Benchmark Review
& Monthly Recap

Equity Markets Grind Higher in June; Quarter is Best in Decades

Highlights

Stocks rallied sharply in April and May and added more gains in June. The second quarter had some of the best equity index returns in decades.

After sliding below 25 in early June, volatility, as measured by the VIX Index, bounced higher and remained above 30 for the rest of the month. The VIX above 30 is still high from a historical perspective, reflecting elevated volatility.

The 10-year U.S. Treasury yield rose in early June but declined as the month progressed and closed June at 0.66%.

We continue to expect an uneven economic road to recovery. We saw signs of this in June as the economic reopening encountered headwinds as several states saw COVID-19 cases surge and governors slowed the process.

Equity Markets

Stock market gains were positive for the S&P 500 and the Dow in June, and the quarterly results for these indices proved to be the best in decades. For the Dow, last quarter was the best since 1987 and for the S&P 500, the best since 1998. The Nasdaq Composite outperformed dramatically in June, which pushed this index to its best quarterly performance since 1999. As is often the case, the worst periods of market performance, like Q1, are often followed by some of the best times in the market, like Q2. For this reason, we continue to urge clients to stick to their long-term financial plans and not make decisions based on short-term movements in the market.

The CBOE Volatility Index or VIX Index, fell to its lowest post-pandemic level (the mid-20s) in early June. However, the VIX subsequently spiked above 40 for the first time since April and then remained above 30 for the balance of the month. Historically, the VIX spends over 90% of the time between a level of 10 and 30, and less than 10% of the time above 30. The initial phases of states reopening resulted in good news, lower volatility and stocks advancing. As June progressed, some states experienced a surge in COVID-19 cases and the reopening process slowed or paused, volatility rose, and stocks results became more mixed. We anticipate that volatility will remain elevated for the next several months as the reopening process moves forward in what we expect will be a long and uneven economic recovery. Furthermore, normal presidential election year volatility might rear its head as the political campaigning picks up and we move closer to the November election.

Some modest broadening of the rally has occurred as small-cap growth stocks outpaced large-cap growth companies since the market bottom on March 23 and for the second quarter. Any metric involving value-oriented stocks showed a significant lag to growth stocks from the market bottom, for the second quarter and year to date. We at Clark Capital continue to use our disciplined approach of seeking out high-quality businesses at what we believe are good prices. The value/growth disparity has become more and more stretched and any reversion to the mean should benefit value focused names. As always, we will continue to make purposeful investments in both stocks and bonds as we move forward in what we believe will be a period of wider outcomes of investment results.

The numbers for June were as follows: The S&P 500 gained 1.99%, the Dow Jones Industrial Average improved by 1.82%, the Russell 3000 advanced 2.29%, the NASDAQ Composite rallied 6.07% and the Russell 2000 Index, a measure of small-cap companies, gained 3.53%. Those results for the second quarter (in the same order) were: 20.54%, 18.51%, 22.03%, 30.95%, and 25.42%, respectively.

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For some final perspective on the divergence between value and growth stocks, consider the Russell 1000 Index is down -2.81% year to date. However, the Russell 1000 Growth Index has advanced 9.81% and the Russell 1000 Value index has declined -16.26%, a more than 2600 bps difference between growth and value over a six-month period. In our opinion, this is extreme and an unsustainable spread between growth and value, which at some point should return closer to longer-term norms.

International equities advanced in June as well, and emerging market equities showed some of the best monthly results. The MSCI Emerging Markets Index gained 7.35% in June and the MSCI ACWI ex USA Index, a broad measure of international equities, advanced 4.52%. Quarterly results were gains of 18.08% and 16.12%, respectively, which lagged U.S. results and international equities continue to lag on a year-to-date basis as well.

Fixed Income

Bond yields remained low in June as the ongoing, massive support from the Federal Reserve is keeping a lid on interest rates. After a clear flight to quality into U.S. Treasuries in the first quarter, corporate bonds and municipals outperformed in June and the second quarter as credit spreads narrowed.

