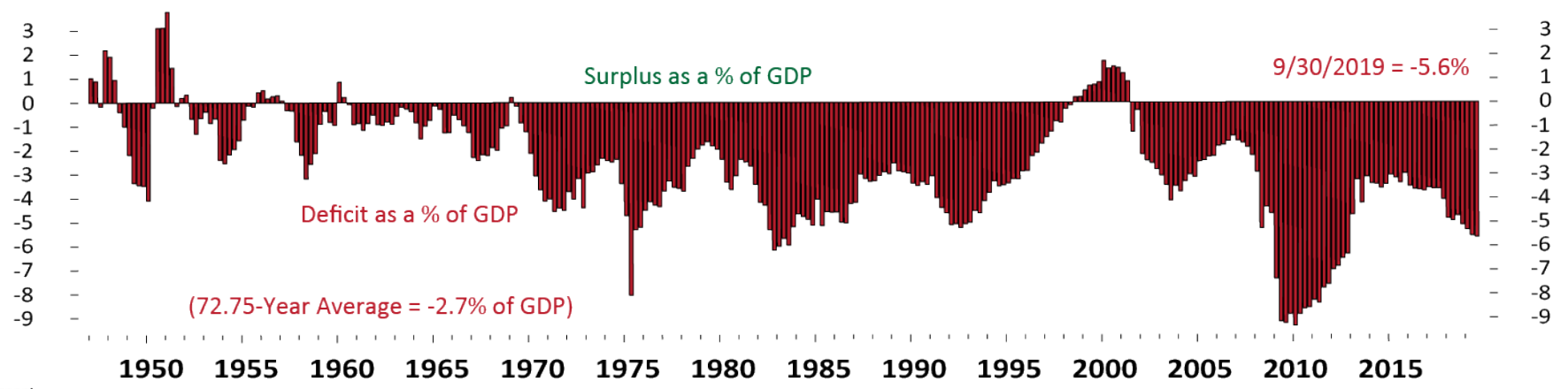
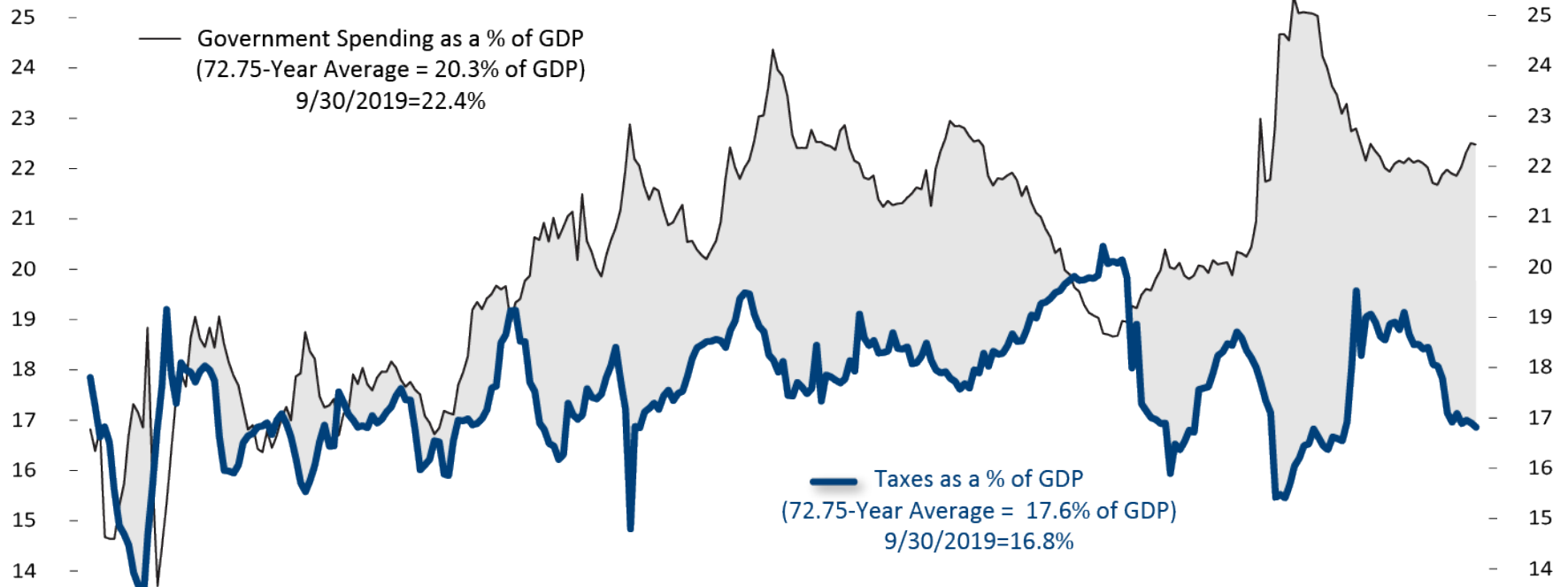
— Interest Coverage Ratio of Nonfinancial Corporations (EBIT/I) (2019-09-30 = 4.32x)



