April 2022

Clark Capital
MANAGEMENT GROUP

Benchmark Review
& Monthly Recap

Highlights

Many of the same trends from the first quarter continued during April. Interest rates moved higher, bond prices continued to fall, and equities declined further with growth stocks coming under particular pressure.

No Fed meetings occurred in April, but the market continued to price in expectations of significant rate hikes coming over the next several months. Inflation has been at multi-decade highs and the Fed is now focused on slowing that trend.

The 10-year U.S. Treasury made another move higher and closed the month at 2.89% compared to March's close of 2.32%. The last time the 10-year yield was at this level was in December of 2018, which was also the last time the yield was above the 3% mark.

The move higher in interest rates has pressured bond prices lower, but we believe much of the move higher in rates has already taken place.

The U.S. economy continued to show ongoing growth based on data released in April (primarily covering March), but some moderation in growth has occurred.

We believe economic and business fundamentals still look solid despite a volatile beginning to 2022 for the capital markets. We still anticipate GDP growth to be 3%+ and earnings growth to be in the high single digits in 2022.

Stocks and Bonds Remained Under Pressure in April

Equity Markets

After a brief reprieve in March, stocks tumbled further in April with declines coming across the equity markets. The weakness in April added to already negative returns from the first quarter of 2022, which was the first down quarter for stocks in two years. Growth stocks, both large-caps and small-caps, were particularly hard hit with double-digit declines for the month. Large-cap stocks did marginally better than small-caps in relative terms in April, but the story was more about style with growth stocks leading the market lower. The CBOE Volatility Index, or VIX Index, rose for much of April and closed at 33.40, which marked one of the highest closing levels of 2022 – therefore one of the highest closing levels seen in over a year. The VIX Index ended March at 20.56, so the move higher in April was pronounced as volatility reigned for much of the month. Our expectation of more volatility as we moved into 2022 has occurred as the Omicron variant continued early in the year, followed by the crisis in Ukraine, and culminating with the beginning of the Fed rate tightening cycle in March and ongoing hawkish talk by some Fed officials. These issues, along with the ongoing backdrop of high inflation, have kept markets choppier to start 2022.

Size and style continue to matter in terms of relative performance. We still believe that the value/growth disparity that reached a peak in 2020 will likely continue to shift as we move into 2022 with value improving on a relative basis. That has proved to be the case so far this year. We at Clark Capital continue to use our disciplined approach of seeking out what we believe are high-quality companies with improving business conditions at good prices.

The numbers for April were as follows: The S&P 500 fell -8.72%, the Dow Jones Industrial Average slid by -4.82%, the Russell 3000 declined -8.97%, the NASDAQ Composite tumbled -13.24%, and the Russell 2000 Index, a measure of small-cap stocks, dropped -9.91%. For the first four months of 2022, the returns in the same order were as follows: -12.92%, -8.73%, -13.78%, -21.00%, and -16.69%.

Overall, for the quarter, value clearly outperformed growth on a relative basis. Looking closer at style, the Russell 1000 Index fell -8.91% for the month. The Russell 1000 Growth Index declined -12.08%, while the Russell 1000 Value Index dropped -5.64% in April. For the first four months of the year, the Russell 1000 Growth Index dropped -20.03%, compared to its value counterpart off -6.34%.

The same trend held for small-caps from a style perspective, but with larger overall declines as small-caps underperformed large-caps for the month and year to date. The Russell 2000 Value Index fell -7.76%, while the Russell 2000 Growth Index declined -12.27% in April. Year to date, those two indices are down -9.97% and -23.35%, respectively.

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International stocks had an equally challenging month with declines recorded throughout most global markets. The MSCI Emerging Markets Index fell -5.56% in April and was off by -12.15% year to date. As would be expected with the Russian invasion of Ukraine, emerging Eastern European stocks have been the worst regional area this year. The MSCI ACWI ex USA Index, a broad measure of international equities, fell -6.28% for the month, and is down -11.38% so far this year.

Fixed Income

The yield on the 10-year U.S. Treasury moved higher again in April as the historically weak start to the year for bonds continued. Most bond sectors came under pressure as the resetting of interest rates across the board led to further declines in bond prices. The 10-year U.S. Treasury yield closed March at 2.32% and it ended April at 2.89%.

The rise in interest rates put pressure on bond prices and most segments of the bond market declined for a fourth month in a row – in some cases with April being the worst month so far this year. Fixed income returns were as follows for April: the Bloomberg U.S. Aggregate Bond Index fell -3.79%, the Bloomberg U.S. Credit Index slipped -5.24%, the Bloomberg U.S. Corporate High Yield Index declined -3.56% and the Bloomberg Municipal Index dropped by -2.77%. The 30-year U.S. Treasury Index slid a remarkable -10.25% for the month and the general U.S. Treasury Index declined -3.10%. For the first four months of 2022, the returns for these indices in the same order were as follows: -9.50%, -12.27, -8.22%, -8.82%, -20.49%, and -8.50%.

