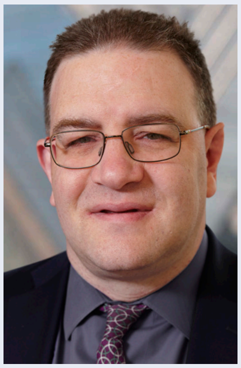
Portfolio Commentary

Navigator® MultiStrategy

Author



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Earnings Trough and Central Bank Support Points Towards More Potential Gains

After the first quarter's pandemic-related crash, a market rebound during the second quarter was to be expected. Though that rally came to be, its scale and speed surprised most investors, as the S&P 500 posted its best quarter since 1998, gaining over 20%. All risk-on assets were winners, including small-caps, high beta stocks, high-yield bonds, and commodities. The losers were U.S. Treasuries and cash, though they were only largely flat. Still, the damage from the first quarter lingers in many areas, as small-caps and value stocks remain deeply in the red for the year. Given the size of the recovery rally, the immediate question we as investors face is: what are the odds that more gains are instore for the markets?

There are many reasons for short-term concern. Re-openings of states and the discretionary economy in general have slowed as COVID-19 has unleashed a second wave in the U.S. Moreover, we are entering a contentious election cycle, and we believe a change of administration presently appears more likely than not. Dramatic regulatory and policy changes, particularly in Energy and Healthcare, and a higher corporate tax rate loom as major obstacles. Moreover, the first quarter of a new President's term, particularly when there is a change of administration, has often been a turbulent and dangerous time for investors. Despite the pandemic and its dramatic effects, markets have shrugged off a recession and dramatic decline in earnings. Instead, markets are preferring to look forward to a recovery in 2021 that is very uncertain.

Nevertheless, our studies of the stock market and earnings cycle point toward gains over the longer term. The current period of low reported earnings and even many negative forward earnings are, despite what investors might first think, an excellent time to purchase and own stocks. Forward returns are above historical averages, because a return to a more normal level of earnings has yet to be realized, and as those earnings are reported over time investor expectations often need to be adjusted higher. 2020's hyper-speed market activity has displayed a dramatic condensing of this cycle, normally a multi-quarter and multi-year phenomenon. That means that being tactical and prepared to preserve capital and avoid negative trends has become more important than ever. Clark Capital's active management style seeks to watch and pursue, or avoid, developing trends. Just as the second quarter ended, we have de-risked our high-yield bond position. However, we are mindful of history's lesson that markets most often produce large gains 12 to 24 months after a recession begins, and we are now in that time period.

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

US Equity – Style Rotation

The The U.S. equity portion of the MultiStrategy portfolios ranks U.S. equity styles and factors using Clark Capital's relative strength-based ranking methodology, and then purchases those ETFs with higher rankings, creating a broad-based portfolio that attempts to outperform the S&P 500. The equity portion of MultiStrategy entered the second quarter in a defensive stance, owning only the S&P 500 (IVV) and large-cap growth (SPYG). Large-cap and growth stocks had been market leaders during both the rally that began 2020 and the subsequent COVID-19 crash. Amazingly their leadership continued during the recovery rally in April and May.

Finally, as May began mid- and small-caps began to relatively outperform. Mid-cap growth (MDYG) has been the strongest style box or factor outside of large-cap growth, and it was added to the portfolio and became a major position. Eventually small-cap growth and later mid- and small-cap (MDYV And IJS) entered the portfolio in late May and early June; value stocks were boosted by hopes of an economic re-opening and broad, fast recovery. Those hopes were quickly dashed, however, as a second wave of COVID-19 hit the U.S., and value stocks and small-caps fell out of favor. Our position in value stocks unfortunately only lasted a few weeks, as their reversal was dramatic, and much of the outperformance that we earned in 2020's first quarter was whipsawed away.

