ClarkCapital MANAGEMENT GROUP

Cliff Notes on the Economy

Economic Review & Outlook

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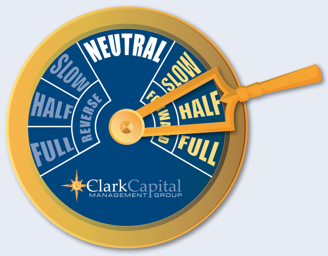
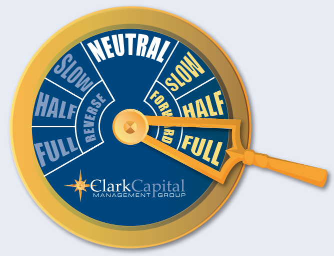
First Quarter 2021

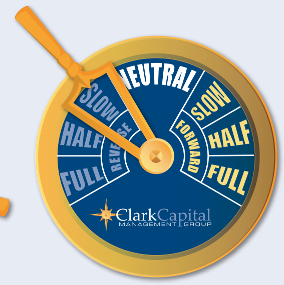
Each quarter, we review our gauges that help shape our view for the overall economic environment. These 5 gauges in turn drive our expectations for the stock market. Recall 12:00 is neutral, anything to the right of 12:00 is positive for stocks, anything to the left of 12:00 is negative.



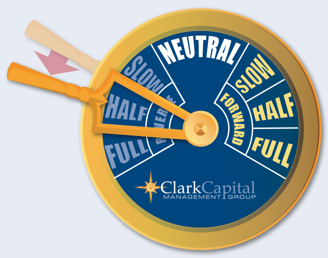
Economy



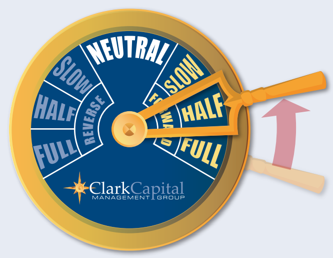
Monetary Policy



Valuations



Investor Sentiment



Interest Rates

U.S. Economy

The first gauge covers the U.S. economy. We continue to keep this gauge at a half forward position heading further into the new year, reflecting our expectation of above trend economic growth in 2021. We expect GDP growth around 5% for the year. We believe we are still in the "V-shaped" portion of this economic recovery. As vaccines roll out more broadly in 2021 and the economy moves ahead with the reopening process, we expect above trend economic strength to continue well into next year.

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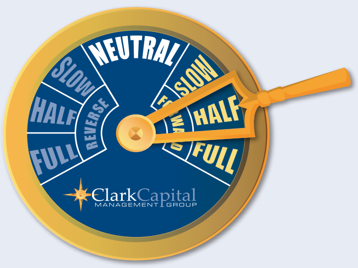

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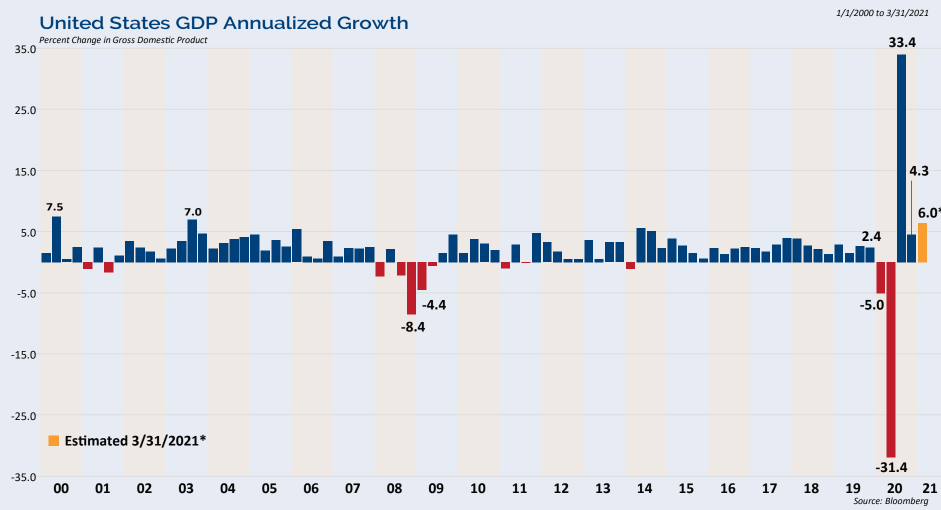

Projections or forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially.

