

### Authors



**K. Sean Clark, CFA®**

*EVP, Chief Investment Officer*



**Glenn Dorsey, CFA®, CAIA®**

*SVP, Head of  
Client Portfolio Management*

Navigate  
Your Future.  
Enjoy the  
Journey.

## Steady Hands in Turbulent Waters

Yesterday's 4.42% drop in the S&P 500 was the worst one-day return since August 18th, 2011 and was the 106th worst day on record (since 1926). This week alone has seen a 10.75% drop, which is the 45th worst four-day return on record. By all standards, the market is now in historic oversold territory. These deep oversold conditions have historically created strong forward returns especially when the trends are this solid.

This week has been the worst 4-day stretch since November of 2008. That's an important reference because the question we have to ask ourselves is: are we entering a unique economic collapse scenario where extreme oversold conditions don't matter, or do we use history as a guide and start buying? Given the favorable macroeconomic conditions and bullish trend prior to the sell-off, we think it's the latter.

The following is an analysis of what we know, what we don't know, and Clark Capital's perspective on the markets. We hope these talking points help you while having important conversations with your clients.

### What We Know

- The coronavirus is spreading at an alarming rate
- The mortality rate (% of deaths of infected) is far lower than previous epidemics
- We need to keep this tragic outbreak in perspective
  - According to the Center for Disease Control (CDC), as of February 23rd, there were 78,811 cases of the coronavirus worldwide and 2,462 confirmed fatalities
  - For perspective, per the World Health Organization, statistics for some other health issues are as follows:
    - ✦ 37.9 million people were infected with AIDS in 2018
    - ✦ There are 1.3 – 4.0 million cases of Cholera infections leading to 21k – 143k deaths per year
    - ✦ There are 3 – 5 million cases of Influenza leading to 290k – 650k deaths per year
    - ✦ In 2014, there were 422 million people with diabetes and 1.6 million deaths in 2016 directly resulting from diabetes

Investors have panicked, sending stock prices plunging and bond prices surging (yields have been dropping to record lows). Selling into panics is rarely a good strategy — as Warren Buffet says, "be fearful when people are greedy, and greedy when people are fearful."

### What We Don't Know

- How severe the crisis will be in terms of cases and fatalities
- How long it will last before it is contained
- How much impact it will have on global economic growth and corporate earnings
- Exactly when stocks will bottom

*Past performance is not indicative of future results.*

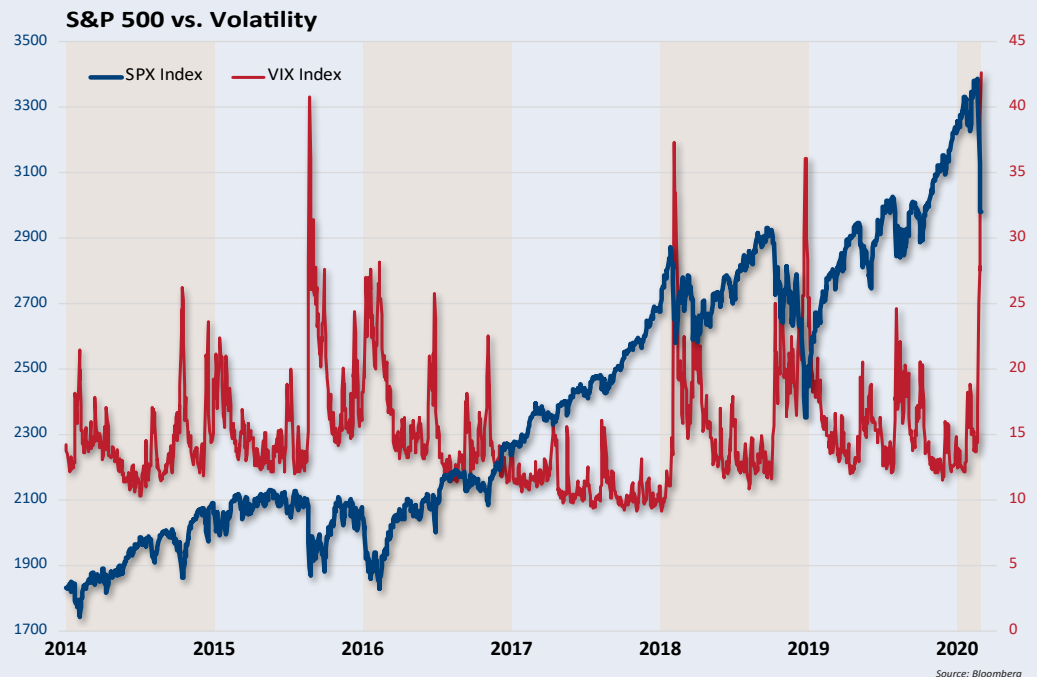
*This is not a recommendation to buy or sell a particular security. Please see attached disclosures.*



