Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

After one of the worst months and quarters in years, April saw a sharp rebound in equity markets as some of the worst-case COVID-19 scenarios did not materialize. April marked the third best month of returns for the S&P 500 since WWII and the best monthly gain since January 1987.

Volatility, as measured by the VIX Index, hit its highest level ever in March at 82.69, but it dropped dramatically in April and by the close of the month, the VIX settled around 34.

The 10-year U.S. Treasury yield stayed near historic lows for most of April. After putting in a record closing low of 0.54% on March 9, the yield closed April at 0.64%.

Credit spreads had widened sharply in March, but April saw spreads narrow, and most pockets of fixed income enjoyed a solid month of gains. Action by the Federal Reserve helped provide liquidity to the credit markets and they began to function more normally.

As April ends and May begins, we enter a new phase of this crisis with many states starting the re-opening process. While still in the early stages, the focus has now turned to how to restart the economy and get Americans back to work.

Economic Data Reflects Shutdown, but Market Rallies

Equity Markets

The volatility spike we experienced in March was unprecedented. The CBOE Volatility Index, also known as the VIX or Fear Index, hit a record high during March surpassing any other point in its history dating back to January 1990. Only three times in the over 7,600 trading days since its inception has this index closed above 80, including March 16, 2020 when it closed at 82.69 – a record high close.

In last month's Benchmark Review, we acknowledged that these are indeed uncertain times, but we also believed that this current period was not the scariest time in the last 30 years as this reading seemed to indicate. Although too early to claim victory, equity markets calmed down dramatically in April and the VIX Index fell by about 60% to end the month around 34. This is still a high level for the VIX Index. The long-term average for the VIX Index is 19.3 and historically, it trades between 10-30 about 91% of the time and between 30-40 only about 5.5% of the time. We believe we will remain in a period of elevated capital market volatility for the foreseeable future.

Though it is far from certain, we believe the worst of the virus and stock market news is behind us and that we are on a gradual road to recovery. Extremes had been reached on the pessimistic side when looking at market indicators like the VIX Index, trading sentiment and put/call ratios. Again, we noted in last month's Benchmark Review that we tend to see these types of extreme pessimistic readings when the market is at or near a bottom. We believe conditions are improving, but we are not so naïve to think that things will get back to normal overnight. We think volatility will stay elevated and that we have a choppy road ahead as the reopening of the economy gradually begins.

We had anticipated a more volatile ride moving into 2020 due in part to valuations getting stretched after the year-end run in 2019, optimism reaching extreme levels (which can be a bearish indicator of complacency in the market), and normal election year volatility that markets historically experience in the first half of a presidential election year. We had even believed that a 5%-10% correction could materialize in the first part of 2020. After declining nearly 34%, incredibly, year-to-date the S&P 500 is down only -9.29% through April, which is more or less in-line with the type of "normal" market correction we believed was possible. We did not anticipate COVID-19, and the way we arrived at this point is anything but a run-of-the-mill 10% stock market correction, but we are where we are.

With this background, the equity rebound in April was dramatic, but stocks are still down year-to-date. The numbers for April were as follows: The S&P 500 gained 12.82%, the Dow Jones Industrial Average improved by 11.22%, the Russell 3000 advanced 13.24%, the NASDAQ Composite rallied 15.49% and the Russell

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

2000 Index, a measure of small-cap companies, rebounded by 13.74%. Significant divergences still exist among U.S. equity indices on a year-to-date basis and those declines through April (in the same order) were: -9.29%, -14.07%, -10.42%, -0.63%, and -21.08%, respectively.

The performance of the S&P has been driven by some of the largest companies in this index as the five largest companies have become a bigger overall percentage of this market-cap weighted index. Looking beneath those largest-cap companies reveals broader year-to-date weakness in stocks. One way to analyze this factor is to look at the equal-weighted returns of the S&P 500 compared to the market-cap weighted results (the way this index is normally presented).

The equal-weighted returns for the S&P 500 showed a gain in April of 14.44%, but a year-to-date decline of -16.11%. This is compared to the market-cap weighted numbers of 12.82% and -9.29%, respectively. This reveals that although there was some modest broadening in returns for the month, the largest companies in this index are still driving year-to-date results. This is an important point when analyzing active portfolio managers because they typically build their portfolio on an equal-weighted versus market-cap weighted basis. For example, a portfolio manager might buy a 2% position in 50 stocks to build an equity portfolio and would not typically skew that allocation larger or smaller based on the market cap size of a particular company.

