ClarkCapital MANAGEMENT GROUP

Portfolio Commentary

Navigator® High Dividend Equity

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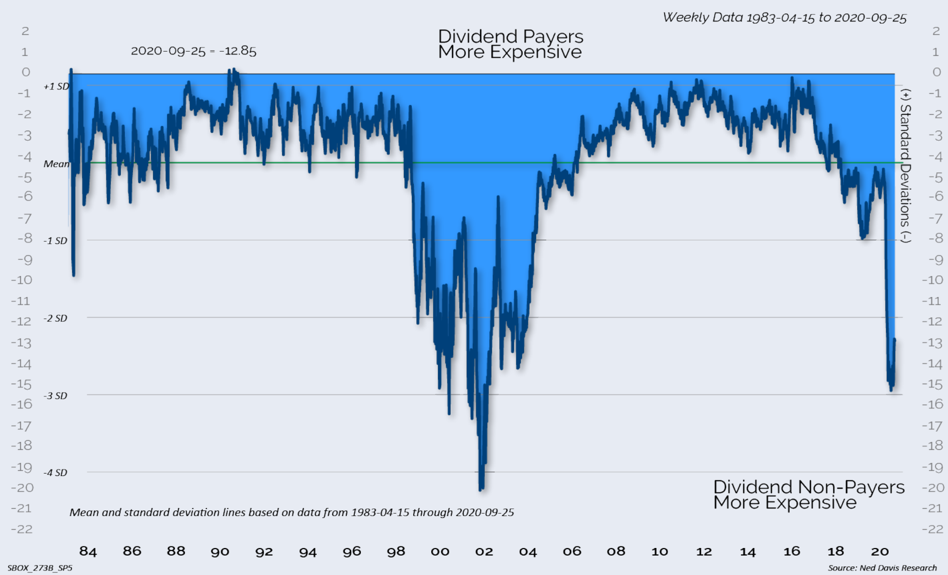
Another Fickle Value Rally?

U.S. stocks posted their worst September performance in nearly a decade. The Russell 1000 Growth Index ended an 11-month streak falling -4.8%, versus the Russell 1000 Value Index decline of -2.6%. Although COVID cases are rising, the economy continues to reopen which benefits value oriented, cyclical industries such as Transports and Materials. Despite the market decline, growth stocks have outperformed value by a wide margin for the year.

So far, any rally in value stocks has been short lived, with the worst laggards found in the hard-hit bank, Energy and Consumer Discretionary stocks. The majority of dividend payers tilt toward the value sectors, which are inexpensive versus non-dividend paying stocks. As economic growth improves and interest rates remain low, we believe dividend stocks will be a beneficiary as TINA (There is No Alternative) persists in the marketplace.

S&P 500 Median Forward P/Es of Dividend Payers minus Dividend Non-Payers



Source: Ned Davis Research

Since March, dividend increases and share buybacks slowed, particularly across the banking sector due to the Federal Reserve limiting dividend increases and freezing buybacks. Historically, when forward earnings estimates decline, there is a direct correlation to an increased number of dividend cuts. Over the past six weeks estimates continue to improve, confirming our belief that many of the dividend eliminations have already occurred for 2020 and may decline into 2021-2022. The number of High Dividend Equity dividend increases reinforces the strong fundamental characteristics of the company profiles.

Source: Ned Davis, Ed Yardeni
Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Recent positive announcements included Honeywell International Corp., Philip Morris International, Inc., Texas Instruments, Inc., Microsoft Corp., American Tower Corp. and Medtronic PLC. Sectors most vulnerable to dividend cuts are cyclical sectors such as Energy, Financials and Consumer Discretionary. Ned Davis Research recently noted that both "Growth and value one-year earnings per share growth is more than two standard deviations below their averages." In our opinion, earnings growth and dividend recovery will remain uneven, with some industries experiencing continued business momentum throughout 2020 (pharmaceuticals, software and grocery) versus the devastated cruise lines, hotels and restaurants and airlines.

