Clark Capital Management Group

Benchmark Review
& Monthly Recap

No Summer Doldrums for this Market – Strong Gains Enjoyed in August

Highlights

The S&P 500 Index, primarily driven by a handful of large-cap tech names, hit a new all-time high in August, joining the NASDAQ Composite, which moved further into record territory during the month.

The Dow enjoyed a strong month of gains and returned to positive territory for 2020. However, this index remains below its record level from February.

Despite stock market highs, volatility, as measured by the VIX Index, climbed late in the month. After hitting its lowest point since late February mid-month, the VIX closed August at 26.41 – the high close for the month.

The 10-year U.S. Treasury yield closed at a historic low on August 4th at 0.52%, below the prior record close of 0.54% put in during March. However, the yield moved higher from that point and ended August at 0.72%.

We had anticipated a bumpy road to recovery, and we experienced that recently as COVID-19 cases have increased in various parts of the country. However, economic data continued to show progress in July and the market continued to look past the current challenges and forward toward ongoing improvements in the U.S.

The market shrugged off (at least for now) the fact the Congress failed to pass another round of economic stimulus. Politics will likely take center stage over the next few months as we move toward the presidential election in November.

Equity Markets

Equity markets kept their momentum going in August and continued to make what we believe are impressive gains. The S&P 500 hit a new all-time high in August, surpassing the prior high from February, although the Equal-Weighted S&P 500 Index continues to be down -2.27% for the year. This highlights how a handful of the largest stocks in the index are distorting returns. The Dow Jones Industrial Average moved back into positive year-to-date territory following gains in August. The NASDAQ Composite outshined them all and put in new record highs during the month. The largest, tech-focused companies have driven this index and the broader markets higher and the NASDAQ Composite has been a clear beneficiary of these strong gains.

In August, the CBOE Volatility Index or VIX Index, fell to its lowest level since before the pandemic began in late February. While it moved steadily lower for the first part of the month, the VIX increased in the latter part of August and closed at its highest level of the month at 26.41. This is still roughly double the VIX levels we were enjoying in late 2019 and early 2020, but a clear improvement from the all-time closing high of 82.69 hit on March 16. Historically, the VIX spends about 28% of the time between 20 and 30 and less than 10% of the time above 30, so volatility is still elevated. Over the next couple of months, we anticipate higher than normal volatility as the reopening of the U.S. economy goes through expected ups and downs and the presidential election in November nears.

The stock market rally in August was broad, but large-cap growth companies continued to dominate other areas of the market. 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.

August returns were strong across the board. For the S&P 500, it was the best August since 1986; for the Dow, the best since 1984, and for the NASDAQ it was the best month since 2000. The numbers for August were as follows: The S&P 500 gained 7.19%, the Dow Jones Industrial Average improved by 7.92%, the Russell 3000 advanced 7.24%, the NASDAQ Composite rallied 9.70% and the Russell 2000 Index, a measure of small-cap companies, gained 5.63%. Year-to-date results continue to show major dispersion among these broad indices and returns through August, in the same order, were as follows: 9.74%, 1.30%, 9.39%, 32.07%, and -5.53%, respectively.

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As noted above, market cap has been an important differentiator of stock market results this year, but style continues to matter as well. For some perspective on the divergence between value and growth stocks, consider the Russell 1000 Index is up 10.43% year to date after gaining 7.34% in August. However, the Russell 1000 Growth Index has advanced 30.47% year to date (up 10.32% in August) compared to the Russell 1000 Value index, which has declined -9.35% year to date (up 4.13% in August). Just seven stocks (Apple, Facebook, Amazon, Tesla, Microsoft, Alphabet and Netflix) accounted for over 70% of the return of the Russell 1000 Growth Index. The difference between those two indices is now just under 4000 bps over an eight-month period. In our opinion, this is extreme and an unsustainable spread between growth and value, which at some point will return closer to longer-term norms.

International equities showed broad gains in August as well, but not to the same degree of the major U.S. equity markets. The U.S. dollar continued to trend lower in August after a sharp decline in July. The U.S. Dollar Index closed the month at its lowest level since the first half of 2018. U.S dollar weakness provides a tailwind to international stocks. The MSCI Emerging Markets Index gained 2.21% in August and the MSCI ACWI ex USA Index, a broad measure of international equities, advanced 4.28% with year-to-date returns of 0.45% and -3.05%, respectively.