Growth stocks continued to outpace value stocks on a relative basis rather dramatically for the month and year-to-date. The large-cap and value focused Russell 1000 Value Index advanced 11.24% compared to the Russell 1000 Growth Index, which gained 14.80% in April. Year-to-date results are even more telling with the former index down -18.49% through the first four months of the year and the latter index down a much more modest -1.39%. The theme of large-cap growth companies dominating small and mid-cap companies and the value style has continued into 2020.

International equities gained in April as well, but their results lagged U.S. stocks. Emerging market equities, as measured by the MSCI Emerging Markets Index, gained 9.16% in April, but were still down -16.60% year-to-date. The MSCI ACWI ex USA Index, a broad measure of international equities, advanced 7.58% for the month, but was off -17.55% year-to-date.

Fixed Income

At various points in March, liquidity dried up in the bond market. Credit spreads widened dramatically during this period and most pockets of fixed income came under pressure outside of U.S. Treasuries as a flight to quality ensued. With monetary operations and massive support from the Federal Reserve in later March and April, liquidity improved, and bond market functioning began to improve.

The flight-to-quality trade was the clear winner in March as U.S. Treasury yields hit historic lows and Treasury prices rallied. Although U.S. Treasury yields remained near their lows in April, credit spreads narrowed, and most pockets of fixed income enjoyed gains during the month. The yield on the 10-year U.S. Treasury closed March 9th at 0.54%, an all-time low. The yield closed out March at 0.70% and it ended April at 0.64%.

With this backdrop of narrowing spreads and declining interest rates, fixed income returns were as follows for April: the Bloomberg Barclays U.S. Aggregate Bond Index gained 1.78%, the Bloomberg Barclays U.S. Credit Index advanced 4.58%, and the Bloomberg Barclays U.S. Corporate High Yield Index rose 4.51%. Year-to-date, those index results were as follows: a gain of 4.98%, 1.29% and a decline of -8.75%, respectively. Municipal bonds slipped again in April and were also down year-to-date. The Bloomberg Barclays U.S. 30 Year Treasury index added to its already strong year-to-date gains as it advanced 1.97% in April, putting the gain at 28.29% through the first four months of 2020. The general Bloomberg Barclays U.S. Treasury index gained a more modest 0.64% for the month, but still rose an impressive 8.89% year-to-date.

Economic Data and Outlook

The transition from an economy on solid footing to the self-imposed shutdown began to materialize in economic data released in April. Since this information primarily covers March, some economic readings held up, but in most cases, it is really just a matter of time before the economic shutdown shows up broadly throughout the economy.

We know that economic data in the weeks and months ahead will be bad and we believe the second quarter will bear the brunt of the economic damage. GDP is going to be down significantly in the second quarter and employment will continue to suffer. With many consumers confined to their homes or now unemployed, retail spending will fall dramatically, and we began to see indications of this in the recent data. The advanced reading of first quarter GDP reflected an annualized decline in economic activity of -4.8%. The solid growth of the economy in January and February was not able to withstand the sudden shutdown of many parts of the economy in March as attention turned to slowing the spread of the coronavirus to save lives. We expect second quarter GDP to decline more than 20%.

We view even the initial attempts by some states to reopen their economies as a positive economic step. We will continue to monitor the re-opening progress and that will in large part determine the type of economic growth we might see later in the year. We fully anticipate some good news and some bad news along the way with some successes and failures. Overall, we believe the third quarter will be a period of transition as people start going back to work in larger numbers and the re-opening process for many businesses gains momentum. The fourth quarter should be a rebound quarter and is likely to exhibit stronger than trend growth as depleted inventories are replenished and pent up demand from consumers is unleashed. We anticipate that 2021 will exhibit above-trend economic growth.

Reviewing some of the economic releases in April starts to paint the picture of the magnitude of economic weakness we will likely experience over the next few months. The widely followed Institute for Supply Manufacturing (ISM) Manufacturing Index only modestly declined in March to 49.1 from February's level of 50.1 and it easily surpassed expectations of 44.5. One component of this index, new orders, fell sharply to 42.2 in March from the prior month's mark of 49.8, which provided some insight on what lay ahead. The release of this index on May 1 covering April reflected a much more dramatic decline in manufacturing activity. This reading fell to 41.5, the lowest level in 11 years, despite being ahead of expectations. The Non-Manufacturing Index remained above 50 in March at 52.5, but again, this reading will likely fall dramatically when April data is announced. Recall that 50 is the dividing line between expansion and contraction for these indices.