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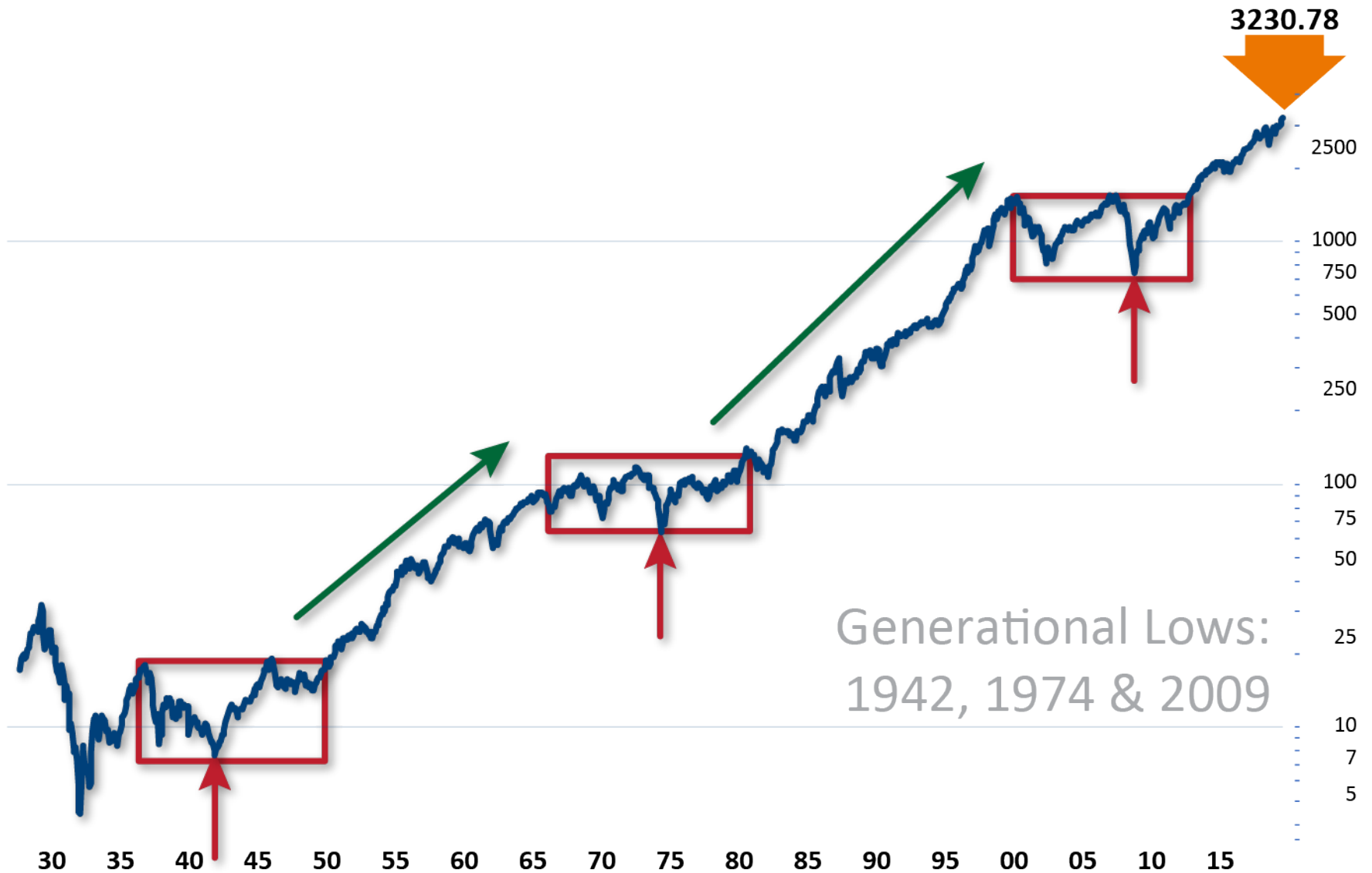
# Taxes and Government Spending

