Clark Capital Management Group

Benchmark Review
& Monthly Recap

A Mixed May, but Economic and Market Progress Continued

Highlights

The S&P 500 and Dow Jones Industrial Average both posted new all-time highs early in May. While choppy from that point on, both indices posted positive returns for the month as the NASDAQ Composite declined.

For the year to date, the leadership of small-cap, mid-cap and value stocks remained intact. After growth made some progress in April, value resoundingly resumed leadership from a style perspective in May.

The 10-year U.S. Treasury yield was more-or-less range bound during the month and it ended May at 1.58%, compared to April's close of 1.65%.

Bonds were able to post gains for a second straight month with rates declining. However, high-yield bonds, munis and TIPS remain the only pockets of the bond market with positive results year to date.

The U.S. economy is still solidly recovering, but several economic data points showed the pace of growth has slowed. This is to be expected following such a strong rebound from the pandemic lows.

Vaccines are becoming more widely available and COVID-19 cases have declined dramatically. We expect ongoing economic improvements and progress against the pandemic as we move into the summer months.

Equity Markets

The S&P 500 and Dow Jones Industrial Average recorded new all-time highs in May. The Russell 2000 Index, which has been one of the strongest areas of the market this year, gained only modestly during the month, and was still off its record level from March. The NASDAQ Composite and growth indices declined during the month.

Volatility dropped initially in May, but then rose to its highest closing level since March. At one point during the month, the VIX Index closed at 27.59 – a more than two-month high. However, it dropped from that point and closed May below 17. We believe investors should be prepared for ongoing periods of volatility over the next several months with stocks near all-time highs and after such a strong start to 2021.

Style truly mattered in May, and it was a key driver of returns. Large-cap growth did stage a bit of a comeback in April, but that proved to be short-lived as value stocks led the way. Although there will be times when growth rallies, 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. At Clark Capital, we continue to use our disciplined approach of seeking out what we believe are high-quality companies with improving business conditions at what we believe are good prices. The market's shift to value stocks has benefited our focus on quality companies so far this year.

The numbers for May were as follows: The S&P 500 gained 0.70%, the Dow Jones Industrial Average advanced 2.21%, the Russell 3000 inched higher by 0.46%, the NASDAQ Composite declined by -1.44%, and the Russell 2000 Index, a measure of small-cap stocks, advanced only 0.21%, but it still leads so far this year. For the year to date, returns in the same order were as follows: 12.62%, 13.76%, 12.34%, 6.98%, and 15.30%, respectively.

We 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). 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 only gained 0.47% in May. The Russell 1000 Growth Index dropped by -1.38% for the month, while the Russell 1000 Value Index gained 2.33%. For the year to date, the returns were 6.32% and 18.41%, respectively. Value has clearly dominated growth so far in 2021, and after a modest relative pause in April, that trend resumed in May. Even more dramatically in the small-cap universe, the Russell 2000 Growth index fell -2.86%

for the month and only shows a year-to-date gain of 4.10%. By comparison, the Russell 2000 Value index advanced 3.11% in May and has posted a gain of 27.47% year to date.

International markets have clearly lagged the U.S. so far in 2021, but May proved to be a month in which they showed better relative results. The MSCI Emerging Markets Index gained 2.32% in May and the MSCI ACWI ex USA Index, a broad measure of international equities, gained 3.13%. For the year to date, those two indices show gains of 7.26% and 9.87%, respectively. Following the trend of recent years, U.S. stocks have continued to outperform their international counterparts, but international market results in May helped close that gap modestly.

Fixed Income

The yield on the 10-year U.S. Treasury had risen sharply at the beginning of the year. After closing 2020 at 0.93%, the yield surged to 1.74% to close out March. The yield came off that level in April and continued to decline in May. The yield closed the month of April at 1.65% and declined to 1.58% by the end of last month. Most bond sectors struggled in the first quarter, particularly the most interest-rate sensitive bonds, but they got a reprieve in April that also continued in May. High-yield bonds have been the clear winner in fixed income so far this year, but other pockets of the bond market outperformed in May. 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. The steepening that has happened includes moves that have not been made in a steady manner. Some back and forth in interest rates should be expected.