The non-farm payroll decline was dramatic in March, but it only reflected the tip of the iceberg regarding the damage done to the job market in recent weeks. Non-farm payrolls fell by -701,000 and the unemployment rate jumped to 4.4% in March compared to February's job gains of 275,000 and an unemployment rate that stood near a 50-year low at 3.5%. Weekly initial jobless claims readings have been followed closely over the last several weeks and reflect more up-to-date declines in employment. The last six weeks of jobless claims readings through 4/30/20 showed that over 30 million people filed for unemployment benefits during that time and back of the envelope math could put the unemployment rate for April in the neighborhood of 20%. Due to the way the calendar falls this year, the Employment Situation Report for April, which reveals the unemployment rate and non-farm payroll data, will be released on Friday May 8, not Friday May 1. For some perspective on the 30 million job losses over the last six weeks, the number of job gains over the more than ten years following the end of the Great Recession was around 21.5 million and the total number of jobs lost during the credit crisis was around 8.7 million, which saw the unemployment rate peak at 10%.

As would be expected during this extraordinary time, consumer spending weakened significantly in March. Retail sales, ex. autos and gas, dropped -3.1% during the month and the broader headline retail sales reading fell -8.7%. Personal spending fell -7.5% for the month as personal income dropped by -2.0%.

Other economic releases of note include the Conference Board's Leading Index, which dropped sharply by -6.7% in March compared to the prior month's decline of -0.2%. Housing starts in March fell by -22.3% to an annualized rate of 1.216 million and new home sales dropped to an annualized pace of 627,000, which was a -15.4% decline from the previous month.

The Federal Reserve continues to support the financial system in full force. Not only has the Fed deployed the playbook from the credit crisis in a matter of weeks, but in many ways, it added plays to the playbook as well. In one of its latest announcements, the Fed indicated that it would provide support to corporate credit, which could include "Fallen Angels", which refers to bonds that have been downgraded from BBB (investment grade) to BB (junk bond status) due to this crisis as well as potentially buying investment grade and high yield bond ETFs. This latest facility also included support to municipalities and the Fed recently expanded its Main Street lending facility intended to support small and medium size businesses. The latest fiscal stimulus from Congress and signed by the President focused on additional funds for small businesses and additional support for testing and hospitals.

These are not exhaustive lists of the actions taken by policymakers. It seems clear that the government is trying to support workers and broad areas of the economy that are being impacted by the shutdown in economic activity caused by the coronavirus. Additionally, the Fed is providing significant amounts of liquidity and support to the financial system so this health care crisis, which has led to an economic crisis, does not develop into a broader financial system crisis.

Although it is hard to put a precise number on it, efforts by the Fed plus the fiscal stimulus plans appear to total at least $8 trillion that will be spent to bolster the economy. The United States is about a $20 trillion-dollar economy, so that is a lot of money. It will take time for the stimulus to works its way into the economy and inevitably the naysayers will argue the stimulus is not working. However, we believe that these measures will ultimately work and will have a positive impact on the economy.

We know these are difficult and challenging times. We also know that we will continue to see bad news in the short-term and we anticipate elevated levels of capital market volatility for the foreseeable future. However, stocks are forward looking, and with the powerful rebound in equities in April, the market appears to be looking beyond the pending weak economic news and poor results from corporate America. While the timing is still uncertain, we remain resolute in our belief that the U.S. economy and corporate America will come through this crisis. We would not bet against the resiliency of the U.S. economy, corporate America and U.S. citizens to fight their way through this challenging period.

We believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives. This disciplined approach would have served clients very well over the last several weeks as most areas of stocks and bonds improved dramatically from their lowest points in March.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Our top-down, relative strength strategies came into April in a risk-on position and benefitted from the strongest monthly performance in the S&P 500 since 1987. The Navigator® Style Opportunity portfolio was allocated to large-cap growth and the S&P 500 and enjoyed the bounce back from the March lows, as the longstanding trend in growth remained intact.