We seem to be emerging from the winter surge of COVID-19, but ongoing challenges persist. The vaccine rollout is progressing well, but we are still months away from the point where everyone who wants a vaccine, can get a vaccine. Fiscal stimulus is being rolled out in full force as the $1.9 trillion fiscal stimulus plan was passed into law in March.

Another proposed infrastructure plan valued at more than $2 trillion is being rolled out as well, but it has yet to go through Congress. These fiscal measures should continue to provide a solid tailwind to the U.S. economy in 2021.

As we have expected all along, the reopening process will inevitably encounter bumps along the way until we make significant progress against COVID-19. This keeps us from moving the gauge to the full forward position.

The job market has bounced back strongly from layoffs suffered early in the pandemic crisis, and progress continues to be made on this front. The job market recovery slowed during the winter, but in March, payroll additions surged by 916,000 and the unemployment rate dropped to 6%. Hopefully, as the reopening gains momentum in the spring and summer, more workers will be hired, and job market progress will continue to gain momentum. Consumer spending is roughly 70% of the U.S. economy, so ongoing job gains will be an important driver of economic progress.

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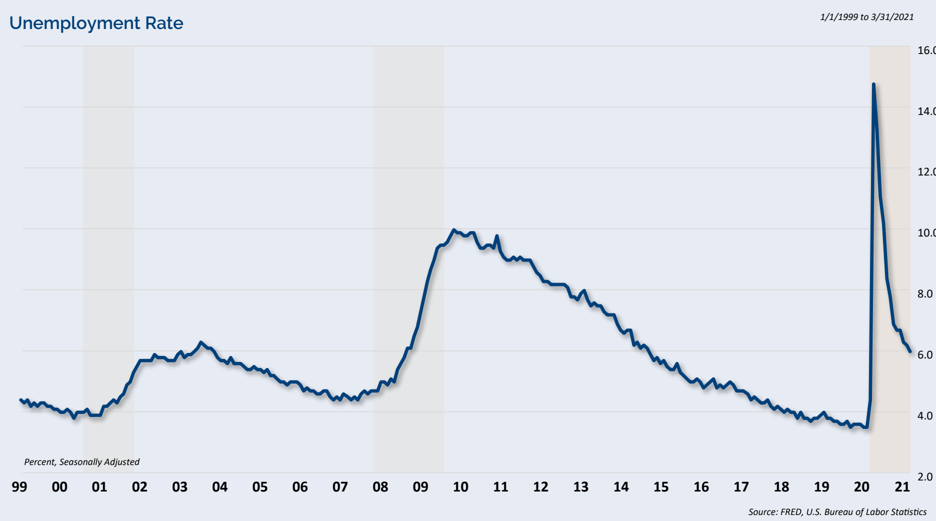
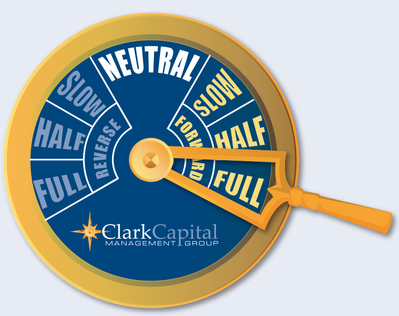


Housing has been a real source of strength in the economic rebound (quite a contrast to the Credit Crisis period in 2008). Although interest rates went up markedly in the first quarter of 2021, housing prices continues to rise driven primarily by low inventories. We will continue to monitor the housing market, particularly with the move higher in interest rates to see if rising mortgage costs start to slow recent housing strength.

We believe that the economic recovery will continue in 2021. We anticipate that the recovery will encounter some bumps along the way, but we believe that the U.S. economy is headed in the right direction. As the reopening progresses and consumers feel more confident going back to some regular activities, the economy should enjoy above trend growth through the year and into next year.



Monetary Policy

Monetary Policy

Economic recovery continues to be supported by ongoing, stimulative Monetary Policy, which is our next gauge. We keep this gauge in a full forward position.

There is not a lot of new news to report about the Fed as we continue into 2021. The massive support from the Fed that began in March 2020 with unlimited quantitative easing and a whole host of other programs continues in 2021. The Fed has reiterated that it will continue to support the proper functioning of the financial markets and their actions have backed this up.

The Fed's balance sheet, which had been slowly declining prior to this crisis, increased by more than $3 trillion dollars in just a matter of months, pushing the total balance sheet to over $7 trillion dollars. Now, at the end of the first quarter, the balance sheet is steadily climbing toward $8 trillion.