Quarterly 3/31/1947 - 9/30/2019



(E300)

# S&P 500 Monthly Closing Price



Generational Lows:  
1942, 1974 & 2009



# 2020 Market Outlook

- Will be provided in pdf format



Market Commentary by K. Sean Clark, CFA® Chief Investment Officer



**K. Sean Clark, CFA**  
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Executive Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean was featured in an article in Barron's and has been quoted in a number of articles in nationally distributed business journals and newspapers.

### Title

2017 was an exceptional year for the global economy and the stock markets. The major equity markets stand at or near record highs and economic growth is accelerating as we begin the New Year. In the US, the economy is on solid footing, economic growth has accelerated over the past several quarters and we enter 2018 poised for continued expansion. The primary economic indicators suggest continued growth through 2018. For example, the Conference Board's Index of Leading Economic Indicators continues to hit new highs, consumers are optimistic with Consumer Confidence at a new recovery high, and the labor market is healthy with a 4% unemployment rate and jobless claims hitting their lowest level since the early 1970s. These all suggest that the economy is poised for continued growth in 2018, which bodes well for the global equity markets.

Our view of the markets remains that we are still within the context of a long-term secular bull market in stocks. We are now almost nine years into this bull market, and if history is any guide, we may only be halfway through this long-term bullish trend. We expect US stocks to post mid to upper single digit gains for the year, with a target of 2000 on the S&P 500. However, following last year's unprecedented streak without any meaningful corrections and the lack of volatility, we expect to see an uptick in volatility and a return of more normal market corrections. Since we don't see a recession on the horizon, any correction should be shorter and shallower and set the market up for additional gains. In the fixed income markets, we currently favor credit over duration, as continued growth is supportive to risk assets.

As always, we are mindful of risks. 2018 is a mid-term election year, and historically mid-term election years have experienced a decent correction in the middle of the year, but these corrections have also set the stage for very strong rebound rallies. Other areas of risk include valuations, earnings growth expectations, the path of monetary policy, a new Federal Reserve Chairman, and geopolitical issues to name just a few. Valuations are again stretched, which could cap further upside gains. The Federal Reserve has now lifted interest rates five times in this cycle and plans to continue to hike rates in 2018. An overly aggressive Fed coupled with stretched valuations is a concern as we enter the New Year. Finally, we will see new leadership at the helm of the Federal Reserve and historically the market has tested new Fed Chairs within six months of their taking control.

Although there are risks to be mindful of as we begin the New Year, we believe 2018 will be a positive year for the markets.





Q&A



# Disclosure



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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 Barclays U.S. Corporate High-Yield Index covers the USD-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.

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.

The volatility (beta) of an account may be greater or less than its respective benchmark.

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 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years. The 30 year treasury yield is included on the longer end of the yield curve and is important when looking at the overall US economy.

Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

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 companies with lower price-to-book ratios and lower expected growth values.

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 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 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 3000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower expected growth values.

The Russell 3000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The BBgBarc U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The MSCI All Country World ex U.S. Index (MSCI ACWI ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI ex U.S. consists of 45 country indexes comprising 22 developed and 23 emerging market country indexes.

The BBgBarc 5-Year Municipal Bond Index is the 5 Year (4-6) component of the Municipal Bond index. It is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. The index tracks general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds rated Baa3/BBB- or higher by at least two of the ratings agencies.

The BBgBarc Intermediate U.S. Corporate Index is designed to measure the performance of U.S. corporate bonds that have a maturity of greater than or equal to 1 year and less than 10 years. The Index is a component of the BBgBarc U.S. Corporate Index and includes investment grade, fixed-rate, taxable, U.S. dollar-denominated debt with \$250 million or more par amount outstanding, issued by U.S. and non-U.S. industrial, utility, and financial institutions.

The MSCI Emerging Markets Index stands for Morgan Stanley Capital International (MSCI), and is an index used to measure equity market performance in global emerging markets.

The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting.