Clearly, this has been an unprecedented start to the year for bonds. Recall that in 2021, the Bloomberg U.S. Aggregate Bond Index recorded only its fourth annual decline since its inception in 1976 – and the worst year on record for the Agg was 1994 when it declined -2.92%. Last year was a challenging year for investment grade bonds, and particularly for U.S. Treasuries, as yields moved higher. Unfortunately, that trend has continued into 2022 and broadened to other bond sectors as the market is trying to price in how aggressive the Fed will be in this rate-hike cycle. We maintain our longstanding position favoring credit versus pure rate exposure in this interest rate environment. We also believe that the role bonds play in a portfolio, to provide stable cash flow and to help offset the volatility of stocks in the long run, has not changed.

Economic Data and Outlook

The strength in job market data continued in March, despite payroll numbers falling short of expectations. Non-farm payroll additions were expected to be 490,000 in March, when 431,000 job gains were reported. However, February's already strong reading of 678,000 job additions was revised higher to 750,000. Furthermore, the unemployment rate dropped to 3.6% in March compared to the prior month's mark of 3.8% and expectations of 3.7%.

The Omicron surge early in the year does not seem to have hindered hiring in the first quarter. The labor force participation rate went up modestly as expected to 62.4% in March from 62.3%. Over 11.2 million open positions were reported in February, which was ahead of the 11 million estimate. There are still millions more jobs available than those searching for work, so this mismatch in the labor market continues. However, job gains were strong in the first quarter and more people moved back into the labor force. Ultimately, the job market is important to track with about 70% of U.S. economic activity driven by consumer spending.

The housing market is still posting strong numbers, but as mortgage rates surge higher (as interest rates move higher) this will be an important part of the economy to monitor. Strong demand and low inventories have resulted in home prices that continue to rise dramatically. Based on the year-over year reading of the S&P CoreLogic CS 20-City Index, home prices increased by a more than expected 20.2% in February, which was the third month in a row that home prices have risen at a faster rate than the prior month.

Housing starts and building permits were above estimates in March and both exceeded February's levels. New home sales fell short of expectations and declined from the prior month. Existing home sales might be seeing the impact of higher mortgage rates as they dropped for a second straight month to an annualized pace of 5.77 million in March from a revised 5.93 million pace in February. Often, during times when interest rates rise sharply, home purchases can initially increase as buyers want to lock in a mortgage and a home before rates go even higher. This played out with existing home sales surging in January, but dropping notably in February and March. The housing market has been, and continues to be, a source of strength in the economy, and has historically been a good leading indicator as well. The impact of higher mortgage rates will be important to follow in the months ahead.

The ISM Manufacturing Index for March declined from the prior month to 57.1, which was also below expectations of 59.0. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, increased to 58.3 from 56.5, but it too fell short of expectations. Manufacturing and service industries are still showing strong levels of growth, but following the recent trend, some moderation in the pace of growth has occurred. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so these current readings remain in very strong growth territory.

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Retail sales (ex. auto and gas) rose by 0.2% in March as expected. February's reading saw a large revision from a previously reported decline of -0.4% to a gain of 1.3%. It is important to note that higher prices, meaning inflation, can be a significant factor for this reading as the retail sales data is not inflation adjusted.

Consumer confidence, based on the preliminary University of Michigan Sentiment reading for April, made an unexpected gain to 65.7 compared to the prior reading of 59.4 and expectations of 59.0. Concerns about inflation, pandemic issues and geopolitical risks with Russia and Ukraine are weighing on consumer sentiment, but the stock market rebound in March and ongoing strength in labor conditions likely helped this latest reading.

The Conference Board's Leading Index rose as expected by 0.3% in March and February's previously reported 0.3% gain was revised to show a 0.6% advance. The first or advance reading of Q1 2022 GDP showed an unexpected drop in economic activity by a -1.4% annualized rate when a 1.0% gain was expected. However, some unique circumstances were reflected in this report including a surge in imports, which resulted in a trade deficit subtracting 3.2 percentage points from the GDP number. Personal spending remained solid, increasing by 2.7% on an annualized basis. Recall, GDP in the fourth quarter of 2021 was exceptionally strong at a 6.9% annualized growth rate. We at Clark Capital are expecting GDP growth to be 3%+ in 2022 – still above trend economic growth, but slower than the growth enjoyed in 2021.

Inflation has been problematic for the Fed while the job market recovery has been strong. The Fed has clearly shifted its focus from the full employment side of its mandate to price stability as we began a rate-hike cycle in March. Inflation has surged to generational highs. The headline Consumer Price Index (CPI) rose by 8.5% on a year-over-year headline basis in March – the largest annual increase since the early 1980s – and 6.5% on a core basis, which excludes food and energy prices.

