

Market Moves

Charting Our Strategies

Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

At the June FOMC meeting, the Federal Reserve acknowledged the rising inflation pressures and began discussing tapering the purchase of securities sooner than expected. That pushed investors dramatically away from value, cyclicals, small-caps, and international stocks and instead towards large-cap growth.

Ultimately, a reversal in Central Bank easing has lowered the expectations of future economic growth, which drove 10-year Treasury yields to 1.45%.

Below are strategy updates from June:

All Cap Core U.S. Equity

- During the month, we added a chain of variety stores, a mining company, a hybrid cloud data services and data management company, and a natural gas company to the portfolio as we believe these companies will outperform as the economy accelerates and transitions into later stages.
- We exited our positions in a networking hardware company, an international transportation services company, and an energy company. We also added to certain large-cap growth positions while reducing cyclical exposure in the portfolio.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 23.1%.

High Dividend Equity

- Financials remain the largest sector weight in the portfolio at 21.0%, which is overweight vs. the benchmark at 20.8%.
- In June, we sold our positions in a networking hardware company, a government services and information technology support company, a global manufacturer of bearings and power transmission products, and an American worldwide apparel and footwear company due to declining earnings estimates and weakening business momentum.
- Exposure to the Healthcare sector was increased by initiating a position in a multinational pharmaceutical and biotechnology ADR, due to the stock's attractive valuation relative to growth prospects and improving business momentum. We also increased our positions in a multinational managed healthcare and insurance company and a medical equipment company.
- As the economy continues to recover from the pandemic, we believe consumer services, such as restaurants and hotels, will accelerate into the second half of the 2021 as employees return to the office. As a result, we initiated a position in an American multinational coffee chain due to accelerating same store sales and consumer mobility approaching pre-pandemic levels.

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International Equity ADR

- Britain, Ireland, and Japan are the strategy's largest country weights, all ranging between 11% and 17%.
- During the month, we added an insurance solutions provider, a German multinational pharmaceutical and life sciences company, a Japanese multinational auto and truck parts manufacturer, a multinational electronics contract manufacturer, an American professional services firm, a tractor and heavy equipment manufacturer based in Osaka, Japan, a Danish multinational pharmaceutical company, and a South Korean steel-making company to the portfolio due to improving business momentum.
- We removed a Spanish multinational electric utility company, a Japanese multinational construction equipment corporation, an American-Irish registered medical device company, a Canadian financial services company, a North American energy company, a Latin American steel company, and a Chinese e-commerce website operator from the portfolio.
- Consumer Discretionary, Financials, Industrials, and Information Technology remain our largest sector weights. While U.S. economic growth currently exceeds most other countries and regions globally, we anticipate non-U.S. economies to also have accelerating recoveries.

Taxable Fixed Income

- 10-year Treasury bonds have traded below 1.50% 13 of the last 16 days to close the month. With lower rates being bought again, our investment grade holdings are performing in line with the benchmark.
- Lumber prices have dropped 50% from their high and housing bonds spreads widened. Despite this, we continued to add to our positions in three home builders. If 10-year interest rates stay near 1.50%, we believe this should provide a buffer going forward.
- The recovery trade still seems to be the area we are seeing value. To this end, we added to our positions in a mining company, a vehicle manufacturer, and a flooring manufacturer.
- As we enter the summer doldrums, there is too much money chasing too few bonds, keeping prices and spreads firm. Inflation is the talk in the press, but interest rates remain stubbornly low. We continue to manage around a 4-year duration structure.

Tax-Free Fixed Income

- In a push to take advantage of seasonal market fundamentals and to get in front of any new policy out of Washington, muni supply was higher this month at \$44 billion, vs. a monthly average of \$36 billion year to date.
- Questions about the SALT tax, the form of federal aid to municipalities, and increased supply, capped performance for the month. In a repeat performance from the past, gains achieved mid-month were abandoned by month's end.
- During the month, we stayed with our flattening bias, favoring longer dated revenue bonds (AA Healthcare, major airport hubs, transportation, and essential services), which we believe will benefit from a re-opening of the economy. We also favored GOs on the state and local level (NJ, CT, CA) that are exercising fiscal restraint and should benefit from past and future federal aid.

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Clark Capital's Top-Down, Quantitative Strategies

The markets continued trading higher in June, capping one of the best first half of the year gains for the market this century. The S&P 500 closed the month in record territory, gaining 2.33% during June. Leadership shifted again with growth outperforming value during the month, but value still has the edge year to date.

Credit has remained very firm and supportive of the market backdrop with continued economic reopening, strong economic growth, and a benign default environment. The massive amount of liquidity continues to find a home in risk assets across equity and credit.

Below are strategy updates from June:

Alternative

- Long/short equity, long/short commodities, and long-term U.S. Treasuries have been top performers.
- Though they took a hit in June, we continue to hold cyclical commodity equity positions in the portfolio.
- We are positioned in gold and precious metals, and have sold out of crypto.

Fixed Income Total Return

- Credit markets remain firm, and high yield spreads continue to compress, and are now at their lowest point since 2007. We believe our models will continue to make new highs, and our position in high yield is solid.
- Credit has remained very firm and supportive of the market backdrop with continued economic reopening, strong economic growth, and a benign default environment.

Global Tactical

- Credit and U.S. equity fundamentals are solid with an abundance of liquidity; our model-driven position in equity remains strong.
- While narrow credit spreads and lofty equity valuations indicate that equities will face downside pressure in the future, our models do not see immediate risk on the horizon.

Sector Opportunity

- Over the month, we sold positions in Industrials, Materials (selling broad Materials and keeping steel, metals, and mining), and Financials (sold banks, but kept broker-dealers).
- We have added to positions in Real Estate, Energy, and large-cap growth Technology companies (internet, telecommunication services, and software).
- The portfolio is neutrally weighted in regards to value versus growth, and still avoids defensive sectors such as Staples, Utilities, and Healthcare.

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Style Opportunity

- The portfolio has reduced its exposure to mid-cap value and established a new position in large-cap growth.
- Buybacks and large-cap growth are the portfolio's top holdings, and large-caps have risen to the top of our relative strength models.
- Trend leadership between value and growth has been mixed and as a result, our portfolios are becoming more neutral (though still cyclically bullish).

U.S. Strategic Beta

- We recently sold out of quality, and increased our exposures to momentum and value factors.
- The portfolio is entirely out of small-caps, as they continue to break down. We would look to re-enter after a more substantial correction.
- It is important to note that the momentum ETF portfolio has shifted into an equal mix of large-cap growth/Technology and cyclical leaders such as Financials.

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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 of an investment), credit, payment, 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).

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.

Municipal securities can be affected by adverse tax, legislative or political changes and the financial conditions of the issuers of the municipal securities.

Municipal bonds can be significantly affected by political and economic changes, including inflation, as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Municipal bonds have varying levels of sensitivity to changes in interest rates. Interest rate risk is generally lower for shorter-term municipal bonds and higher for long term municipal bonds.

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.

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.

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