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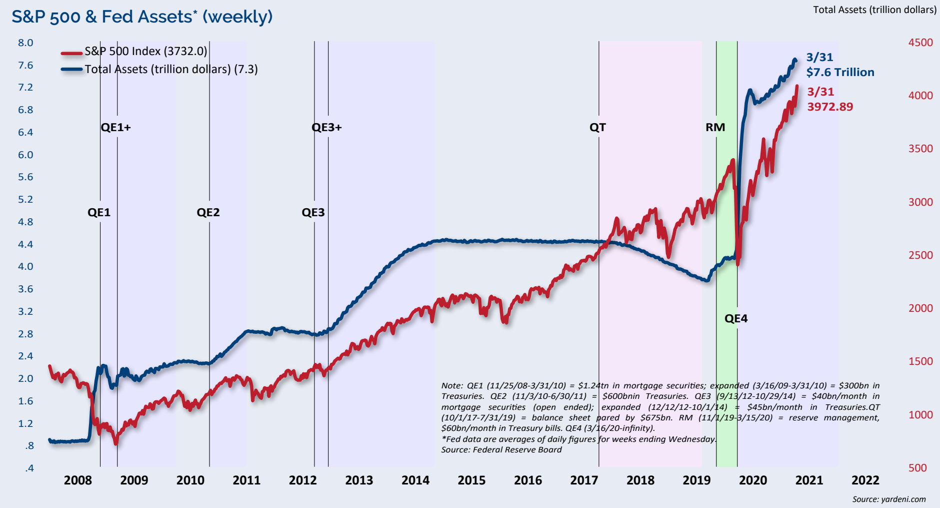

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Ultimately, this massive stimulus by the Fed has helped support capital markets from the early days of the pandemic crisis period. We have seen over the past decade that when the Fed is increasing its balance sheet, stocks have reacted favorably and subsequently, both stocks and bonds enjoyed a powerful rebound from the crisis lows through year-end.

The monetary support continues in 2021 and stocks have continued to advance in the first quarter of the new year. Bonds have come under some pressure as long rates have moved related in part to ongoing fiscal and monetary stimulus, which has been a headwind to bond prices.

Inflation has become a bigger topic of late driven in part by the massive increase in public debt responding to the pandemic crisis. Furthermore, the anticipated post-vaccine recovery accompanied by a massive surge in money supply, could put upward pressure on inflation.

The Fed indicated it would be willing to let inflation run above its 2% target for a period of time, meaning a bit hotter moving forward. This will be a topic we continue to monitor, but inflation expectations are still only in the low 2% range looking out five years. We believe that the Fed will not be raising rates for the foreseeable future and will continue to operate expansionary monetary policy.

On top of the long running monetary support provided by the Fed, the 6th round of fiscal stimulus was passed and signed into law in March 2021. This should add further support to the economy from another policy perspective. We know this will be a choppy reopening process, but the Fed is providing unwavering support and we therefore keep this gauge in the full forward position.

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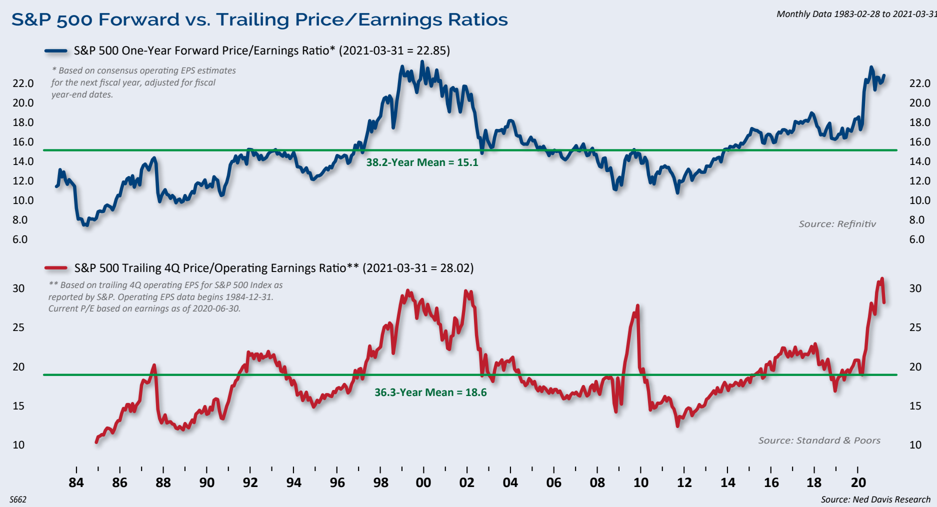
Valuations

Valuations

Next are valuations, which we keep in a slow reverse position. Needless to say, the rally in the stock market from the lows in March has been strong, pushing the forward price to earnings or P/E ratio of the S&P 500 to its highest level in about 20 years.