## What We Think — Clark Capital's Perspective

- The number of cases will rise
- The number of deaths will rise
- The impact on the global economy and earnings will be relatively short and relatively shallow

Stocks are approaching panic selling levels — The CBOE Volatility Index or VIX, which has been an historically good gauge of fear in the market, has gone from 12.1 on 1/17/20 to 39.16 on 2/27/20. To put this in perspective, the VIX closed at 36.07 on December 24, 2018 after the S&P 500 fell just shy of 20% over a 3-month period. This marked a cathartic sell-off in stocks and the beginning of a strong rally. The last time the VIX closed this high was on 8/24/15, the day of the "Flash Crash." The S&P 500 rallied 9.6% over the next two months.



We believe now is not the time to panic — investing emotionally results in bad long-term outcomes for investors.

## Clark Capital Portfolio Update

Clark Capital's portfolios strive to provide meaningful diversification, opportunistic asset allocation and personalized risk management to help clients remain committed to their long-term goals regardless of the ups and downs of the markets.

Our strategies utilize two distinct approaches: a fundamental, bottom-up approach and a top-down, quantitative approach. In our fundamental strategies, we utilize a disciplined and repeatable investment approach to bottom-up security selection. As a result, the portfolios do not make large shifts in reaction to short-term market events. We continue to believe that economic fundamentals are what matter in the long-run, and we believe current fundamentals remain positive.

Our top-down, quantitative strategies utilize a relative strength approach, which can offer

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



investors tactical risk management that can adjust and adapt to changes in the markets. For example, this week, the relative strength models that guide our Fixed Income Total Return strategy shifted, and as a result, we reallocated the strategy's assets from 100% high yield bonds to 50% high yield bonds and 50% U.S. Treasuries with the goal of protecting capital.

## Key Takeaways

We are not epidemiologists and will not pretend to know exactly how this disease will play out. History suggests that we are nearing panic selling levels in the market, which is rarely a good time to sell. We will carefully watch the spread of the disease and do our best to rationally assess the impact the outbreak will have on economic growth and corporate earnings.

Our experience tells us that global companies are not worth 10% less today than just a few weeks ago. Keep in mind that the bond portion of investor portfolios has benefitted from a "flight to quality" and a dramatic drop in yields.

As we have often said, finding the appropriate asset allocation is a critical step in achieving long-term investment success. Fixed Income Total Return (FITR), a strategy often used to help control risk in investor portfolios, has moved 50% into U.S. Treasuries with the goal to preserve capital.

We believe the surest way to achieve long-term goals is to not react to short-term events.

Past performance is not indicative of future results. The opinions expressed are those of the Clark Capital Management Group portfolio manager(s) that manage the strategies or products discussed herein, and do not necessarily reflect the opinions of all portfolio managers at Clark Capital Management Group or the firm as a whole. 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 investment 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 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

The CBOE Volatility Index is a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

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.

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-500