Clark Capital Management Group

Benchmark Review & Monthly Recap

Stock Leadership Shift Continues as Bonds Struggle with Rising Rates

Highlights

The Dow Jones Industrial Average and S&P 500 Indices hit new all-time highs in March. The NASDAQ lagged other indices and was only up fractionally for the month. In general, Technology has been hurt with rising rates.

Recent market action has solidified the broadening of the equity market rally and change in leadership that started in September 2020. Small-cap, mid-cap and value stocks have outperformed large-cap growth stocks the last several months.

One of the big stories that continued in March was the rise in the 10-year U.S. Treasury yield. It closed February at 1.44% and rose to 1.74% by the end of March – the highest yield level since January 2020, prior to the pandemic.

Rising rates continued to put pressure on most pockets of fixed income in March. Once again, high yield bonds were able to post modest gains. Munis also advanced for the month.

Economic data released in March, which primarily covered February, reflected ongoing economic gains, but choppiness as well. The economy is still expanding, and the winter surge of COVID-19 cases seems to be dissipating.

Although the near term still holds uncertainties, vaccines are rolling out more broadly. Another round of fiscal stimulus totaling about $1.9 trillion was passed, which should provide another tailwind to the U.S. economy in 2021.

Equity Markets

The S&P 500, Dow Jones Industrial Average, and Russell 2000 Indices all recorded new all-time highs in March. Absent from that list was the NASDAQ Composite, which struggled during the month, although it was able to turn in a modest gain. As stocks rallied, bonds sold off and yields moved higher. Overall, equities enjoyed broad gains in March, while most areas of the bond market declined for the month.

The VIX Index ended March at 19.40, just above its 52-week low. After late-month spikes in January and February, no such spike in volatility occurred in March, and this index steadily trended lower for most of the month. Volatility is much more subdued compared to last year, but we believe investors should still be prepared for periods of volatility over the next several months.

From a style perspective, value and growth dynamics have pivoted 180 degrees in the first part of 2021 compared to most of 2020. After growth dominated for most of 2020, value began to outperform during the last four months of last year. Value resumed its momentum from the latter part of 2020 in February, and that momentum continued in March as value clearly outperformed growth. Market cap appeared to play less of a role in March as the trend favored value broadly compared to growth, although for the year to date, small-caps have been the undisputed leader.

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. This shift has created a positive backdrop for portfolio managers with a quality focus.

The numbers for March were as follows: The S&P 500 gained 4.38%, the Dow Jones Industrial Average advanced 6.78%, the Russell 3000 rose 3.58%, the NASDAQ Composite increased only 0.48%, and the Russell 2000 Index, a measure of small-cap stocks, advanced 1.00%. For the quarter, returns in the same order were as follows: 6.17%, 8.29%, 6.35%, 2.95%, and 12.70%, respectively. The small-cap universe saw a dramatic spread between growth and value in March with the Russell 2000 Growth Index down -3.15% and the Russell 2000 Value Index up 5.23%. For the quarter, those two indices had returns of 4.88% and 21.17%, respectively.

We will continue to monitor the trend that began to develop in the latter part of 2020 with small-caps and mid-caps outperforming large-caps (as well as value

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outperforming growth). We believe that this dynamic is likely to continue given the well-above-trend growth expected in the U.S. economy this year and next.

Looking closer at style, the headline Russell 1000 Index gained 3.78% in March. In a complete reversal from what we experienced for much of 2020, the performance in March was driven mostly by value stocks. The Russell 1000 Growth Index gained 1.72% for the month, while the Russell 1000 Value Index gained 5.88%. Year-to-date returns were 0.94% and 11.26%, respectively. Value has clearly dominated growth to begin 2021.

After coming out of the gates strong in January, emerging market stocks struggled again in March. Emerging markets tend to be more interest rate sensitive, so the move higher in rates likely impacted emerging market equities. Broader developed market equities showed better results in March and those markets are now outpacing emerging markets negatively. The MSCI Emerging Markets Index fell -1.51% in March and the MSCI ACWI ex USA Index, a broad measure of international equities, gained 1.26%. For the year to date, those two indices show gains of 2.29% and 3.49%, respectively. Following the trend of recent years, U.S. stocks have continued to outperform their international counterparts.

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 and March. After closing February at 1.44%, the yield closed at 1.74% in March. The 10-year U.S. Treasury yield has been at its highest levels since prior to the pandemic. The most interest-rate sensitive bonds have 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 move higher in the 10, 20 and 30-year yields has been rather dramatic so far this year.

Fixed income returns were as follows for March: the Bloomberg Barclays U.S. Aggregate Bond Index fell -1.25%, the Bloomberg Barclays U.S. Credit Index dropped -1.59%, the Bloomberg Barclays U.S. Corporate High Yield Index scraped out a slight gain of 0.15% and the Bloomberg Barclays Municipal Index gained 0.62%. For the first quarter, those index returns in the same order were as follows: -3.37%, -4.45%, 0.85%, and -0.35%, respectively.

Treasuries were negative across the board in March as rates moved higher. The general Bloomberg Barclays U.S. Treasury Index declined -1.54% and longer dated U.S. Treasury indices, like the 30-year, slumped -6.14%. For the first quarter, those Treasury index returns were down -4.25% and -15.84%, respectively. We continue to maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment.