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We are recovering from the period where earnings or "E" dropped dramatically due to the shutdown, but as the economic reopening gains momentum, we anticipate earnings will bounce back as well. In fact, operating earnings for the S&P 500 are estimated to have doubled since the pandemic low in Q1 2020. Businesses performed better than analysts expected through the worst parts of the pandemic crisis and investors have rewarded these companies with the S&P 500, NASDAQ Composite, Dow Jones Industrial Average and Russell 2000 Indices all hitting new all-time highs in the first quarter of 2021.

In 2021, we have seen a broader stock market rally with small-cap and mid-cap stocks outperforming large-caps, and value outperforming growth. The large-cap, growth rally, which dominated much of 2020, has paused somewhat in 2021 as other pockets of the equity market improve. The NASDAQ Composite has been the clear laggard so far in 2021 and has failed to hit a new all-time high in March as several other broad U.S. equity indices were able to achieve new highs.

While valuation multiples are high, low interest rates and low inflation help offset that. Interest rates moved sharply higher in the first quarter, but from a longer-term perspective, rates are still at low levels. The Fed continues to keep short-term rates down, but the yield curve has steepened in 2021 as the market has pushed longer-term rates higher.

For example, the 10-year U.S. Treasury yield was at 0.93% at year end, but it closed the first quarter at 1.74%. We can still compare the earnings yield of the S&P 500 (which is the inverse of the P/E ratio) to the yield on the 10-year Treasury, which shows that on a relative basis, stocks are more attractive than bonds even with the move higher in rates in the first quarter.

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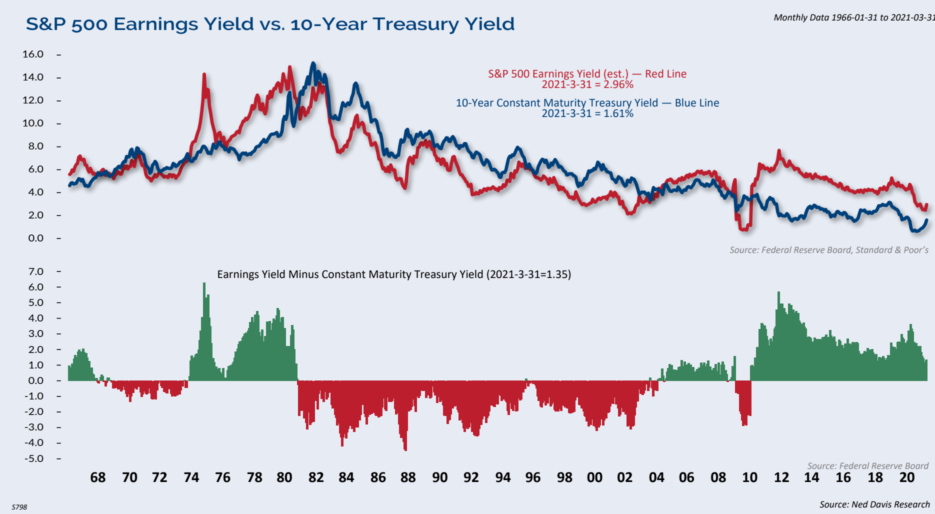

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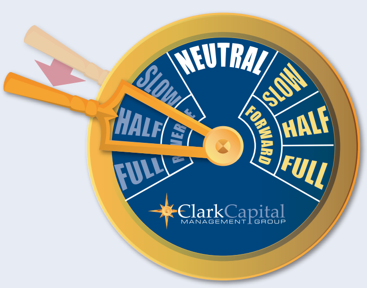
When interest rates are low, it supports higher stock market valuations. Simply said, the low yields of bonds are not providing a lot of competition to stocks. We will watch how the move higher in rates starts to change this dynamic, but the Fed is still focused on keeping rates down for the foreseeable future and we do not expect rates to move much higher in a sustained manner in the near term.

As an active manager, Clark Capital looks at valuations on a company-by-company basis. Although a few large-cap growth companies powered indices to all-time highs in 2020 and their valuations became extended, the average stock did not have the same sort of rally. As the market rally has broadened, it has provided us at Clark Capital an opportunity to seek out what we believe are high quality companies at good prices and we continue to make very purposeful investments in both stocks and bonds.