Fixed income returns were as follows for May: the Bloomberg Barclays U.S. Aggregate Bond Index gained 0.33%, the Bloomberg Barclays U.S. Credit Index advanced 0.72%, the Bloomberg Barclays U.S. Corporate High Yield Index rose 0.30% and the Bloomberg Barclays Municipal Index gained 0.30%. For the year to date, those index returns in the same order were as follows: -2.29%, -2.74%, 2.25%, and 0.78%, respectively. Treasuries also enjoyed gains for the month, but are still down year to date. The general Bloomberg Barclays U.S. Treasury Index advanced 0.34% for the month, but has declined -3.20% year to date. Treasury Inflation Protected Securities (TIPS) have been one of the stronger pockets of the bond market recently as inflation concerns and expectations have increased. For the month, the Bloomberg Barclays U.S. Treasury TIPS Index gained 1.21%. Over the last three months it is up 2.43%, which has put it in positive year-to-date territory gaining 1.12%. 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 gains were well below expectations in April according to economic data released in early May. Non-farm payroll additions were expected to hit 1 million for the month, but instead, a disappointing 266,000 jobs were added. Instead of dropping to a post-pandemic low of 5.8% as anticipated, the unemployment rate increased to 6.1%. At the same time, job openings skyrocketed. Data for March showed there were over 8.1 million open jobs, which was much higher than the expected openings of 7.5 million and a jump from the prior month's level of 7.526 million. We are at a point where there are still a significant number of unemployed people, but businesses are having a hard time hiring enough workers. We believe as some of the extended stimulus benefits begin to expire, more workers will move back into the job market.

The widely followed ISM Manufacturing Index slipped as well in April. After hitting its best level in March since December 1983 at 64.7, expectations were calling for an even better number of 65.0 for April. However, the actual announcement showed this reading dropped to 60.7. The ISM Manufacturing reading for May (released June 1) showed a better pace of growth at 61.2. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 62.7 – below expectations of 64.1 and the prior month's reading of 63.7. Manufacturing and service industries have improved from the shutdown period and continue to show solid growth as the economy recovers. However, after such a powerful rebound that continued earlier in 2021, the pace of growth moderated in April. That should not come as too much of a surprise. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction.

Retail sales (ex. auto and gas) declined in April after surging in March. Sales were expected to post a modest monthly gain of 0.3% in April after rising a revised 8.9% in March. However, a decline of -0.8% was reported for the month. We have seen this pattern play out a couple of times this year with retail sales spiking in months when stimulus checks are sent out, only to be followed by weakness the next month. Highlighting the drop in income in April, which hurt spending activity, personal income declined by -13.1% for the month after it had increased 20.9% in March. Clearly, stimulus has had a huge impact on income and spending for Americans and it will be important to see how we move forward to a period when stimulus wanes and the economy stands more on its own.

The housing market is still posting strong numbers, but it too has some imbalances in supply and demand. Home prices have risen dramatically (up 13.27% in March based on the year-over-year reading of the S&P CoreLogic CS 20-City Index), so some buyers are being priced out of the market. Supply remains low and new home construction is being impacted by rising input prices (like lumber), so data is choppy. Existing and new home sales both fell in April and were below expectations. Housing starts fell rather dramatically in April to a 1.569 million annual rate from the prior month's 1.733 million annual pace. However, building permits did tick up modestly for the month. We will continue to monitor how rising home prices and low supply impact housing market progress in 2021.

The Conference Board's Leading Index gained 1.6% in April, which surpassed the 1.3% expectation. Finally, the second reading of first quarter 2021 GDP was unchanged from the initial estimate of a 6.4% annual pace, but this was modestly below expectations of 6.5%.