Recent purchases over the quarter included Caterpillar, Inc., a manufacturer of construction and mining machinery as we see multiple tailwinds for the stock entering the fourth quarter and into 2021. From a macro perspective, the weaker dollar and rising inflation expectations fuel growth expectations for mining which promotes greater capex spend on equipment on a lagging basis. In construction equipment, infrastructure spending remains one of the few budget items with bipartisan support, potentially adding 3-5% of sales to construction-equipment manufacturer sales.

All this leads to earnings estimates set to move higher and valuation not demanding on mid-cycle earnings potential. Union Pacific Corp. was increased based on our belief that railroads remain a play on leveraging continued operating ratio improvement from precision scheduled railroading (PSR). This company has already done most of the work here to become one of the most efficient railroads and we expect volumes to continue to accelerate over the remainder of the year and into 2021 driving earnings estimates higher.

Other changes to the portfolio included adding to our positions in: our multi-year holding in Comcast, Corp., which is one of the dominant players in the communications sector with an attractive valuation and consistent dividend growth; Medtronic, PLC in the favored medical devices subsector, which has solid long-term growth prospects and is more insulated from election-related healthcare news (drug pricing reform, ACA repeal); BlackRock, Inc., a worldwide investment management firm with strong AUM growth driven by diversified product offerings; and NextEra Energy, Inc., the nation's largest renewable-energy infrastructure company with double digit dividend growth.

Portfolio reductions included: Avalon Bay Communities, Inc., as apartment REITs continue to struggle with changing supply and demand dynamics due to COVID; Waste Management, Inc. as higher valuations and ongoing cost pressures impact the waste management business line due to COVID. In addition, we sold our position in Lukoil PJSC ADR, which was sold to emphasize our Energy underweight as global oversupply of oil and low prices continue to plague the industry. In 2021, we believe that oil market fundamentals will probably improve, but there is a skepticism around positioning ahead of the election as well as longer term risks around climate change and the terminal value of fossil fuels.

While we continue to hold our long-term position in United HealthCare Group, Inc., Anthem, Inc. was sold in an effort to reduce exposure to managed healthcare as election-related headlines and recent SCOTUS changes add to near-term volatility. MetLife, Inc. was also sold due to declining business momentum from credit uncertainty and lower interest rates, which only dampen the return profile for banks and life insurers.

Top contributing sectors for the quarter were Technology, Energy and Consumer Discretionary. Underperforming sectors were Utilities, Industrials and Financials. Strongest individual contributors included M.D.C. Holdings Inc., Apple, Inc., Procter & Gamble Company and Comcast (Class A). Detractors were Phillips 66, First Energy Corp., Intel Corp., and Citibank, Inc.

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top 5 Contributors			
MDC	M.D.C. Holdings, Inc.	1.98	0.55
AAPL	Apple Inc.	2.27	0.54
PG	Procter & Gamble Company	2.10	0.33
CMCSA	Comcast Corporation Class A	1.93	0.31
ABT	Abbott Laboratories	1.65	0.29
Top 5 Detractors			
PSX	Phillips 66	0.94	-0.36
FE	FirstEnergy Corp.	0.43	-0.35
INTC	Intel Corporation	1.33	-0.27
C	Citigroup Inc.	1.22	-0.18
OKE	ONEOK, Inc.	0.76	-0.18

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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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 refers to a composite that includes large and mid-cap companies located in the United States that also exhibit a growth probability.

The Russell 1000 Value Index is a broadly diversified index predominantly made up of value stocks of large U.S. companies.

Beta measures volatility, or systematic risk, of an individual stock in comparison to the unsystematic risk of the entire market. In statistical terms, beta represents the slope of the line through a regression of data points from an individual stock's returns against those of the market.

The price-earnings ratio, also known as P/E ratio or P/E, is the ratio of a company's share price to the company's earnings per share.

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