Fixed Income

After hitting a historic low early in the month, the yield on the 10-year U.S. Treasury moved higher and rising interest rates proved to be a headwind for most bond sectors during the month. The ongoing and massive support from the Federal Reserve is generally keeping a lid on interest rates, but rates did move higher during the month as equities rallied. We anticipate a "lower for longer" interest rate environment to persist for the foreseeable future, but movement along the way is to be expected. After most categories of fixed income enjoyed gains in July with credit holding the clear advantage, most bond sectors declined in August with the clear exception being high-yield bonds.

Fixed income returns were as follows for August: the Bloomberg Barclays U.S. Aggregate Bond Index fell -0.81%, the Bloomberg Barclays U.S. Credit Index declined -1.27%, the Bloomberg Barclays U.S. Corporate High Yield Index gained 0.95% and the Bloomberg Barclays Municipal Index slipped by -0.47%. Treasuries still show strong results year to date driven by powerful first quarter returns, but most Treasury indices outside of TIPS (which gained 1.09% for the month) declined in August as rates moved higher.

Economic Data and Outlook

The economy continued to show improvement following the historic decline in economic activity in the second quarter. The National Bureau of Economic Research declared that a recession started in March. We expected the second quarter would bear the brunt of this pandemic-caused recession, but we also expected that economic activity would improve markedly in the second half of the year. For the record, the second reading of Q2 GDP was revised modestly higher to an annualized decline of -31.7% from a preliminary estimate of -32.5%. The reopening of the economy has continued, but with some clear bumps along the way as several states are seeing a resurgence in COVID-19 cases. August economic readings, which largely reflect July activity, continued to reflect broad improvements happening in the economy. In fact, the latest reading of GDPNow released by the Federal Reserve Bank of Atlanta is indicating a third quarter rebound of 28.9%.

The job market showed ongoing gains in employment following significant layoffs from earlier in the year. Please keep in mind that we are still recovering from the drop in payrolls of -20.7 million in the month of April alone. In July, non-farm payrolls were expected to increase by almost 1.5 million, but actual job gains were just over 1.76 million. This followed a gain of just under 4.8 million jobs in June. The unemployment rate dropped to 10.2% compared to expectations of 10.6% and the prior month's mark of 11.1%. Average hourly earnings rose by a better-than-expected 4.8% compared to estimates of 4.2%. We continue to expect a bumpy path as we recover, but the job market has continued to see people get back to work following the pandemic shutdowns in many parts of our economy.

The widely followed ISM Manufacturing Index rose to 54.2 in July, ahead of the expected reading of 53.6, remaining comfortably in expansion territory above 50. (For August, this index improved once again to 56.0). The New Orders component of this reading has rebounded strongly and in July it came in at 61.5, well ahead of expectations of 55.1 and the prior month's level of 56.4. The ISM Non-Manufacturing or Services Index, which covers the much larger service industries in the U.S. economy, showed progress as well, jumping to 58.1 compared to expectations of 55.0 and the prior month's mark of 57.1. We believe that this shows that manufacturing and service industries have improved from the shutdown period and activity continued to expand in July.

Retail sales continued to advance, but the pace of gains slowed in July. Excluding auto and gas station sales, retail sales increased 1.5%, better than the expected gain of 1.0%, but well below June's improvement of 7.7%. The housing market showed broad strength in July as several housing

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measures showed improvement in activity. Housing starts, building permits, new and existing home sales all surpassed expectations in July and all improved from levels in June.

Consumer confidence, as measured by the preliminary reading of the University of Michigan consumer sentiment survey for August, only modestly improved to 72.8 from July's mark of 72.5. This was slightly ahead of estimates of 72.0. The Conference Board's Leading Index gained 1.4% in July, ahead of the expected 1.1% advance, and June was revised higher to a 3.0% increase from the previous 2.0% reading.

We continue to anticipate a strong bounce back in economic activity in the second half of 2020. So far in the third quarter, the economy indeed appears to be bouncing back from the second quarter slowdown. While improvements are being made, we believe it will take until late 2022 or early 2023 to return to the peak levels of economic output we were at pre-pandemic in February.

The ongoing news from the Federal Reserve continues to be the same story: an "all-in" attitude to support financial markets. A "virtual" Jackson Hole Symposium in August included a speech from Chairman Powell, which further cemented this point. Unfortunately, Congress has yet to agree upon a CARES Act 4.0, although negotiations are still taking place. Government officials are trying to determine the right amount of stimulus to help support the unemployed, but at the same time incentivize them to return to work. Currently, the two parties disagree on the scale and composition of the next round of fiscal stimulus and finding consensus in the midst of a presidential election is proving to be a challenge.