The table below shows each equity Style fared during the second quarter and year to date:

Index or ETF Name	2nd Quarter 2020	Year to Date (thru 06/30/20)
S&P 500 Index	+20.5%	-3.1%
S&P 500 Large Cap Value ETF (SPYV)	+13.0%	-15.6%
S&P 500 Large Cap Growth ETF (SPYG)	+26.0%	+8.0%
Small Cap Value ETF (IJS)	+21.0%	-24.4%
Small Cap Growth ETF (IJT)	+23.4%	-11.8%
iShares Momentum Factor ETF (MTUM)	+23.4%	+5.1%

Source: Bloomberg

Large-cap growth was the strongest style for the quarter and is an astounding 19% ahead of the next best equity style, small growth, year to date. Large-cap growth as a group gives heavy weight to the FANMAG (Facebook, Apple, Netflix, Microsoft, Amazon, and Google) group of stocks that have for years now dominated equity returns. Just to passively index these stocks in an S&P 500 ETF means you devote 22.7% of your portfolio to them. The large-cap growth ETF devotes 38.6% to them, and 48.7% to the Technology sector. These stocks have delivered strong, steady earnings and cash flows, and their success means they avoided the fatal flaw in value stocks: excessive debt. Companies with high debt levels are burdened by that debt as a fixed cost, and economic weakness can quickly cause an existential crisis. Large-cap growth stocks by their nature avoid this dilemma. Moreover, their technological focus has made them less vulnerable to sudden shutdown than other companies during this sudden pandemic. Our fundamental analysis indicates that valuations of large-cap growth companies, while lofty, are not at problematic extremes.

Fixed Income – Owned High Yield Bonds During Q2 Rally but Exited As Quarter Ended

The fixed income portion of MultiStrategy portfolios engages in segment rotation within fixed income, owning high-yield bonds, Treasuries, or cash, whichever our models determine has recent relative trends in its favor. The fixed income slice of MultiStrategy was very active during the first quarter, de-risking the portfolio out of high-yield as the downturn progressed, and eventually on March 27th re-entered high-yield at lower prices and higher yields. The portfolio owned high yield for almost the entire quarter, exiting the position only on June 29th. High yield bonds produced strong returns, especially when compared to Treasuries: the iShares High Yield Corporate Bond ETF (HYG) was up 6.5% on the quarter, while the iShares Treasury Bond ETF (GOVT) was up only 0.6%. The rally was driven by optimism regarding an economic recovery, and particularly by strong Federal Reserve and fiscal stimulus, especially the Fed's statement that it will include High Yield Corporate Bond ETFs as purchasable.

Just as value stocks peaked in relative performance in mid-June, so did high yield bonds. As a second wave of COVID-19 began to spread and the economic re-opening came into question, high yield bonds, particularly the resurgent energy sector, came under stress again. U.S. Treasuries began to outperform and produce small gains, and after a few weeks of the slow drip of a delayed recovery, our credit-based models turned defensive, forcing us into U.S. Treasuries.

During 2020 the MultiStrategy portfolios have been very active within credit, and that activity is summarized below in terms of the average price of the bonds in the S&P 500 High Yield Bond Index:

January 17th	Average high yield bond price peaked at 102.49
February 26th	Sold half of our high yield bond position and bought Treasuries; average price at 101.28.
March 9th	Sold other half of our high yield position; average price at 95.56.
March 23rd	Markets bottomed; average price at 80.05.
March 27th	Re-entered high yield bonds when average price was at 85.29.
June 29th	Sold our high yield bond positions at an average price of 96.49.

Source: Bloomberg

In the fixed income portion of MultiStrategy we are first and foremost focused on risk and avoiding substantial loss. Thus, we have de-risked our fixed income exposure despite high yield bond spreads remaining wide and at historically attractive levels. One area that has us particularly concerned has been the poor performance of very low-quality credits, which have not been persistently weak amidst a dramatic increase in bankruptcies and whose recovery value has come into question. Our models have indicated that a possible downtrend is in place. We are willing to give up possible upside because our models indicate the potential for serious losses remains. It is a trade we are always content to make, even if it may limit upside at times.