The 10-year U.S. Treasury yield closed at 0.91% on June 5th, the highest level since March. That move proved to be short-lived as the 10-year slipped lower and closed the month at 0.66% compared to the May close at 0.65%. Although the 10-year yield did not break below the historic low of 0.54% in March, the 3- and 5-year U.S. Treasury yields hit new historic lows during June. The Fed is determined to keep interest rates low and has the financial resources to do it. We expect a "lower for longer" interest rate environment for the foreseeable future.

Fixed income returns were as follows for June: the Bloomberg Barclays U.S. Aggregate Bond Index gained 0.63%, the Bloomberg Barclays U.S. Credit Index advanced 1.83%, and the Bloomberg Barclays U.S. Corporate High Yield Index rose 0.98%. For the second quarter, those index results were as follows: a gain of 2.90%, 8.22% and a solid rebound of 10.18%, respectively. Municipal bond results outpaced Treasuries in June and for the quarter, but still lag on a year-to-date basis. Treasuries still show the best results for the first half of 2020, while high-yield bonds are the only pocket of fixed income with negative results.

Economic Data and Outlook

We believe this economic recession will be one of the most severe on record, but it will also be one of the shortest. The National Bureau of Economic Research declared the recession started in March and in our opinion the second quarter will bear the brunt of the pandemic crisis. Many states were largely shutdown at the outset of the quarter, but the reopening began in May with momentum picking up in June, and many economic data points have subsequently improved. We expect this economic recovery to be long and uneven as evidenced by rising COVID-19 cases in some regions lead to some states already slowing their reopening process as June concluded.

In May, the widely followed ISM Manufacturing Index rose slightly less than expected to 43.1 from the prior month's level of 41.5. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, also improved in May to 45.4 from 41.8 and this was ahead of expectations of 44.4. Both readings remain well below the expansion/contraction line of 50, but both also improved in May from weak levels in April.

Payroll data was surprisingly positive in May reflecting unexpected speed in the first wave of rehiring after states began to reopen. After payrolls declined by a revised -20.7 million in April, expectations were calling for a further -7.5 million jobs to be lost in May. Instead, over 2.5 million additions were made to payrolls and the unemployment rate improved to 13.3% from 14.7% in April, which was well ahead of the expected worsening of the unemployment rate to 19.0%. June data (released in early July) showed 4.8 million more jobs added to payrolls (plus an additional 90,000 gains based on revisions to the prior two months) and the unemployment rate fell to 11.1%, both easily surpassing estimates.

Retail sales also enjoyed a record bounce back in May. Retail sales, for example autos and gas, were expected to increase by 5.1%, but they more than doubled that improvement to 12.4%. Housing stats improved to an annual pace of 974 thousand in May, but that was below expectations. Similarly, building permits also gained in May to a 1.222 million annual pace from April's mark of 1.066 million, but it too was below the anticipated increase. Existing home sales were below expectations and the prior month's level, while new home sales surpassed expectations and improved upon April's mark.

Consumer confidence, as measured by the preliminary reading of the University of Michigan consumer sentiment survey, improved to 78.9 in June from May's level of 72.3 and was ahead of the anticipated gain to 75. Furthermore, the Conference Board's Leading Index bounced sharply in May by 2.8% when a monthly gain of 2.4% was expected compared to a revised drop in April of -6.1%.

We anticipate a strong bounce back in economic activity in the second half of 2020. Once we move into 2021, we anticipate economic growth will go back to the slower trend type

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of growth we experienced for most of the post-credit crisis period. We believe it will take until late 2022 or early 2023 to return to the peak levels of economic growth we were at pre-pandemic in February.

The Federal Reserve continues to signal an "all-in" attitude to try to support the functioning of the financial system. Clearly, the Fed's aggressive support has been an important factor in the improvements in the capital markets. Unfortunately, and not unexpectedly, the next round of fiscal stimulus is more uncertain at this point. We anticipate another round of fiscal stimulus will be passed, but we know a fiscal cliff exists at the end of July when the additional Federal portion of unemployment benefits of $600 per week ends. We expect the next round of fiscal stimulus to be passed before the end of July.

As we go through what we know are difficult and challenging times, we remain resolute in our belief that the U.S. economy and corporate America will make it through this pandemic. This stance has not changed since the beginning of the crisis. Remember, stocks are forward looking, and the market appears to be looking beyond the current weak economic and earnings news and toward the anticipated improvements that lie ahead in the second half of this year and into 2021.

