Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

The stock market rally continued from the end of 2019 into January with equities putting in new all-time highs. However, the coronavirus scare pushed markets lower to close out the month with a final day sell-off that put the S&P 500 into negative territory for January.

Volatility, as measured by the VIX Index, rose to its highest level since October 2019 as January concluded. We expected volatility to pick up in 2020, which materialized as the virus concerns spread more widely.

A flight to quality ensued late in the month and the yield on the 10-year U.S. Treasury dropped dramatically to 1.51% by month's end after closing 2019 at 1.92%. The yield on the 30-year U.S. Treasury closed January at 1.99% for the first sub-2% close since early September 2019.

Another consequence of the rally in longer-dated Treasuries was that the yield curve again became inverted in late January when looking at 3-month and 10-year yields. We will watch whether this inversion continues or is short-lived.

The long-awaited Brexit finally occurred at the end of January, but it was overshadowed by the coronavirus scare, the impeachment heading toward conclusion and the final push in Iowa with the Democratic primary season kicking off in early February.

Despite late-month volatility, we believe the longest U.S. economic expansion on record will continue through year end.

Coronavirus Derails Strong Start to January

Equity Markets

Equity momentum continued into the New Year with U.S. stocks hitting new all-time highs during the first part of January. Phase one of the trade deal with China was signed mid-month and markets have reacted positively to this lessening of trade tensions. The U.S. Mexico Canada Trade Agreement was also signed at the end of the month. The Trump impeachment proceedings have continued as expected and at the end of January, it appeared that no witnesses would be called in the Senate likely leading to a swift conclusion of this event in early February. The market has been anticipating this outcome for some time (impeachment by the House but no Senate conviction or removal from office) and therefore, the market has not been too sensitive to developments on this front.

Also as expected, the Fed held rates steady at the first FOMC meeting of 2020 in late January. Although the Fed continues to monitor incoming economic data, the hurdle for additional rate moves appears high this year, but the economic slowdown that is unfolding as a result of the coronavirus has increased the odds of a rate cut. The Fed has also been engaging in notable liquidity operations which are scheduled to end this summer.

Large-cap U.S. equities, particularly U.S. large-cap growth companies, led the market once again in January after some other parts of the market had performed well over the prior few months. We at Clark Capital 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.

The numbers for January were as follows: The S&P 500 was slightly lower, down -0.04%, the Dow Jones Industrial Average was off -0.89%, the Russell 3000 slipped by -0.11%, the NASDAQ Composite rose an impressive 2.03% and the Russell 2000 Index, a measure of small-cap companies, was one of the weaker pockets of the market, down -3.21%. As mentioned, growth stocks outpaced value stocks dramatically for the month.

The large-cap and value focused Russell 1000 Value Index declined -2.15% compared to the Russell 1000 Growth Index, which advanced 2.24%. The difference was equally as dramatic in the small-cap universe, but both value and growth small-cap stocks declined in January, meaning once again that large-caps ruled for the month. Small-cap value stocks, as measured by the Russell 2000 Value Index, declined -5.39%, while the Russell 2000 Growth Index fell -1.10%.

International equities struggled as well kicking off 2020 with both emerging market equities and developed market stocks declining in January. The U.S. dollar strengthened in January, which was another headwind for U.S. investors on their international holdings. Emerging market equities, as measured by the MSCI Emerging Markets Index, fell -4.66% in January. The MSCI ACWI ex USA Index, a broad measure of international equities, declined -2.69% to begin the new year.

Fixed Income

Bonds rallied in January as a flight to quality hit the market amid the coronavirus developments. The yield on the 10-year U.S. Treasury fell to 1.51% by the end of January, after ending 2019 with a yield of 1.92%. Even more dramatic, the yield on the 30-year U.S. Treasury fell below 2% at the end of January, closing the month with a yield of 1.99%. Most pockets of fixed income gained in January, but those more interest-rate sensitive parts of the market such as US Treasuries, were the clear leaders to begin the New Year.