Conclusion

2020's market environment still contains massive uncertainties. Markets have moved with massive speed and scale, trading on hopes and doubts of economic re-openings; and the political backdrop foretells change in fiscal and regulatory policy. We believe the short-term could well include downside, through the election and into 2021.

S&P 500 expected earnings growth is at negative 10%, a number only seen after the Great Financial Crisis. While that is an attention-grabbing headline number, the 2008 to 2009 period proved to be an ideal time to buy and own stocks. That could well turn out to be the case today. Since 1985 there were four time periods when the S&P 500 median expected earnings growth fell below zero: 1991 around the Gulf War, 2002 before the Iraq War, 2008 to 2009, and today. Each of those moments produced solidly positive long-term results for stocks. To the contrary, by this measure we should be most concerned about stocks when their earnings growth has peaked, and we are now at the exact opposite point in the cycle.

Moreover, the Federal Reserve and the U.S. government have initiated massive programs to support the economy and lending markets. This has greatly reduced the tail risks in U.S. lending markets, making a disastrous downside scenario less likely. Other nations and central banks have acted as well, and for the first time even Emerging Markets nations have initiated quantitative easing, so the support for the economy is global in scale. While volatility will remain high in the coming months, we believe that within equities, opportunities for gains should exceed losses as we move farther into 2021. The large-cap and growth themes that have dominated returns continue, and we expect to heavily favor growth and technology stocks within the equity portion of MultiStrategy.

Within the credit space, support by the Federal Reserve does not extend down into low quality, distressed borrowers. High yield bonds recovered much of their first quarter losses and are down just 3.8% through June 30th, but CCC and below rated bonds remain down over -13%. With no central bank support, low quality credit will have to go through an extended elevated bankruptcy and then recovery phase. Our models have turned defensive, and the weaker liquidity that we see in credit markets should, in our opinion, lead to higher volatility. For now we remain defensive with regard to credit, and we would expect that it would take a substantial improvement in the trends toward economic re-openings to reverse that stance.

Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 25-75			
NTBIX	Navigator Tactical Fixed Income Fund Class I	71.89	4.50
SPYG	SPDR Portfolio S&P 500 Growth ETF	9.32	2.61
IVV	iShares Core S&P 500 ETF	9.25	2.16

Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 25-75			
MDYV	SPDR S&P 400 Mid Cap Value ETF	1.04	-0.60
IJS	iShares S&P Small-Cap 600 Value ETF	0.44	-0.31
IJT	iShares S&P Small-Cap 600 Growth ETF	1.09	-0.00

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

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Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 50-50			
SPYG	SPDR Portfolio S&P 500 Growth ETF	19.40	5.40
IVV	iShares Core S&P 500 ETF	16.82	4.08
NTBIX	Navigator Tactical Fixed Income Fund Class I	46.58	2.87

Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 50-50			
MDYV	SPDR S&P 400 Mid Cap Value ETF	2.24	-1.29
IJS	iShares S&P Small-Cap 600 Value ETF	0.73	-0.53
IJT	iShares S&P Small-Cap 600 Growth ETF	1.83	-0.00

Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 75-25			
SPYG	SPDR Portfolio S&P 500 Growth ETF	28.03	7.72
IVV	iShares Core S&P 500 ETF	26.04	6.28
MDYG	SPDR S&P 400 Mid Cap Growth ETF	12.37	1.54

Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 75-25			
MDYV	SPDR S&P 400 Mid Cap Value ETF	3.76	-2.15
IJS	iShares S&P Small-Cap 600 Value ETF	1.03	-0.74
IJT	iShares S&P Small-Cap 600 Growth ETF	2.58	-0.00

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

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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.

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.

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 S&P 500® High Yield Corporate Bond Index, a subindex of the S&P 500 Bond Index, seeks to measure the performance of U.S. corporate debt issued by constituents in the S&P 500 with a high-yield rating. The S&P 500 Bond Index is designed to be a corporate-bond counterpart to the S&P 500, which is widely regarded as the best single gauge of large-cap U.S. equities.

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