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 some mounting concern about inflation. The headline consumer price index (CPI) was up 4.2% on a year-over-year basis in April and the core reading of CPI, which excludes more volatile food and energy prices, was up a 3.0% for those twelve months. The Fed's preferred measure of inflation, the Personal Consumption Expenditures Core Index, was up 3.1% year-over-year in April. At this point, the Fed has been unequivocal that it is not considering raising interest rates for the foreseeable future and it believes inflation increases are more transitory at this time. In fact, Chairman Powell continues to indicate that it is too soon to even discuss tapering yet, a step we believe will precede an increase in the Fed Funds rate.

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, 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. Additionally, with major stock indices near all-time highs, investors should be prepared for more volatility as we move out of the spring and into the summer months.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

The major equity market indices have been treading water since mid-April with a rotational correction occurring under the surface. Leadership has remained firm with economic recovery themes such as Materials, Energy, and Industrials continuing to advance. For the month of May, equity and fixed income asset classes both enjoyed modest gains. The relative strength models that drive our top down strategies have remained very consistent in favoring credit over treasuries and cyclical sectors over growth. The rotation out of growth sectors accelerated when consumer prices for April came in higher than expected. Technology-related sectors felt the inflationary sting, with Consumer Discretionary, Technology, and Communication Services all underperforming in May.

Clark Capital's Bottom-Up, Fundamental Strategies

Large-cap value and international equities reasserted their performance advantage over large-cap growth in May as COVID cases continued to decline in the United States and began their descent globally. Economically sensitive sectors continue to outperform growth with leadership in Materials, Energy, Financials, and Industrials. Technology, Consumer Discretionary and Utilities posted the weakest returns for the month.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Apr	65.0	60.7	64.7	—
ISM Services Index	Apr	64.1	62.7	63.7	—
Change in Nonfarm Payrolls	Apr	1000k	266k	916k	770k
Unemployment Rate	Apr	5.8%	6.1%	6.0%	—
Average Hourly Earnings YoY	Apr	-0.4%	0.3%	4.2%	—
JOLTS Job Openings	Mar	7500k	8123k	7367k	7526k
PPI Final Demand MoM	Apr	0.3%	0.6%	1.0%	—
PPI Final Demand YoY	Apr	5.8%	6.2%	4.2%	—
PPI Ex Food and Energy MoM	Apr	0.4%	0.7%	0.7%	—
PPI Ex Food and Energy YoY	Apr	3.8%	4.1%	3.1%	—
CPI MoM	Apr	0.2%	0.8%	0.6%	—
CPI YoY	Apr	3.6%	4.2%	2.6%	—
CPI Ex Food and Energy MoM	Apr	0.3%	0.9%	0.3%	—
CPI Ex Food and Energy YoY	Apr	2.3%	3.0%	1.6%	—
Retail Sales Ex Auto and Gas	Apr	0.3%	-0.8%	8.2%	8.9%
Industrial Production MoM	Apr	0.9%	0.7%	1.4%	2.2%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Apr	1770k	1760k	1766k	1755k
Housing Starts	Apr	1704k	1569k	1739k	1733k
New Home Sales	Apr	950k	863k	1021k	917k
Existing Home Sales	Apr	6.07m	5.85m	6.01m	—
Leading Index	Apr	1.3%	1.6%	1.3%	—
Durable Goods Orders	Apr P	0.8%	-1.3%	0.8%	1.3%
GDP Annualized QoQ	1Q S	4.1%	4.3%	4.1%	—
U. of Mich. Sentiment	May P	90.0	82.8	88.3	—
Personal Income	Apr	-14.2%	-13.1%	21.1%	20.9%
Personal Spending	Apr	0.5%	0.5%	4.2%	4.7%
S&P CoreLogic CS 20-City YoY NSA	Mar	12.55%	13.27%	11.94%	12.00%

Source: Bloomberg

P=Preliminary, S=Secondary

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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 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.

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.

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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