Driven by a declining interest rate environment, the returns in fixed income were as follows: the Bloomberg Barclays U.S. Aggregate Bond Index gained 1.92%, the Bloomberg Barclays U.S. Credit Index advanced 2.34%, the Bloomberg Barclays U.S. Corporate High Yield Index was only fractionally higher, up 0.03% and longer-dated U.S. Treasuries were among the best gainers. For example, the Bloomberg Barclays U.S. 30-year Treasury Index advanced 8.27% in January and the Bloomberg Barclays U.S. Treasury Index gained 2.44% for the month. TIPS and muni bonds both advanced in January as well.

Economic Data and Outlook

The record length of this economic expansion continues to build on its decade-plus tenure as we move into 2020. There have been a few warning signs beginning to appear, but overall the economic data leads us to believe that the economic expansion will continue through the year.

The Fed reversed course in 2019, cutting rates three times, after increasing rates four times in 2018. We continue to ask the question whether the Fed reversed course in time to offset some of the negative implications of an inverted yield curve. The jury remains out on that matter, but we know that the yield curve inverted prior to the last seven recessions. It is also noteworthy that we have had two inverted yield curves that did not lead to a recession as well.

In fact, the yield curve inversion that occurred at month end renders the 2019 inversion as a false signal as no recession occurred in the interim. We believe this latest inversion was driven by a flight to quality into U.S. Treasuries amid the coronavirus situation and will monitor if this inversion will persist or whether it will be short-lived.

Job market numbers reported in January for December were slightly below expectations, but this was coming off a very strong number in November. Non-farm payroll additions were 145,000, which was below the 160,000 expected gains. Revisions for the prior two months were only revised modestly lower by -14,000. The unemployment rate remained as expected at 3.5%.

Average hourly earnings slipped below the 3% line to 2.9% in December when it was expected to increase 3.1% on a year-over-year basis. The strong job market in the United States continues and, as a consumption driven economy, financially healthy and employed consumers are an important factor to economic growth. This continues to be one of the strong data points supporting our expectations of ongoing economic growth.

The Fed's preferred inflation measure, the Personal Consumption Expenditures Core Index, only showed a year-over-year gain of 1.6% in December as expected. The more widely known Consumer Price Index (CPI) showed a year-over-year increase of 2.3% on a core basis, which also matched expectations. Inflation, at this point, does not seem to be an issue for the Fed.

Retails sales growth (ex. auto and gas station sales) increased 0.5% in December, better than the expected 0.4% advance. However, the flat reading from the prior month was revised lower to show a -0.2% decline. Housing starts, historically a good indicator of future economic growth, were well ahead of expectations in December at a 1.608M annual pace compared to estimates of 1.380M. The was an impressive increase of +16.9% and is the highest level since December 2006. Building permits at a 1.416M annual pace were below estimates of 1.460M. Existing home sales surpassed expectations, but new home sales fell short of estimates.

The widely followed Institute for Supply Management (ISM) Manufacturing Index remained below 50 in December, which is the dividing line between expansion and contraction. At 47.2, it was below expectations of 49 for the month. However, some good news was that the ISM Manufacturing Index for January, released in early February, came in at 50.9, which was ahead of expectations. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 55.0 in December, which was better than expectations of 54.5.

The Conference Board's Leading Economic Indicators Index declined by -0.3% in December, which was worse than the expected -0.2% drop. However, the previously reported flat November reading was revised to show a monthly gain of 0.1%. This is an indicator we watch closely as it tends to give some insight on the future direction of economic growth. The first or advance reading of fourth quarter 2019 GDP

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showed a 2.1% annualized growth rate, which was modestly ahead of expectations of 2.0%.

We continue to expect economic growth through 2020, although the coronavirus will negatively impact GDP. The odds of a Fed rate cut have increased to offset this slow-down but will be dependent on the length and magnitude of this virus. The impeachment seems to be wrapping up just as the primary season begins to hit full swing, which will ultimately lead into the race for the White House in 2020.

The signing of Phase One of the trade agreement with China and the U.S. Mexico Canada Trade Agreement appear to have reduced some of the trade concerns for now. However, these concerns have been replaced by fears developing over the coronavirus. 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. We expected more volatility as we moved into 2020 (though we didn't know if would come from a global virus scare), but after such a strong close to 2019, some profit taking and volatility were not a surprise. We still believe that fundamentals will drive long-term results and 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

After getting off to a strong start to the year, the markets ended January in a risk-off mode. Treasury bonds advanced sharply with the 2-year Treasury yield falling to new lows and the 10-year Treasury challenging its low from last year.

