Clark Capital Management Group

Benchmark Review
& Monthly Recap

Momentum Fades as Yields Rise

Equity Markets

The S&P 500, Dow Jones Industrial Average, NASDAQ Composite and Russell 2000 Indices all recorded new all-time highs in February. As stocks rallied, bonds sold off and yields moved higher. Overall, equities enjoyed broad gains in February, while most areas of the fixed income market fell for the month.

Similar to late January, the CBOE Volatility Index (or VIX Index) spiked higher in late February as well. Although not to the level seen in late January, the VIX Index traded above 30 on the last two days of the month. We believed that volatility would pick up in 2021, particularly as COVID-19 cases accelerated during the winter months and a new administration came to power. We have now seen a couple of late-month spikes in volatility in 2021 materialize. We believe investors should still be prepared for periods of volatility over the next several months.

In January, value and growth did not show a significant difference in results. However, that changed dramatically in February as value resumed its momentum from the latter part of 2020, when it was outperforming growth. Across the market-cap spectrum, value sharply outperformed growth in February, which has resulted in a clear year-to-date advantage as well.

We at Clark Capital continue to use our disciplined approach of seeking out high-quality companies with improving business conditions at what we believe are good prices. We still believe that the value/growth disparity that reached a peak last year will likely continue to shift in 2021 with value improving on a relative basis. That occurred in February, continuing the rotation that started in September, and created a positive backdrop for portfolio managers with a quality focus.

The numbers for February were as follows: the S&P 500 gained 2.76%, the Dow Jones Industrial Average advanced 3.43%, the Russell 3000 rose 3.13%, the NASDAQ Composite increased only 1.01%, and the Russell 2000 Index, a measure of small-cap stocks, was the clear outperformer, advancing 6.23%. Mid-cap and micro-cap stocks also turned in stronger gains than their large-cap peers in February.

We will continue to monitor the trend that began to develop in the latter part of 2020 with small and mid-caps outperforming large-caps (as well as value outperforming growth). Large-caps dominated for most of last year, but small-caps made a surge late in 2020 and that momentum has continued during the first two months of 2021.

Looking closer at style, the headline Russell 1000 Index gained 2.90% in February. In a complete reversal from what we experienced for most of 2020, the performance in February was driven entirely by value stocks. The Russell 1000

Highlights

Stocks moved higher during the first part of February, but they ended the month on a downward slide. Despite the late-month weakness, new all-time highs were reached for most major U.S. equity indices.

The broadening of the equity market rally continued in February as small and mid-cap stocks outperformed large-caps and value dominated growth.

One of the big stories in February was the move higher in the 10-year U.S. Treasury yield. It closed the month at 1.44% after ending the day before (February 25) at 1.54% - the highest closing yield level since February 2020.

Rising rates put pressure on most pockets of fixed income in February. High-yield bonds gained for the month, but most other bond sectors declined.

Economic data released in February, primarily covering January, reflected ongoing choppiness to start the new year. While the economy is still expanding, the surge in COVID-19 cases this winter has created challenges.

The near term still holds uncertainties, but vaccines should begin to roll out more broadly in the months ahead, with a third vaccine (by Johnson & Johnson) approved for emergency use. Another round of fiscal stimulus looks likely after the House passed the $1.9 trillion stimulus plan.

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Growth Index actually declined by 2 basis points (-0.02%) in February, while the Russell 1000 Value Index gained 6.04%. For the year to date, the returns were -0.76% and 5.07%, respectively.

After coming out of the gates strong in January, emerging markets made only modest gains in February. Broader developed market equities showed better strength in February, but still lagged emerging markets for the first two months of 2021. The MSCI Emerging Markets Index gained 0.76% in February and the MSCI ACWI ex USA Index, a broad measure of international equities, made a stronger advance of 1.98%. For the year to date, those two indices show results of 3.85% and 2.20%, respectively.