To be clear, we do expect elevated volatility in the weeks and months ahead; we think it is important that investors brace for this likely bumpy path. However, at this point, we believe the economy and markets are heading in the right direction. 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 long-term objectives.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

The broad equity market enjoyed its third straight month of gains in June, and had recouped much of the losses during the bear market. There was a sharp, but brief, style rotation with mid- and small-cap value stocks outperforming in early June, but it didn't last as large-cap growth reasserted its leadership position.

Credit spreads blew out during the March sell-off with high-yield spreads reaching 1100 bps. Spreads had collapsed to as low as 536 bps in early June. Now, however, the virus is surging in some places, both here in the U.S. and globally, and concerns are growing about a second wave and its possible economic ramifications with affected hot spots partially shutting down again.

Risk assets have recently shown some weakness and credit spreads have turned higher, reaching 630 bps on June 29th. In particular, high-yield bonds have begun to weaken and U.S. Treasuries have strengthened.

Clark Capital's Bottom-Up, Fundamental Strategies

Unprecedented monetary and fiscal policy as well as the gradual economic re-opening gave investors reasons for optimism. As a result, this sparked a 21% rise in the S&P 500 during the second quarter, more than any quarter since 1998. The index recouped nearly all of its first quarter losses and is down just 3.1% year to date. Gains moderated in June as reversals in "COVID Hot Spots" business openings threatened the shape of the economic recovery. Credit spreads have also reversed, widening on the prospects of higher future defaults further threatening banks and other lenders.

Fixed income markets have been supported, with the Federal Reserve in the market. The portfolios have started to mature the front end of the barbell strategy and re-invest in longer dated bonds as we look to move the duration out toward the five-year range.

We continue to remain cautious focusing on investments that represent high-quality liquid names. In other words, we believe credit selection and active portfolio management should continue to drive returns as we move through the summer and into the autumn season.

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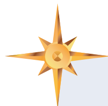

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	May	43.8	43.1	41.5	—
ISM Non-Manf. Composite	May	44.4	45.4	41.8	—
Change in Nonfarm Payrolls	May	-7.5m	2.509m	-20.54m	-20.69m
Unemployment Rate	May	19.0%	13.3%	14.7%	—
Average Hourly Earnings YoY	May	8.5%	6.7%	7.9%	8.0%
JOLTS Job Openings	Apr	5750k	5046k	6191k	6011k
PPI Final Demand MoM	May	0.1%	0.4%	-1.3%	—
PPI Final Demand YoY	May	-1.2%	-0.8%	-1.2%	—
PPI Ex Food and Energy MoM	May	-0.1%	-0.1%	-0.3%	—
PPI Ex Food and Energy YoY	May	0.4%	0.3%	0.6%	—
CPI MoM	May	0.0%	-0.1%	-0.8%	—
CPI YoY	May	0.3%	0.1%	0.3%	—
CPI Ex Food and Energy MoM	May	0.0%	-0.1%	-0.4%	—
CPI Ex Food and Energy YoY	May	1.3%	1.2%	1.4%	—
Retail Sales Ex Auto and Gas	May	5.1%	12.4%	-16.2%	-14.4%
Industrial Production MoM	May	3.0%	1.4%	-11.2%	-12.5%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	May	1245k	1220k	1074k	1066k
Housing Starts	May	1100k	974k	891k	934k
New Home Sales	May	640k	676k	623k	580k
Existing Home Sales	May	4.09m	3.91m	4.33m	—
Leading Index	May	2.4%	2.8%	-4.4%	-6.1%
Durable Goods Orders	May P	10.5%	15.8%	-17.7%	-18.1%
GDP Annualized QoQ	1Q T	68.0	73.7	71.8	—
U. of Mich. Sentiment	June P	75.0	78.9	72.3	—
Personal Income	May	-6.0%	-4.2%	10.5%	10.8%
Personal Spending	May	9.3%	8.2%	-13.6%	-12.6%
S&P CoreLogic CS 20-City YoY NSA	Apr	3.80%	3.98%	3.92%	3.91%

Source: Bloomberg

P=Preliminary, T=Third

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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.

Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

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 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 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 3 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 3 year.

The 5 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 5 year.

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 Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

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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