High yield bonds have remained firm in the face of declining yields. In the Style Opportunity portfolio, we added exposure to large-cap growth as it has reasserted market leadership. Our positions in gold and gold miners in the Alternative Opportunity portfolio have provided a good counterbalance to the fear we're witnessing in the markets.

Clark Capital's Bottom-Up, Fundamental Strategies

In the first month of the year, the strongest sectors from 2019 continued to outperform with Technology leading the way. Energy experienced over an 11% decline as lower-than-expected earnings and heightened concerns of dwindling demand surfaced as fears surrounding the coronavirus spread across the globe.

Consensus estimates for the S&P 500 Healthcare and Technology sectors are expected to have the strongest 2020 dividend growth averaging 9.0% combined with earnings estimates of roughly 10.1%. Both of these sectors are well represented in our All Cap U.S. Equity and High Dividend Equity portfolios. In International ADR, higher quality countries like Japan, Ireland and Canada continue to represent our largest country allocations.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Dec	49.0	47.2	48.1	—
ISM Non-Manf. Composite	Dec	54.5	55.0	53.9	—
Change in Nonfarm Payrolls	Dec	160k	145k	266k	256k
Unemployment Rate	Dec	3.5%	3.5%	3.5%	—
Average Hourly Earnings YoY	Dec	3.1%	2.9%	3.1%	—
JOLTS Job Openings	Nov	7250k	6800k	7267k	7361k
PPI Final Demand MoM	Dec	0.2%	0.1%	0.0%	—
PPI Final Demand YoY	Dec	1.3%	1.3%	1.1%	—
PPI Ex Food and Energy MoM	Dec	0.2%	0.1%	-0.2%	—
PPI Ex Food and Energy YoY	Dec	1.3%	1.1%	1.3%	—
CPI MoM	Dec	0.3%	0.2%	0.3%	—
CPI YoY	Dec	2.4%	2.3%	2.1%	—
CPI Ex Food and Energy MoM	Dec	0.2%	0.1%	0.2%	—
CPI Ex Food and Energy YoY	Dec	2.3%	2.3%	2.3%	—
Retail Sales Ex Auto and Gas	Dec	0.4%	0.5%	0.0%	-0.2%
Industrial Production MoM	Dec	-0.2%	-0.3%	1.1%	0.8%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Dec	1460k	1416k	1482k	1474k
Housing Starts	Dec	1380k	1608k	1365k	1375k
New Home Sales	Dec	730k	694k	719k	697k
Existing Home Sales	Dec	5.43m	5.54m	5.35m	—
Leading Index	Dec	-0.2%	-0.3%	0.0%	0.1%
Durable Goods Orders	Dec P	0.3%	2.4%	-2.1%	-3.1%
GDP Annualized QoQ	4Q A	2.1%	2.1%	2.1%	—
U. of Mich. Sentiment	Jan F	99.1	99.8	99.1	—
Personal Income	Dec	0.3%	0.2%	0.5%	0.4%
Personal Spending	Dec	0.3%	0.3%	0.4%	—
S&P CoreLogic CS 20-City YoY NSA	Nov	2.40%	2.55%	2.23%	2.22%

Source: Bloomberg as of January 31, 2020

A=Advance, F= Final, P=Preliminary

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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.

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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 10-Year U.S. Treasury Index is a universe of Treasury-bonds, and used as a benchmark against the market for long-term maturity-fixed-income securities. The index assumes reinvestment of all distribution-sand interest payments..

The Bloomberg Barclays 30-Year U.S. Treasury Index is a universe of Treasury-bonds, and used as a benchmark against the market for long-term maturity-fixed-income securities. The index assumes reinvestment of all distribution-sand interest payments..

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 Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care.

Personal consumption expenditures price index is the component statistic for consumption in gross domestic product collected by the United States Bureau of Economic Analysis.

The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

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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