Fixed Income

The yield on the 10-year U.S. Treasury broke above 1% in January and it continued to move sharply higher in February. After closing January with a yield of 1.11%, February closed at 1.44%. The 10-year U.S. Treasury saw yields in February 2021 that it had not seen since February 2020, prior to the pandemic hitting in full force. The most interest-rate sensitive bonds struggled with this backdrop of rising rates. The ongoing and massive support from the Federal Reserve is generally keeping a lid on interest rates, (particularly on the front end of the yield curve) but we did anticipate some steepening of the yield curve would occur in 2021. That steepening has happened and the moves higher in the 10, 20 and 30-year yields have been rather dramatic so far this year.

Fixed income returns were as follows for February: the Bloomberg Barclays U.S. Aggregate Bond Index fell -1.44%, the Bloomberg Barclays U.S. Credit Index dropped -1.74%, the Bloomberg Barclays U.S. Corporate High Yield Index scraped out a slight gain of 0.37% and the Bloomberg Barclays Municipal Index fell -1.59%. Treasuries were negative across the board in February as rates moved higher. The general Bloomberg Barclays U.S. Treasury Index declined -1.81% and longer dated U.S. Treasury indices, like the 30-year, slumped -6.17%, pushing its year-to-date decline into negative double-digit territory, down -10.33%. We continue to maintain our long-standing position of favoring credit versus pure rate exposure in this interest rate environment.

Economic Data and Outlook

Job market data disappointed at the end of 2020 and it disappointed to begin 2021 as well. Non-farm payrolls increased by a modest 49,000 jobs, when estimates were more than twice that number at 105,000. Prior month data showed a larger drop in payrolls, -227,000 than previously reported at -140,000 in December 2020. The unemployment rate did drop unexpectedly to 6.3% in January from 6.7% in December, but the labor force participation rate dropped modestly in January as well. There is still a lot of ground to make up in the job market and the winter weakness, due in part to the pandemic, has slowed that progress.

The widely followed ISM Manufacturing Index was below expectations in January (58.7 versus a 60.0 estimate) and this was a decline from December's revised mark of 60.5. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 58.7. This was ahead of estimates at 56.7 and showed an increase from December's level of 57.7. Manufacturing and service industries have clearly improved from the shutdown period and continue to show solid growth as the economy recovers. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction.

Retail sales (ex. auto and gas) surged in January by 6.1%, easily surpassing the estimate of a 0.8% increase. In large part, this huge increase in retail spending was aided by the fiscal stimulus plan that passed at the very end of 2020, which included stimulus checks to many Americans at the start of 2021. Highlighting the aid received by many Americans, personal income increased by 10.0% in January after increasing by 0.6% in December. Retail spending slowed as we moved into the winter months as the pandemic surged, but the stimulus checks clearly provided a boost to spending activity in January.

The housing market continued to show strength at the beginning of the year, but the recent rise in interest rates and higher commodity prices for items like lumber will need to be watched to see how they impact housing moving forward. Home prices also increased by over 10% on a year-over-year basis in December and affordability and supply will need to be monitored as well. In January, building permits, new home sales and existing home sales all surpassed estimates and all improved from December. Only housing starts were below expectations in January and below the level in December. Housing measures in recent months have been at levels that have not been seen since prior to the 2008 Financial Crisis.

The Conference Board's Leading Index gained 0.5% in January, just above estimates of 0.4%. The second reading of fourth quarter GDP came in at 4.1%, which was below expectations of 4.2%, but a slight improvement from the prior estimate of 4.0%. As of March 1, the GDPNow estimate from the Atlanta Fed is indicating that first quarter 2021 GDP will rise to 10.0%, so growth is clearly expected to pick up as we start the new year.

The Fed has been unwavering in its commitment to support the proper functioning of the financial system. It will be important to monitor how Fed officials talk about or react to the recent move higher in interest rates. Additionally, after a

5th fiscal stimulus plan was finally passed in the final week of 2020, the House passed another round of stimulus in late February totaling $1.9 trillion. Although there might be some changes to the final plan once it goes through the Senate, it appears this will be a large 6th stimulus plan that will be deployed into the U.S. economy. We will watch closely to see what this next round of stimulus ultimately looks like.