Investor Sentiment



Investor Sentiment

The next gauge is Investor Sentiment, which can be thought of as a measure of speculation or pessimism in the market. We are adjusting this gauge for the third quarter in a row, moving it into the half backward position. Recall, this gauge is a contrarian indicator, so extreme pessimism is a positive from a market perspective and extreme optimism is just the opposite.

Optimism increased as the market has reached record highs in late 2020 and the optimism continues to grow in 2021. At this point, sentiment is leaning too optimistic in our opinion, which compels us to bring this gauge further into negative territory. Crowd sentiment is overly optimistic and trading sentiment is elevated, although not quite in the excessive optimism zone.

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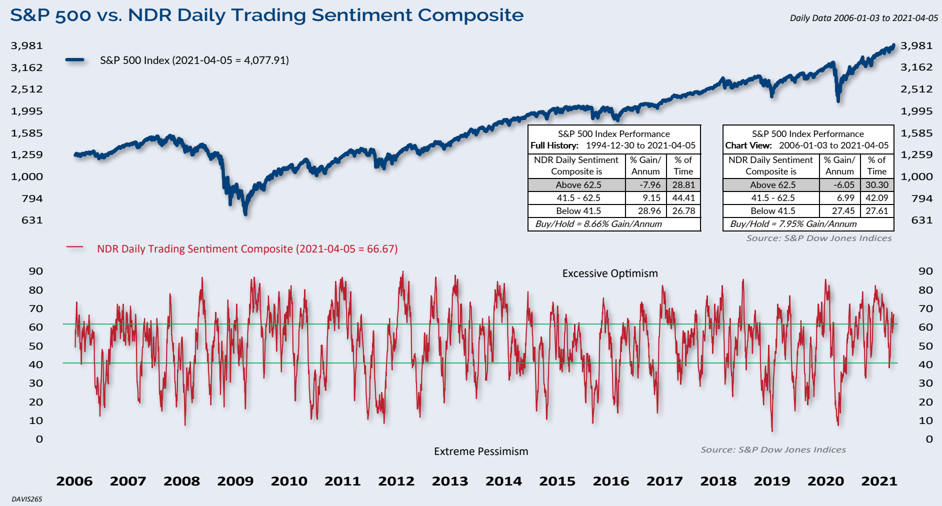

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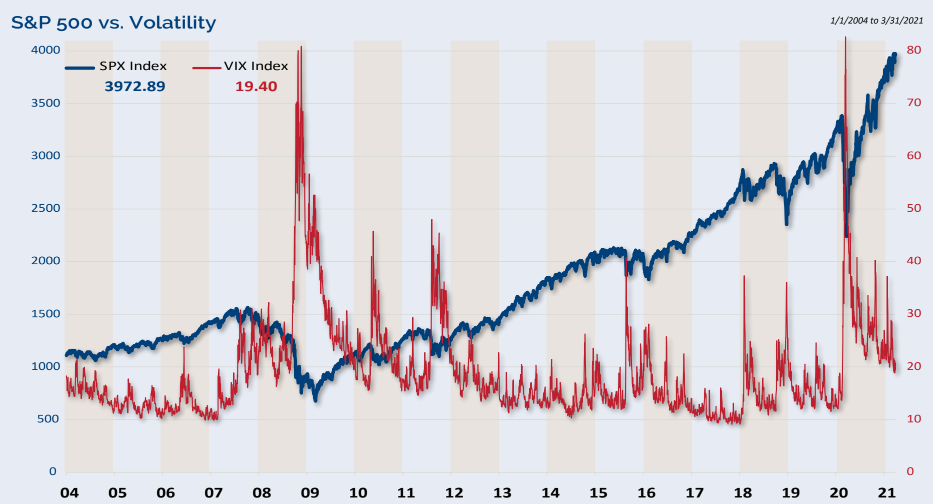
Another indicator, which we discussed a lot in 2020, is the CBOE Volatility Index or VIX Index, which is often referred to as the fear index. The VIX Index spiked somewhat higher in late January and late February, but the trend overall in the first quarter was lower. By the end of March, the VIX had steadily fallen and dropped below 20, near its 52-week low. The low level of the VIX might be indicating some complacency in the market, which further compels us to move the Investor Sentiment gauge back slightly.



