Clark Capital Management Group

Portfolio Commentary

Navigator® Global Tactical

Portfolio Manager

Mason Wev, CFA®, CMT®, CAIA®
Senior Portfolio Manager

Top Contributors as of June 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares Short Treasury Bond ETF	23.71	0.04
SPDR Bloomberg 1-3 Month T-Bill ETF	23.05	0.03
JPMorgan Ultra-Short Income ETF	7.80	-0.02

Top Detractors as of June 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 ETF	18.19	-7.58
iShares Core S&P Small Cap ETF	7.81	-2.84
iShares Core MSCI Total International Stock ETF	7.19	-2.65

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.

As Inflation Has Risen, the "Fed Put" Has Vanished, Creating Paradoxical Conditions

Market Review

After markets rallied from an early March low attributed to the invasion of Ukraine, the decline resumed in earnest during the second quarter. The S&P 500 declined 11% from April until mid-May, before staging a brief rally. That rally stalled as oil prices exceeded $120 per barrel, and inflation took hold in energy and materials prices, and more importantly, in wages. A mid-June CPI report showing an 8.6% annualized gain, along with a 6.0% gain for Core CPI was proof that the Fed was behind the curve. Interest rates spiked higher, and markets gapped downwards. The S&P 500 was down over 16% on the quarter, and roughly 20% for the first half of the year, its worst start of the year since 1970. A hawkish Fed combined with the highest inflation in 40 years drove interest rates dramatically higher and the Bloomberg U.S. Aggregate Bond Index down 10.4% to start the year, its worst start on record. Despite large losses, we would urge investors to stay the course, since markets have historically produced solid gains in the quarters after stock market losses of over 15%.

Since 2008, investors have gotten used to most major market bottoms being quickly followed by aggressive Federal Reserve action, including interest rate cuts and major quantitative easing actions. As we entered 2022, Fed-driven stimulus, often labeled the "Fed put", disappeared. Despite declining markets, the Fed has hiked rates to fight inflation, and is now proceeding with quantitative tightening – selling its balance sheets assets and absorbing liquidity. With no interest rate relief in sight, long duration assets and speculative assets have suffered. Within the Technology sector, firms with zero profits but growing sales are down more than twice those firms that have legitimate earnings – a complete reversal from the post-COVID boom. The NASDAQ 100, a market leader during the prior five to ten years, is down 29.3% year-to-date and declined 22.5% on the quarter. Pain came to corporate credit as well, as inflation and fears of a recession were priced into bonds. The U.S. high yield bond ETF was down 9.7% for the quarter and 14.1% on the year.

Second Quarter Performance Highlights

- The portfolio entered the quarter invested 50% in equities and 50% in cash. We were avoiding U.S. Treasuries and their relative weakness as the Fed turned hawkish. As markets weakened further, interest rate volatility increased to its highest levels since the 2008 financial crisis. Every interest rate move was magnified as inflation concerns grew. Our portfolio sold equities entirely in mid-May, and moved to cash.

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

- Soon thereafter, credit markets experienced a brief rally, and the 10 Year Treasury yield fell 35 basis points. This rally was enough to push the Global Tactical portfolio into equities, but the rally proved to be a bear trap. Commodities and oil surged higher, and inflation concerns hit a fever pitch. On June 10th, the CPI and Core CPI reports shocked markets, sending stocks tumbling. Our credit-based models quickly reversed into a defensive mode, and we were forced to take losses ranging from 7.0% to 8.5% on our equity ETF holdings roughly two weeks after purchasing them.
- Since then, underlying High Yield bond spreads have worsened, but interest rates have declined considerably. On July 1st, the portfolio switched from employing cash as its preferred defensive vehicle to 100% U.S. Treasury ETFs. Our models still assess high yield bonds and risk assets as in decline and out of favor.

Positioning and Outlook

The highest inflation in over 40 years has spooked markets in 2022, and it is a reminder that inflationary conditions present a unique set of driving factors. Inflation is driven by overheating and/or lack of supply in the economy, but while inflation rages and markets are volatile, fundamental economic conditions have continued to hold their own. As inflation has moved first from energy prices to food and transport, and then into wages, markets realized that once it grabs hold, inflation is costly to curtail and bring under control. This has proven true in 2022, as the Fed was late to react and had to increase rate hikes to try to tame inflation, shocking markets and feeding market turmoil.

As the second half of the year begins, we are faced with the paradox that while investor fear and pessimism have become very extreme, corporate fundamentals – particularly forward earnings expectations – are only now beginning to turn south. Many high yield fund managers we have met with expect balance sheets, margins, and corporate earnings to face headwinds. This quarter's corporate earnings season will prove pivotal, and we will find out if the market's decline – much of which was driven by interest rates and not poor earnings – will provide enough of a buffer to absorb bad news. Outside of 2020 and the unique circumstances of COVID, we believe investor sentiment has reached its most extreme level of pessimism since 2011. We view this as an indication that investors are likely to see healthy gains over the intermediate and long-term. However, with a hawkish Fed looming, we have no clear way for markets to see a path to sustained growth through the fog of surging and sticky inflation, rising risk of recession, and rising interest rates. With inflation appearing to have peaked short-term, perhaps that can act as a catalyst for optimism. Credit markets remain on edge and volatile, and we expect our portfolios to be active until inflation and the Fed's longer-term paths are clear. Until then, we will rely on our credit-based models, which for now point towards caution. However, markets are moving quickly, and sentiment and extreme oversold conditions mean a sizeable rally is likely during the second half of 2022. We would expect that conditions will turn us bullish on equities by the end of the year, if not well before. Until then, with fundamental conditions set to weaken, we are standing on the sidelines in U.S. Treasuries.

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

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.

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.

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.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Nasdaq-100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock market.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

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 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

The "Consumer Price Index for All Urban Consumers: All Items Less Food & Energy" is an aggregate of prices paid by urban consumers for a typical basket of goods, excluding food and energy.

USHY provides an expansive exposure to the USD-denominated corporate high yield bond market by including issuers from the FX-G10 countries.

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.

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-508