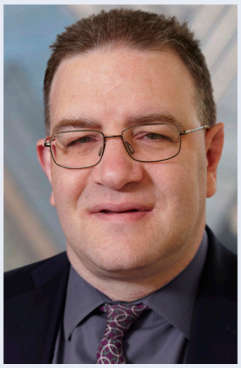
ClarkCapital MANAGEMENT GROUP

Portfolio Commentary

Navigator® MultiStrategy

Author



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Despite Election-Related Concerns, Pro-Cyclical Leadership Persists

2020 has been a massive roller coaster for investors, but the third quarter was mostly positive both in terms of market gains and progress for the economy. After a turbulent June, which was highlighted by concerns over a second wave of coronavirus, equity markets, particularly growth and Technology stocks, staged a massive rally in July and August, peaking into September before an overdue consolidation. The economy made major strides as activity and mobility moved much closer to "normal", unemployment declined from 11.1% to 7.9%, and many industry segments reported low inventory levels.

Of course, while the broader market indexes posted gains, the huge differences between the winners and losers were the real story. Large-cap growth was up 11.8% for the quarter, while large-cap value was up 4.8% and small-cap value was up only 2.1%. Year-to-date, the differences between large-cap growth and value are the largest in over 30 years, as Financials and Energy dragged down value stocks while Technology and consumer-driven companies soared to new highs. On a factor level, for years now, investors have rewarded quality companies that possess strong balance sheets, steady and stable earnings, and solid cash flows over companies that don't possess those same qualities – but are much cheaper.

Credit markets also enjoyed solid gains, though nowhere near the magnitude of stocks. Moreover, spreads remain historically wide, meaning further spread compression is possible if the economic recovery remains on course. For the immediate future, the election and the market's concerns around it will be the story of the fourth quarter. To demonstrate the level of fear out there right now, on September 3rd, growth stocks were crushed after a short-term blowoff top. The VIX fear index spiked and nearly reached levels last seen in February and December 2018, which were longer-term market bottoms.

However, this VIX peak came one day after a new market high. The costs markets are imposing to hedge downside risk from November through January lead us to believe that most downside scenarios are priced in. We believe that if only some of these pent-up fears don't come to pass, markets may have more upside than many expect.

U.S. Equity – Large-Cap Growth Continues to Dominate

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 (and avoids those with lower rankings), creating a broad-based portfolio that attempts to outperform the S&P 500. The equity portion of MultiStrategy began the quarter focusing on large-cap growth, and that focus never strayed too far throughout the quarter. The true difficulty was not whether to own large-cap growth, but rather, the question was should we own anything else?

For years now, equity investors' biggest hurdle has been that there are few equity styles that can compete with technology-driven large-cap growth; it has been driving a huge portion of S&P 500 gains. While we have always had large-cap growth as a primary holding, during the quarter we also owned smaller positions in mid-cap growth and small-cap growth, but neither were able to sustain their relative trends. For most of the quarter, we also owned a large position in the S&P 500 Index itself, and we ended the quarter adding a momentum factor ETF, which features large-cap growth Technology and Healthcare securities.

The table below shows how the main equity styles fared year-to-date and over the past five years:

Index or ETF Name	Year-to-Date (through 09/30)	Annualized 5-Year Return (ending 09/30)
S&P 500 Index	+5.6%	+14.1%
S&P 500 Large Cap Value ETF (SPYV)	-11.5%	+8.8%
S&P 500 Large Cap Growth ETF (SPYG)	+20.6%	+18.4%
Small Cap Value ETF (IJS)	-22.9%	+5.0%
Small Cap Growth ETF (IJT)	-7.9%	+9.3%
Bloomberg Barclays U.S. High Yield Bond Index	+0.6%	+6.8%

Source: Bloomberg as of September 30, 2020

Large-cap growth is outperforming large-cap value by 32% year-to-date, an astounding number that represents their largest gap since at least 1986. Large-cap growth is trouncing small-cap value by an even larger 44%, which highlights the magnitude of the dislocations that the coronavirus pandemic has caused. Over a five-year period, large-cap growth is 10% per year ahead of large-cap value, and 13% per year ahead of small-cap value.

Instinctively, we all have been trained to say it would be sensible for investors to follow a steadfast discipline of not overpaying for pricey companies. This year, and over the past five years, value investors pursuing just that course have gotten blown out of the water. While the MultiStrategy portfolios are not quite keeping up with the S&P 500 so far year-to-date, we are happy to say that our dedication to closely following trends has our returns positive and closer to the growth indexes than to value. Eventually, we believe the growth-driven market will recede, but it may take a sustained (multi-year) period of economic growth. We do not believe that is on the immediate horizon, given the debt levels in the economy.

Fixed Income – Models Still Favor Risk-On Credit

The fixed income portion of MultiStrategy portfolios engages in segment rotation within fixed income, owning high yields, Treasuries, or cash, whichever our models determine has recent relative trends in its favor. The portfolio came into the third quarter just having de-risked out of high yield and into Treasuries on June 29th. However, markets quickly turned around, and by the end of July, we had bought back into high yield. As markets have continued upward, our credit models maintain their risk-on focus. For the quarter, the fixed income allocation produced small gains that outperformed the Bloomberg Barclays Aggregate Bond Index (gross and net of fees), but underperformed the Bloomberg Barclays U.S. Corporate High Yield Index (gross and net of fees). Our models remain positive but off their highs, having peaked at the same time that stocks did in early September.

