ClarkCapital MANAGEMENT GROUP

Portfolio Commentary

# Navigator® High Dividend Equity

## Portfolio Manager

**Maira Thompson**
*Senior Portfolio Manager*

**Top Contributors as of September 30, 2021**

| Company Name | Avg. Weight (%) | Contribution to Return (%) |
|---|---|---|
| ConocoPhillips | 1.12 | 0.22 |
| Danaher Corporation | 1.85 | 0.18 |
| UDR, Inc. | 1.72 | 0.14 |

**Top Detractors as of September 30, 2021**

| Company Name | Avg. Weight (%) | Contribution to Return (%) |
|---|---|---|
| Vale S.A. Sponsored ADR | 0.85 | -0.33 |
| Diamondback Energy, Inc. | 0.48 | -0.32 |
| Oshkosh Corp | 1.12 | -0.21 |

*Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.*

# Economic Reopening, "Take Two"

## Market Review

The market climbed the wall of worry over a myriad of issues including Fed tapering, the Evergrande debt crisis, supply chain constraints, inflation, rising input costs, and higher commodity prices. Regardless of the broad-based concerns, third quarter S&P 500 earnings per share is expected to rise 29.6% above the year-earlier level and rise an estimated 46.3% for fiscal year 2021.

Estimates were revised slightly lower ahead of earnings versus the last four quarters when estimates trended higher. We believe rising input costs and supply constraints could create a perfect storm, shrinking corporate profit margins in some industries for the balance of 2021 and into early 2022. Regardless, S&P 500 earnings are due to rise 9.2% next year after the 46.3% expected earnings growth this year.

Currently, valuation metrics place the equity markets above the 80th percentile on a historical basis; small-caps, value, and high dividend yield stocks remain undervalued. For the remainder of the year, we believe value stocks will benefit from a higher rates scenario and the U.S. economy reopening (again) after the most recent Delta variant wave.

## Third Quarter Performance Highlights

- Last year, dividend growers underperformed dividend cutters & eliminators and "quality" stocks lagged. Over the last six months, the growers rallied 5.2%, outperforming dividend cutters and eliminators up 4.5%.
- For the quarter, S&P 500 Index dividend constituents in the highest yield quartile declined -2.6% versus dividend stocks possessing the lowest yield, which rose 0.5%. The High Dividend Equity portfolio, which focuses on dividend growers, returned -0.83% versus the benchmark return of -0.78%. In a rising rate environment, dividend growers tend to outperform versus the highest yielding quartile.
- In August, core inflation rose 4% year over year, well above the Federal Reserve's 2% target. Dividend growth stocks, which normally increase their dividend 7-10% annually, we believe offer an attractive alternative with rising cash flow above than the inflation rate. Since the start of the pandemic, 301 S&P 500 companies increased their dividend, 21 companies suspended, 22 companies cut, and 68 had no change.
- We continue to invest in companies that we believe demonstrate strong cash positions, long-term EPS growth, free cash flow and rising dividends. The number of S&P 500 Index stocks with a dividend yield higher than the U.S. 10-year Treasury declined from 78% in March 2020 to 51%, which was partly due to its recent rise to 1.5%.
- For the quarter, top individual contributors were ConocoPhillips, Danaher Corporation, UDR, Inc. and Interpublic Group of Companies, Inc. Detractors included Vale S.A. ADR, Diamondback Energy, Inc., Oshkosh Corporation and Cigna

*Past performance is not indicative of future results.*
*This is not a recommendation to buy or sell a particular security. Please see attached disclosures.*

Corporation. Sector contributors were Communications, Consumer Discretionary and Technology. Sector detractors were Basic Materials, Healthcare and Industrials..

## Positioning and Outlook

The Navigator® High Dividend Equity portfolio is positioned with approximately 97.6% in developed countries, 1.0% in emerging markets, and the remainder in cash. The U.S. is the largest country weight at 88.1%, followed by Britain at 5.0% and Switzerland at 2.4%. Large-cap represents 86.4% of the portfolio, 11.4% of the portfolio is mid-cap, and 0.9% of the portfolio is small-cap with the remainder in cash.

Financials remains the largest sector weight at 21.3%, which is inline vs. the benchmark at 21.4%. The next two largest portfolio weights are Healthcare and Industrials at 15.9% and 10.6%, respectively. Transactions during the quarter included increasing our position in Truist Financial Corporation, which was driven by improving business momentum and rising rate prospects. An initial position in Carlyle Group was established for added exposure to alternative assets demonstrating strong momentum. In the Healthcare sector, we reduced our position in Cigna Corporation driven by concerns around medical loss ratios (MLR) and pricing.

The portfolio is overweight Energy with a sector weight of 6.1% vs the Russell 1000 Value benchmark weight of 5.1%. Although Energy is the top performing sector in 2021, we believe a continued inflationary environment with higher oil prices and rising global demand should remain intact well into 2022.

The ConocoPhillips position was increased, as oil and gas production continues to strengthen post the historic 2020 oil market low. The company recently announced a highly accretive acquisition of Shell Enterprises LLC Delaware basin position and increased its dividend 7%. In the Industrial sector, our position in Caterpillar was reduced, due to the negative impact of a rising dollar and 60% of its sales outside the U.S. In the Materials sector, BHP Group Ltd, was sold due to a corporate restructuring while adding to positions in Eastman Chemical Company and Linde Plc.



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 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.

Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability.

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.