

Market Moves

Charting Our Strategies

Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Congressional haggling, Fed asset purchase tapering, Chinese restrictions, concerns over the Delta variant, supply chain disruptions, and higher Treasury yields have conspired to be tough headwinds for the market, driving equity indices lower. However, it now appears we are a full month removed from the August 31, 2021 peak in 7-day average of COVID cases in the United States.

A common theme of many of our portfolio changes this month were in reaction to each company's ability to balance overall rising demand with supply shocks lifting labor, transportation, and other input costs. We believe maintaining or expanding margins was easier in the beginning of the economic recovery as costs remained low as demand returned.

With costs now broadly rising, we believe that nimble management will be rewarded. For the Q3 earnings season, there is a heightened concern that raw material costs and supply constraints have created a perfect storm which may negatively impact earnings for the balance of 2021 and first half of 2022. According to Ed Yardeni, S&P 500 earnings are expected to rise 9.2% next year on top of a 46.3% expected jump in earnings growth this year.

Below are strategy updates from September:

All Cap Core U.S. Equity

- Navigator[®] All Cap is positioned with approximately 69.0% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, we added an energy company, a healthcare facilities operator, a pharmaceutical company, and a financial services company to the portfolio. We exited our positions in a home construction company, a global paint supplier, a domestic airline company, a transportation company and a medical technology provider.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 22.8%.

High Dividend Equity

- Financials remains the largest sector weight at 21.3% which is in line with the benchmark at 21.4%. The next two largest portfolio weights are Healthcare and Industrials at 15.9% and 10.6%, respectively.
- In September, we increased our position in a bank holding company, two chemical companies, and a liquid gas company.
- We initiated a position in a private equity, alternative asset management and financial services company and reduced our positions in a managed healthcare company and a construction machinery company. The portfolio sold its small positions in two mining companies.
- The portfolio is overweight Energy with a sector weight of 6.1% vs the Russell 1000 Value benchmark weight of 5.1%. While the Energy sector is the top performing sector year to date, we believe the continued tight supply and rising global demand should remain intact well into 2022.

Past performance is not indicative of future results.

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



Market Moves

Charting Our Strategies

International Equity ADR

- Navigator® International Equity/ADR is positioned with 17.8% in emerging markets with the balance in developed economies and cash.
- Britain, Ireland, and Japan are the strategy's largest country weights, all ranging between 10% and 19%.
- The portfolio continues to find what we believe are undervalued, high-quality cyclicals and emerging markets additions to the portfolio. During the month, we added an optical products company, a luxury goods company, and an investment bank to the portfolio due to improving business momentum and attractive valuation. We removed a chemical coating company, a cosmetics company, a mining company, and a pulp and paper company 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

- Called bonds continue to lead to price stability within the portfolio. During the month, two bonds were called on their optional call dates.
- Continuing supply chain issues have led us to believe that retail may start feel to the effects. As a result, we exited our position in a luxury department store chain.
- During the month, we added a new position in an American casino and resort company. We also added three holdings in the investment grade space.
- We continue to identify companies in Materials and commodities to add to the portfolio opportunistically.
- We reduced some 2026-2027 holdings as a steepening yield curve may move us back to a more bar bell approach if the Fed begins to tighten. Cash levels are in the 3%-5% range, keeping the portfolio's duration around 3.8 years.
- The portfolio's average credit quality remains unchanged at BBB- for the portfolio although we view several credits as possible upgrades in the future.

Tax-Free Fixed Income

- As of month end, passage of the infrastructure and reconciliation act, and the implications this legislation would have on the municipal bond market, were still stuck in the Congress' red tape.
- Muni issuance through the end of the month was down, and much lower than last September. However, inflows into municipals remain impressive as they continued for four consecutive weeks. These inflows helped maintain a net negative supply condition, which stemmed further losses for the asset class.
- We sold some long duration exposure in favor of cushion structure and barbells. Duration is shorter, and we increased exposure to refunding scenarios should refunding be introduced in the Reconciliation Act.
- Further, we are shorting volatility at much more attractive levels than recently offered.

Navigate
Your Future.
Enjoy the
Journey.

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



Market Moves

Charting Our Strategies

Clark Capital's Top-Down, Quantitative Strategies

Historically, September is the weakest month for the S&P 500 Index returning an average -1.1% over the last nine decades. This September was no exception with the S&P 500 declining -4.7%, and posting only 8 positive trading days.

The broad market has been in a consolidation mode for four months, while the S&P 500 Index continued hitting record highs until September 2nd. The Index suffered its first 5% correction in 226 trading days, the 13th-longest stretch without a pullback on record.

The market was due for a correction, and it arrived during the normal seasonally weak period for the market. Now, we enter what is considered to be the best three-month stretch for the market from October through December. During the September correction, our risk models continued to favor risk-on asset classes, and as such the portfolios remained fully invested. Corporate credit has remained extremely firm as the 10-year Treasury yield eclipsed 1.5%. Common themes in the portfolios were a shift to balance our growth and value exposure, while maintaining a risk-on bias.

Below are strategy updates from September:

Alternative

- The portfolio added equity exposure after a short-term pessimism extreme and also added commodity exposure (broad commodities and agriculture) after the Fed announcement.
- We sold gold, silver miners, and a merger arbitrage ETF.
- Long/short commodities and options-based funds are the strongest performers in the portfolio's core portion.

Fixed Income Total Return

- After the Fed signaled a faster taper than market participants were expecting, Treasuries sold off promptly, but corporate credit remained quite strong.
- The portfolio's models that compare high yield to Treasuries are out to new highs, and overall the credit environment remains very positive.
- We believe our position in high yield will be sustained over the intermediate term.

Global Tactical

- The Fed moving up the timing of its taper (therefore increasing expected interest rates in the future), caused a considerable rotation in markets, but credit markets remain very strong.
- Our credit-based risk management models went out to new highs after the Fed meeting, and we believe that risk assets appear to be well supported.
- As equities are bouncing from oversold conditions, we are bullish for the intermediate term. U.S. equities and large-caps are outperforming international equities and small-caps— a continuance of a multi-year trend.

Past performance is not indicative of future results.

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

Navigate
Your Future.
Enjoy the
Journey.



Market Moves

Charting Our Strategies

Sector Opportunity

- For much of the quarter, the portfolio favored Technology (broad tech, software, robotics and AI), broker dealers, and the S&P 500 itself – a sign that large-caps and the broad index were very tough to outscore in our rankings system.
- After the Fed's announcement sent rates higher, we purchased Financials and added to our position in broker dealers. Financials' relative strength has held in surprisingly well for much of 2021, and now they have interest rate movements back in their favor.

Style Opportunity

- As of mid-September, the portfolio was favoring large-cap growth and the S&P 500 Index itself, as growth had been outperforming since rates peaked at the end of March.
- However, after the Fed signaled that tapering is coming closer (perhaps sooner than many thought), growth stocks and duration assets lost strength.
- As a result, we reduced our exposure to large-cap growth and quality and added to the S&P 500 and momentum, which now has a cyclical/value tilt).

U.S. Strategic Beta

- After reducing or selling out of mid-cap and small-caps between March and September, we recently repurchased or added to mid-cap and small-caps (both value and growth) after sentiment became its most pessimistic since early April 2020.
- We sold out of minimum volatility and buybacks and the portfolio is now more aggressively positioned moving into the fourth quarter.

Navigate
Your Future.
Enjoy the
Journey.

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



Author



K. Sean Clark, CFA®
*Executive Vice President
 Chief Investment Officer*

The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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 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.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request. CCM-1188

Navigate
 Your Future.
 Enjoy the
 Journey.