Equity markets have enjoyed a remarkable rebound following the lows in March with relatively little volatility. We certainly recognize that these are difficult and challenging times for many individuals and economic hardship remains for many. 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. We do expect elevated volatility in the weeks and months ahead moving toward the election and we think it is important that investors brace for this likely bumpy path. However, at this point, we believe the economy and financial 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 derail them from their longer-term objectives.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

The risk management models that drive several of the top down strategies turned very bullish on the markets at the end of July. All major equity indices continued their bull market gains in August supported by fiscal policy, monetary policy and accelerating economic growth.

The Style Opportunity portfolio remains primarily focused on large-caps and exclusively focused on growth. The portfolio is allocated 68% in large-caps, and 30% in mid-and small-cap growth, and continues to avoid value stocks.

The Global Tactical portfolio is fully invested in equities, having shifted its exposure from risk-off in U.S. Treasuries into a risk-on position on July 30 as the strategy's risk management models turned bullish. The portfolio experienced solid gains during the month as equities across the globe advanced.

Fixed Income Total Return moved back into high yield bonds on July 30. For the month, high yield advanced and treasuries declined. While we have seen a huge compression in credit spreads since March, it is worth noting that spreads have just fallen below their peaks from January of 2019 and they have over 150 bps left to tighten before hitting 3.25%, which is a major low over the past ten years.

The Alternative Opportunity portfolio has benefitted recently from the surge in commodities and related equities. The portfolio position in Precious Metals was as high as 18% but we have reduced it to 15.5%. The portfolio remains well positioned to benefit from the commodity/reflation theme.

Clark Capital's Bottom-Up, Fundamental Strategies

Since the S&P 500 Index low on March 23rd, the V-shaped recovery in stock prices was stellar in the face of extreme economic conditions. The five-month upward trajectory in the market was not solely due to improving fundamentals. A combination of Fed liquidity fueling the markets, negative real interest rates offering little alternative to equities as well as the economic reopening were contributing factors.

The High Dividend Equity portfolio continues to invest in industry leaders possessing strong balance sheets and secure dividends.

The All Cap portfolio remains fully invested with approximately 69.6% in large-cap stocks and the remainder in mid/small-cap stocks and cash. The portfolio continues to shift towards growth and work-from-home trends.

In the Taxable and Tax-Free Fixed Income portfolios we continue to monitor credit and duration exposure, and have incrementally extended duration given the steeper yield curve.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	July	53.6	54.2	52.6	—
ISM Services Index	July	55.0	58.1	57.1	—
Change in Nonfarm Payrolls	July	1.480m	1.763m	4.800m	4.791m
Unemployment Rate	July	10.6%	10.2%	11.1%	—
Average Hourly Earnings YoY	July	4.2%	4.8%	5.0%	4.9%
JOLTS Job Openings	June	5300k	5889k	5397k	5371k
PPI Final Demand MoM	July	0.3%	0.6%	-0.2%	—
PPI Final Demand YoY	July	-0.7%	-0.4%	-0.8%	—
PPI Ex Food and Energy MoM	July	0.1%	0.5%	-0.3%	—
PPI Ex Food and Energy YoY	July	0.0%	0.3%	0.1%	—
CPI MoM	July	0.3%	0.6%	0.6%	—
CPI YoY	July	0.7%	1.0%	0.6%	—
CPI Ex Food and Energy MoM	July	0.2%	0.6%	0.2%	—
CPI Ex Food and Energy YoY	July	1.1%	1.6%	1.2%	—
Retail Sales Ex Auto and Gas	July	1.0%	1.5%	6.7%	7.7%
Industrial Production MoM	July	3.0%	3.0%	5.4%	5.7%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	July	1326k	1495k	1241k	1258k
Housing Starts	July	1245k	1496k	1186k	1220k
New Home Sales	July	790k	901k	776k	791k
Existing Home Sales	July	5.41m	5.86m	4.72m	4.70m
Leading Index	July	1.1%	1.4%	2.0%	3.0%
Durable Goods Orders	July P	4.8%	11.2%	7.6%	7.7%
GDP Annualized QoQ	2Q S	-32.5%	-31.7%	-32.9%	—
U. of Mich. Sentiment	Aug P	72.0	72.8	72.5	—
Personal Income	July	-0.2%	0.4%	-1.1%	-1.0%
Personal Spending	July	1.6%	1.9%	5.6%	6.2%
S&P CoreLogic CS 20-City YoY NSA	June	3.6%	3.46%	3.69%	3.61%

Source: Bloomberg

P=Preliminary, S=Secondary

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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 U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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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