The headline Producer Price Index (PPI) reflected another double-digit annual gain by rising 11.2% in March, which surpassed even lofty expectations of 10.6%. Inflation will likely remain elevated well into 2022, but we anticipate it will moderate as the year progresses. The Fed has clearly signaled to the market that inflation is its focus and it does not want higher inflation expectations to become rooted in our economy.

We remain resolute in our belief that the U.S. economy and corporate America will continue to recover as we progress beyond the pandemic. The Omicron spike we saw early in the year has improved, although another subvariant has been making recent gains. The U.S. seems to be moving toward treating the coronavirus as an endemic versus a pandemic and not letting it be as disruptive to our daily lives. Looking beyond the humanitarian aspect of the Russian invasion of Ukraine, we do not believe the invasion will have much of an impact on earnings, which are the primary driver of stock prices over the long run. However, since we are still in the early stages of this event, we will need to monitor how widespread this situation becomes.

We are transitioning away from the stimulus fueled economy to a Fed that will continue to raise rates from the foreseeable future. This will likely usher in more market volatility than has been experienced since the pandemic began. However, we believe fundamentals still look solid and our expectations for 2022 of 3%+ GDP growth and high single digit earnings growth remain. We 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.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

The market entered May tactically oversold, with the Technology and Consumer Discretionary sectors at the heart of the selling pressure.

We continue to manage risk across the tactical portfolios by limiting beta. Our Fixed Income Total Return and Global Tactical portfolios remain defensively positioned with 50% of the portfolios holding cash equivalents.

Clark Capital's Bottom-Up, Fundamental Strategies

The Nasdaq composite posted its worst monthly performance since the start of the pandemic, declining more than 13.0%, as Technology companies have taken the brunt of the selling pressure due weaker than expected first quarter earnings and higher interest rates.

The Federal Reserve has shifted from dovish, patient and jawboning to hawkish and aggressive. Expectations of rate hikes have increased with several 0.50% hikes priced into expectations. Across our bottom-up equity portfolios, we continue to shift portfolios away from beta, duration, fragility, and labor intensity.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Mar	59	57.1	58.6	—
ISM Services Index	Mar	58.5	58.3	56.5	—
Change in Nonfarm Payrolls	Mar	490k	431k	678k	750k
Unemployment Rate	Mar	3.70%	3.60%	3.80%	—
JOLTS Job Openings	Feb	11000k	11266k	11263k	11283k
PPI Final Demand MoM	Mar	1.10%	1.40%	0.80%	0.90%
PPI Final Demand YoY	Mar	10.60%	11.20%	10.00%	10.30%
PPI Ex Food and Energy MoM	Mar	0.50%	1.00%	0.20%	0.40%
PPI Ex Food and Energy YoY	Mar	8.40%	9.20%	8.40%	8.70%
CPI MoM	Mar	1.20%	1.20%	0.80%	—
CPI YoY	Mar	8.40%	8.50%	7.90%	—
CPI Ex Food and Energy MoM	Mar	0.50%	0.30%	0.50%	—
CPI Ex Food and Energy YoY	Mar	6.60%	6.50%	6.40%	—
Retail Sales Ex Auto and Gas	Mar	0.20%	0.20%	-0.40%	1.30%

Event	Period	Estimate	Actual	Prior	Revised
Industrial Production MoM	Mar	0.40%	0.90%	0.50%	0.90%
Building Permits	Mar	1820k	1873k	1859k	1865k
Housing Starts	Mar	1740k	1793k	1769k	1788k
New Home Sales	Mar	768k	763k	772k	835k
Existing Home Sales	Mar	5.77m	5.77m	6.02m	5.93m
Leading Index	Mar	0.30%	0.30%	0.30%	0.60%
Durable Goods Orders	Mar P	1.00%	0.80%	-2.10%	-1.70%
GDP Annualized QoQ	1Q A	1.00%	-1.40%	6.90%	—
U. of Mich. Sentiment	Apr P	59	65.7	59.4	—
Personal Income	Mar	0.40%	0.50%	0.50%	0.70%
Personal Spending	Mar	0.60%	1.10%	0.20%	0.60%
S&P CoreLogic CS 20-City YoY NSA	Feb	19.20%	20.20%	19.10%	18.94%

Source: Bloomberg P=Preliminary, A=Advanced

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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 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 80% 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 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe.

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.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years. The 30 year treasury yield is included on the longer end of the yield curve and is important when looking at the overall US economy.

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.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries*. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The MSCI Emerging Markets (EM) Eastern Europe Index captures large and mid cap representation across 4 Emerging Markets (EM) countries* in Eastern Europe. With 47 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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 Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

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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