During the worst of September's correction on September 24th, fears had increased and the Option-Adjusted Spread (OAS) of the High Yield Index reached 5.3%. To understand how much damage the coronavirus pandemic caused, remember that in early January 2019 the OAS also peaked at 5.3%, but that was the absolute bottom of credit markets and fear was everywhere (that was back when we were actually afraid that the Fed would INCREASE interest rates!).

We like to keep this historical perspective regarding spreads and know that they still have room to move considerably lower when faced with the raw yield on high yield bonds, which at just over 5%, is a hair above the all-time lows of 2014. Thus, while high yield bonds can be expected to earn only 5% to 6% at these price levels, those returns are still well above Treasuries' paltry below 1% yields, and remain relatively attractive.

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

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
July 30th	Bought high yield bonds at an average price of 100.93

Source: Clark Capital Management

In the fixed income portion of MultiStrategy, we are first and foremost focused on risk and avoiding larger losses. During the worst of the pandemic in February and March, our models helped us avoid some of the worst losses in credit markets since 2008, and we were tactically able to still buy back into high yield at attractive prices. In June, our models indicated that another downtrend could be in place, but this time it quickly reversed, and we lost out on upside in an attempt to avoid major losses. This is a trade we are always content to make as our goal is to give investors a smoother, risk-adjusted journey through market cycles.

Conclusion

Looking forward, we expect plenty of market volatility prior to Election Day, but it is likely to be directionless. Markets appear to be pricing in additional fiscal stimulus, whether it comes before or after the election. Positive factors for the markets in the fourth quarter and into 2021 include:

- A solid rebound in September from the most oversold technical conditions since the March bottom.
- Consumer confidence and investor sentiment has not reached extremes that would signal caution.
- Historically, markets enjoy strong returns in the 12 to 24 months after a major bear market bottom.
- Extreme hedging surrounding the election means that many of the more chaotic scenarios are likely priced in; an eventual clear resolution would mean hedge covering could provide a bullish spark to markets.
- Though Technology's leadership has slowed, cyclical sectors like Industrials, Materials, and Consumer Discretionary are leading markets due to lower inventories. Industrials and Materials may yet have room to run.

The arguments for caution looking forward involve the many unknowns out there, and the admittedly troubling valuations (and the need for companies to deliver and justify lofty forward expectations):

- A chaotic period after the election, or another major wave of the coronavirus could bring activity to a halt or create paralyzing uncertainty.
- Markets that have been led by Technology gains could lose their leadership if Technology's current relative stalling out turns into a full-scale reversal. That would have broader implications for the market, given Technology's large weight in indices.
- The S&P 500's forward P/E of 23.3 sits very close to its all-time highs in December 1999. Valuations at 1999 levels rightly invokes fear (particularly for large-cap Tech). The pressure for companies to deliver earnings remains historically high. However, a rebound from 2020's losses and lower earnings could improve valuations.
- The S&P 500's median P/E ratio has reached 28 (this means that half of S&P have P/Es of over 28!). Again, depressed earnings this year have perhaps artificially inflated multiples, but if an earnings rebound doesn't develop, that would point towards outsized downside risk.

In our opinion, the weight of the evidence favors a bullish stance. If Biden were elected, we can envision a scenario where markets rally in anticipation of a huge stimulus package. That could include a change in market leadership, as beaten down value stocks could rally on anticipated higher economic growth. We could even see interest rates rise as new Treasury issues flood the market. While a short-term boost for the economy would be likely, in the long run, we believe that economic growth will be very muted, especially given the increase in debt and leverage across the U.S. and global economies. Our models remain closely tied to intermediate-term market trends, and we stand ready to pivot and follow new trends and risks as they emerge.

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 25-75			
NTBIX	Navigator Tactical Fixed Income Fund Class I	71.72	0.92
SPYG	SPDR Portfolio S&P 500 Growth ETF	10.19	0.73
IVV	iShares Core S&P 500 ETF	9.98	0.70

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Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 25-75			
MTUM	iShares MSCI USA Momentum Factor ETF	0.38	0.25
MDYG	SPDR S&P 400 Mid Cap Growth ETF	3.37	0.10
IJT	iShares S&P Small-Cap 600 Growth ETF	1.12	0.01

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 50-50			
SPYG	SPDR Portfolio S&P 500 Growth ETF	20.34	1.44
IVV	iShares Core S&P 500 ETF	20.68	1.44
NTBIX	Navigator Tactical Fixed Income Fund Class I	46.65	0.60

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 50-50			
MTUM	iShares MSCI USA Momentum Factor ETF	0.76	0.49
MDYG	SPDR S&P 400 Mid Cap Growth ETF	6.48	0.20
IJT	iShares S&P Small-Cap 600 Growth ETF	1.85	0.01

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Contributors MultiStrategy 75-25			
SPYG	SPDR Portfolio S&P 500 Growth ETF	31.88	2.39
IVV	iShares Core S&P 500 ETF	30.40	2.11
MTUM	iShares MSCI USA Momentum Factor ETF	1.20	0.78

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top Detractors MultiStrategy 75-25			
NTBIX	Navigator Tactical Fixed Income Fund Class I	22.10	0.28
MDYG	SPDR S&P 400 Mid Cap Growth ETF	8.99	0.19
IJT	iShares S&P Small-Cap 600 Growth ETF	2.61	0.01

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.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dolla 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.

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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