Stocks rallied in February, but bonds struggled as interest rates moved higher. We remain resolute in our belief that the U.S. economy and corporate America will continue to recover as we progress through this pandemic period and vaccines become more widely available. The next few months might see elevated capital market volatility as we go through this challenging period. Overall, we do believe that the economy and financial markets are heading in the right direction. As always, we continue to 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 longer-term objectives.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Yields have risen on the heels of an improving economy, continued economic reopening, and fears of rising inflation. According to the current reading of the Atlanta Fed's GDP-Now Forecast, the economy is expected to grow about 10% in the current quarter. That is much higher than consensus expectations, and therefore a contributor to rising Treasury yields.

Our tactical equity portfolios have captured gains by being overweight in small-cap stocks, Financials, metals and mining, and economic recovery themes. Credit has remained very firm, withstanding the backup in yields. As such, the credit risk management models that drive our top-down strategies remain in a risk-on position.

Clark Capital's Bottom-Up, Fundamental Strategies

February was a good month for risk assets, which generally advanced given the continued improvement in COVID cases and hospitalizations, along with economic reopening themes. The market gave back a little of its outsized gains as the month ended, as rising yields elevated valuation concerns.

The U.S. 10-Year Treasury yield has risen from 0.91% to start the year to 1.41% at February month end. Meanwhile, short-term rates remain fairly well-anchored, resulting in a steepening yield curve. Those trends have favored cyclical themes in the portfolios including Energy, metals, and Financials. In addition, small-cap stocks are outperforming large-caps, and value is outperforming growth stocks. In fixed income, credit is outperforming duration exposure.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Jan	60.0	58.7	60.7	60.5
ISM Services Index	Jan	56.7	58.7	57.2	57.7
Change in Nonfarm Payrolls	Jan	105k	49k	-140k	-227k
Unemployment Rate	Jan	6.7%	6.3%	6.7%	—
Average Hourly Earnings YoY	Jan	5.0%	5.4%	5.1%	5.4%
JOLTS Job Openings	Dec	6400k	6646k	6527k	6572k
PPI Final Demand MoM	Jan	0.4%	1.3%	0.3%	—
PPI Final Demand YoY	Jan	0.9%	1.7%	0.8%	—
PPI Ex Food and Energy MoM	Jan	0.2%	1.2%	0.1%	—
PPI Ex Food and Energy YoY	Jan	1.1%	2.0%	1.2%	—
CPI MoM	Jan	0.3%	0.3%	0.4%	0.2%
CPI YoY	Jan	1.5%	1.4%	1.4%	—
CPI Ex Food and Energy MoM	Jan	0.2%	0.0%	0.1%	0.0%
CPI Ex Food and Energy YoY	Jan	1.5%	1.4%	1.6%	—
Retail Sales Ex Auto and Gas	Jan	0.8%	6.1%	-2.1%	-2.5%
Industrial Production MoM	Jan	0.4%	0.9%	1.6%	1.3%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Jan	1680k	1881k	1709k	1704k
Housing Starts	Jan	1660k	1580k	1669k	1680k
New Home Sales	Jan	856k	923k	842k	885k
Existing Home Sales	Jan	6.60m	6.69m	6.76m	6.65m
Leading Index	Jan	0.4%	0.5%	0.3%	0.4%
Durable Goods Orders	Jan P	1.1%	3.4%	0.5%	1.2%
GDP Annualized QoQ	4Q S	4.2%	4.0%	33.4%	—
U. of Mich. Sentiment	Feb P	80.9	76.2	79.0	—
Personal Income	Jan	9.5%	10.0%	0.6%	—
Personal Spending	Jan	2.5%	2.4%	-0.2%	-0.4%
S&P CoreLogic CS 20-City YoY NSA	Dec	9.9%	10.1%	9.08%	9.2%

Source: Bloomberg

P=Preliminary, S=Second Reading

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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 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 Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

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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