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Based on the cumulative data we analyze for investor sentiment, we believe an adjustment back into the half reverse position is appropriate as we continue into the second quarter of 2021.

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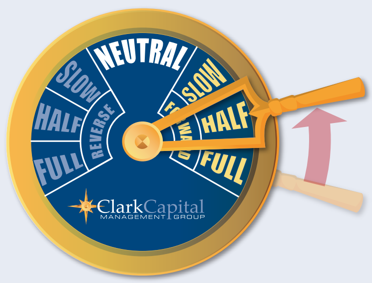
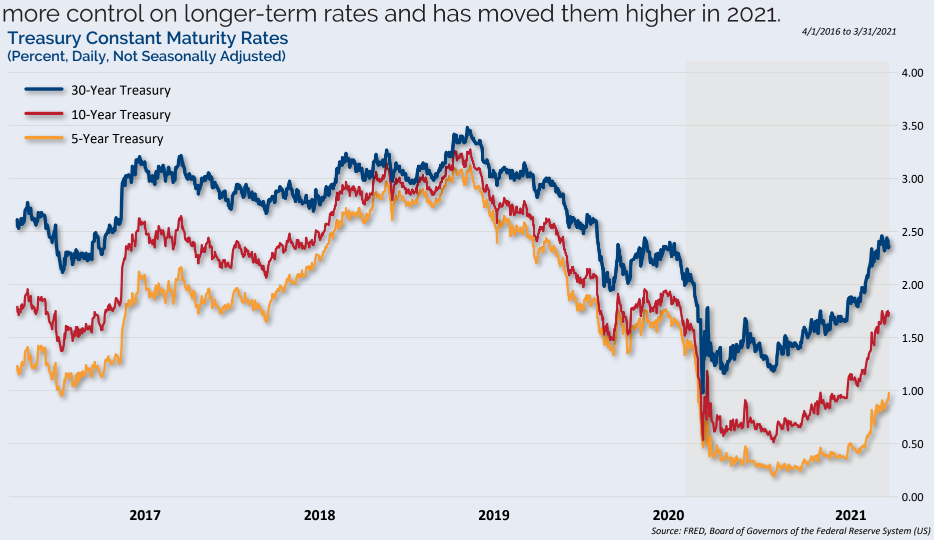


Interest Rates

Interest Rates

Interest rates are the final gauge, and we move this gauge back by one spot to the half forward position. We know the Fed continues to keep policy rates low, which is supportive of economic activity, but we are adjusting this gauge to acknowledge the sharp rise in rates further out on the yield curve so far in 2021. Comments by the Fed, along with actions it is taking in the market, lead us to believe we will be in a lower for longer interest rate environment for the foreseeable future. However, the market has more control on longer-term rates and has moved them higher in 2021.



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With the Fed anchoring shorter-term yields at low levels, but yields rising further out on the curve, we call this a steepening of the yield curve. Although rates moving higher might hurt bond prices in the near term, the opportunity to buy bonds at higher yield levels as the yield curve steepens is a positive moving forward.

As the yield curve is steepening and the Fed continues to be heavily involved in the market, we believe it is imperative to have an active approach to bond management. This environment also is supportive of tilting towards credit in the portfolio and away from pure interest rate risk. We believe that Clark Capital is well-positioned to navigate through this dynamic time in the bond market.

Despite rates moving higher, we are still in a low interest rate environment from a historical perspective. Ultimately, lower rates should be helpful to the economy as it reduces the cost of capital. This gauge remains comfortably in the positive zone from our perspective, but we do move it back one step because rates did move higher in the first quarter of 2021.

Conclusion

We know these remain challenging times, but the good news is that the U.S. economy has rebounded strongly, and the vaccine has begun to roll out more broadly across the United States. We continue to believe that the U.S. economy and corporate America will continue to fight through this crisis. We also acknowledge there could still be some bumps in the road to recovery from both an economic and stock market perspective, but we believe we are heading in the right direction. We expect

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economic improvement to continue as vaccines become more widely available and consumers unleash pent-up demand. We continue to urge clients to stick to their financial plans and not make decisions based on short-term movements in the market.

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Investing involves risk, including possible loss of principal. The value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

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.

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).

The VIX Index is a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

The 10-year U.S. Treasury yield is used as a proxy for mortgage rates. It's also seen as a sign of investor sentiment about the economy.

The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock Exchange.

The Dow Jones Industrial Average is a stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the United States.

The Russell 2000 is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index.

The S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States.

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

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