The Navigator® Fixed Income Total Return (FITR) strategy shifted from defensive to risk-on on March 27th, prior to the Federal Reserve's announcement of their support for investment grade and fallen angel debt. High yield enjoyed a huge rally on April 9th when the Fed stated that it would buy corporate bond ETFs, including high yield ETFs.

The Navigator® Global Tactical portfolio, which shifts from equity risk-on to risk-off in tandem with the FITR credit-based risk models, came into the year fully invested in equity. It then turned defensive alongside FITR, and went fully back into equity on March 27th, just four days after the low in the S&P 500. The strategy is currently invested in 70% U.S. equity and 30% international equity ETFs.

Clark Capital's Bottom-Up, Fundamental Strategies

As rapid declines accentuate the importance of systematic risk vis-à-vis non-systematic (individual company) risk, indiscriminate selling provides opportunity for each of our bottom-up equity portfolios. We have spent the last two months determining which companies demonstrate true antifragility. Who has the balance sheet and business model to both shrug off the current recession and resurface during the recovery stronger?

The Navigator® High Dividend Equity portfolio focuses on dividend growers, which tend to have more stable businesses and cash flows. In the portfolio, the strongest contributing sectors during the month were Financials, Industrials and Utilities while the detractors were Energy, REITs and Consumer Discretionary.

The Navigator® ADR International Equity strategy dramatically reduced its larger-than-typical emerging market weight from 21.6% in January to just 13.7% as slower economic growth typically harms more fragile economies. At month end, we continued to add higher quality companies to the portfolio and as greater visibility regarding economic re-starts progresses, we anticipate continuing to move away from our biggest and safest country and industry holdings such as Japan and Ireland, Healthcare and Technology and moving back to emerging markets and cyclicals.

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

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Mar	44.5	49.1	50.1	—
ISM Non-Manf. Composite	Mar	43	52.5	57.3	—
Change in Non-farm Payrolls	Mar	-100k	-701k	273k	275k
Unemployment Rate	Mar	3.8%	4.4%	3.5%	—
Average Hourly Earnings YoY	Mar	3.0%	3.1%	3.0%	—
JOLTS Job Openings	Feb	6500k	6882k	6963k	7012k
PPI Final Demand MoM	Mar	-0.4%	-0.2%	-0.6%	—
PPI Final Demand YoY	Mar	0.5%	0.7%	1.3%	—
PPI Ex Food and Energy MoM	Mar	0.0%	0.2%	-0.3%	—
PPI Ex Food and Energy YoY	Mar	1.2%	1.4%	1.4%	—
CPI MoM	Mar	-0.3%	-0.4%	0.1%	—
CPI YoY	Mar	1.6%	1.5%	2.3%	—
CPI Ex Food and Energy MoM	Mar	0.1%	-0.1%	0.2%	—
CPI Ex Food and Energy YoY	Mar	2.3%	2.1%	2.4%	—
Retail Sales Ex Auto and Gas	Mar	-5.2%	-3.1%	-0.2%	-0.1%
Industrial Production MoM	Mar	-4.0%	-5.4%	0.6%	0.5%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Mar	1296k	1353k	1464k	1452k
Housing Starts	Mar	1300k	1216k	1599k	1564k
New Home Sales	Mar	642k	627k	765k	741k
Existing Home Sales	Mar	5.25m	5.27m	5.77m	5.76m
Leading Index	Mar	-7.2%	-6.7%	0.1%	-0.2%
Durable Goods Orders	Mar P	-12.0%	-14.4%	1.2%	1.1%
GDP Annualized QoQ	1Q A	-7.2%	-6.7%	0.1%	-0.2%
U. of Mich. Sentiment	Apr P	75.0	71.0	89.1	—
Personal Income	Mar	-1.7%	-2.0%	0.6%	—
Personal Spending	Mar	-5.1%	-7.5%	0.2%	—
S&P CoreLogic CS 20-City YoY NSA	Feb	3.19%	3.47%	3.08%	3.12%

Source: Bloomberg

A= Advanced, P=Preliminary

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. 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.

There is no guarantee of the future performance of any Clark Capital investment portfolio. This is not financial advice or an offer to sell any product. Clark Capital Management Group 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 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 Management Group's advisory services can be found in its Form ADV which is available upon request.

Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries.

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 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 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. Many analysts will use the 10 year yield as the "risk free" rate when valuing the markets or an individual security. 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

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.

The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

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 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..

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.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

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.

CCM-993