Economic Data and Outlook

Job market data bounced back after a disappointing start to the new year. Non-farm payrolls increased by 379,000 jobs in February, well above expectations of 200,000 additions. This was a clear improvement on prior month data, which was revised higher to show 166,000 jobs added in the first month of the year. The unemployment rate dropped again to 6.2% in February, which was better than the 6.3% expectation and level from January. March data was released on Friday, April 2nd, and it showed continued strength. An additional 916,000 jobs were added, and unemployment edged down to 6.0%.

The widely followed ISM Manufacturing Index exceeded expectations in February (60.8 versus a 58.9 estimate), which was an improvement from January's mark. Impressively, the ISM Manufacturing index for March, released April 1, came in at 64.7, the highest mark since December 1983. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 55.3 in February. This was below expectations and January's level of 58.7.

Manufacturing and service industries have 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) slumped in February after surging in January. Revised data from January showed sales increased by 8.5% for the month, but February saw sales decline by -3.3%, below expectations of a more modest -0.5% decline. Recall that stimulus checks were sent to many Americans at the start of 2021, which likely helped, but also pulled forward some retail spending activity in January.

Highlighting the aid received by many Americans in January, which did not recur in February, personal income increased by a revised 10.1% in January, but it dropped by -7.1% in February. Retail spending slowed as we moved into the winter months and the pandemic surged, but the stimulus checks clearly provided a boost to spending activity in January. We will monitor how spending evolves in 2021, but we also know that another stimulus check will go to many Americans following the passing of the 6th fiscal stimulus plan in March.

After being on a torrid pace, housing market data cooled somewhat in February while remaining at elevated levels. Housing starts, building permits, existing home sales and new home sales all came in below expectations in February and all were lower than January levels. Home prices increased dramatically in January by 11.1% on a year-over-year basis due in large part to low inventories. We will continue to monitor how rising home prices and rising mortgage interest rates impact the progress of the housing market in 2021.

The Conference Board's Leading Index gained 0.2% in February, just below estimates of 0.3%. The third and final reading of fourth quarter GDP came in at 4.3%, which was above expectations and the prior mark of 4.1%. As of April 1, the GDPNow estimate from the Atlanta Fed is indicating that first quarter 2021 GDP will rise by 6.0%, so growth is clearly expected to pick up in 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 as well as some mounting concern about inflation. Additionally, a 6th fiscal stimulus plan was passed in March totaling $1.9 trillion. Another infrastructure plan has already been announced and we will watch closely to see what shape that ultimately begins to take. The initial estimates are this plan will be over $2 trillion.

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. Overall, we believe 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

We are now a little over a year since the market bottomed on March 23, 2020. Returns have been spectacular, especially within economic recovery themes. Areas of the market that outperformed last year are underperforming this year. Meanwhile, those areas that underperformed last year, are now outperforming. Small-cap and value stocks are leading, while large-cap growth and bonds are lagging.

Clark Capital's Bottom-Up, Fundamental Strategies

Vaccinations, improvements in mobility, and additional fiscal stimulus continued to favor value stocks, cyclicals and Financials over large-cap growth stocks in March. The pro-cyclical rotation continued with the pandemic winners taking a back seat to economically sensitive stocks.

The Russell 1000 Value Index outpaced the Russell 1000 Growth Index by over 400 basis points in March. This dramatic shift in trend, which began in August 2020, has somewhat mirrored the increase in 10-year Treasury, the steepening of the yield curve, and improving expectations of economic growth. In fixed income, credit has remained resilient despite rising Treasury rates.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Feb	58.9	60.8	58.7	—
ISM Services Index	Feb	58.7	55.3	58.7	—
Change in Nonfarm Payrolls	Feb	200k	379k	49k	166k
Unemployment Rate	Feb	6.3%	6.2%	6.3%	—
Average Hourly Earnings YoY	Feb	5.3%	5.3%	5.4%	5.3%
JOLTS Job Openings	Jan	6700k	6917k	6646k	6752k
PPI Final Demand MoM	Feb	0.5%	0.5%	1.3%	—
PPI Final Demand YoY	Feb	2.7%	2.8%	1.7%	—
PPI Ex Food and Energy MoM	Feb	0.2%	0.2%	1.2%	—
PPI Ex Food and Energy YoY	Feb	2.6%	2.5%	2.0%	—
CPI MoM	Feb	0.4%	0.4%	0.3%	—
CPI YoY	Feb	1.7%	1.7%	1.4%	—
CPI Ex Food and Energy MoM	Feb	0.2%	0.1%	0.0%	—
CPI Ex Food and Energy YoY	Feb	1.4%	1.3%	1.4%	—
Retail Sales Ex Auto and Gas	Feb	-0.5%	-3.3%	6.1%	8.5%
Industrial Production MoM	Feb	0.3%	-2.2%	0.9%	1.1%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Feb	1750k	1682k	1881k	1886k
Housing Starts	Feb	1560k	1421k	1580k	1584k
New Home Sales	Feb	870k	775k	923k	948k
Existing Home Sales	Feb	6.49m	6.22m	6.69m	6.66m
Leading Index	Feb	0.3%	0.2%	0.5%	—
Durable Goods Orders	Feb P	0.5%	-1.1%	3.4%	3.5%
GDP Annualized QoQ	4Q T	4.1%	4.3%	4.1%	—
U. of Mich. Sentiment	Mar P	78.5	83.0	76.8	—
Personal Income	Feb	-7.2%	-7.1%	10.0%	10.1%
Personal Spending	Feb	-0.8%	-1.0%	2.4%	3.4%
S&P CoreLogic CS 20-City YoY NSA	Jan	11.2%	11.1%	10.1%	10.17%

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 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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