



Benchmark Review & Monthly Recap

Highlights

Market strength from July failed to continue through August as stocks and bonds declined during the month.

Bonds rallied in July, but the 10-year U.S. Treasury yield rose in August. After ending July at 2.67%, the yield closed August at 3.15%, which created a challenging environment for bonds.

No FOMC meeting was held in August, but the annual meeting of central bankers in Jackson Hole, Wyoming was consequential. Chairman Powell's keynote speech reinforced his current hawkish stance and stocks tumbled.

Slower growth is impacting the economy with the Fed poised to continue to hike rates. We don't believe we are in a recession currently, but the odds of a mild recession next year have increased.

Weak Second Half of August Pushes Stocks & Bonds Lower

Equity Markets

Equity index returns for August were as follows: The S&P 500 fell -4.08%, the Dow Jones Industrial Average declined -3.72%, the Russell 3000 slid -3.73%, the NASDAQ Composite slumped -4.53%, and the Russell 2000 Index, a measure of small-cap stocks, had the most modest declines, down -2.05%. For the first eight months of 2022, the returns in the same order were as follows: -16.14%, -12.01%, -16.92%, -24.07%, and -17.16%.

After coming off a strong July, stocks could not continue that momentum through August under the pressure of rising interest rates. Stocks started the month off strong, completing close to a 50% retracement from the low point reached by the S&P 500 in mid-June. However, the second half of August proved challenging, and stocks dropped from that point to close the month in negative territory. Likewise, the VIX Index made a rather steady move higher from the mid-point of the month going from below 20 to end August at 25.87. Ongoing concerns of elevated inflation and the Fed's aggressive response of raising rates continued to weigh on the market and create a more volatile period for stocks during the month.

Although most pockets of the equity market struggled in August, growth came under particular pressure once again. The headline Russell 1000 Index fell -3.84% in August with the Russell 1000 Growth Index down -4.66% and the Russell 1000 Value Index declining a more modest -2.98%. That continued a theme seen most of the year with value outperforming growth on a relative basis and for the first eight months of 2022, those two indices were down -23.19% and -9.85%, respectively.

Small caps had a better relative August compared to large caps, but in contrast to large caps, the bias favored growth. The Russell 2000 Value Index declined by -3.16% in August, while the Russell 2000 Growth Index fell a more modest -0.94%. Year to date, those indices are still down -12.17% and -22.29%, respectively. We at Clark Capital continue to use our disciplined approach of seeking out what we believe are high quality companies with improving business conditions and good prices, and those companies can be found in both the value and growth universe.

International stocks were mixed in August as emerging markets were able to post a modest gain while developed markets declined. The MSCI ACWI ex USA Index, a broad measure of international equities, fell -3.22% for the month, and was off -18.34% so far this year. The MSCI Emerging Markets Index posted a modest gain of 0.42% but was still off by -17.49% year to date. As would be expected with the Russian invasion of Ukraine, emerging Eastern European stocks continue to be the worst regional area this year. Both U.S. and international equities have struggled this year with an aggressive Fed rate hike cycle, high inflation, and slowing economic growth.

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Fixed Income

Fixed income returns were as follows for August: the Bloomberg U.S. Aggregate Bond Index declined -2.83%, the Bloomberg U.S. Credit Index dropped -2.83%, the Bloomberg U.S. Corporate High Yield Index slid -2.30% and the Bloomberg Municipal Index fell -2.19%. As would be expected, the 30-year U.S. Treasury Index had some of the worst results, dropping -4.41% for the month, while the general U.S. Treasury Index slumped -2.48%. For the first eight months of 2022, the returns for these indices in the same order were as follows: -10.75%, -13.70%, -11.22%, -8.62%, -24.97%, and -9.98%.

After hitting a multi-year closing high of 3.49% on June 14, the 10-year U.S. Treasury yield moved lower from mid-June through July, but that trend reversed course in August as yields rose sharply again. Simply put, the 10-year U.S. Treasury yield closed August 1 at 2.60% but closed August 31 at 3.15%. Clearly, that increase in interest rates put pressure on bond prices and returns suffered during August. While short-term returns are negatively impacted by rising rates, long-term returns for bonds have become more attractive with the higher yields being offered.

Bonds have struggled this year as there has been a repricing of interest rates across the yield curve and across bond sectors under this Fed rate tightening cycle. 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%. As it turns out, the year 1994 was another period when the Fed was in a rate hike cycle. We maintain our long-standing 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 flows and to help offset the volatility of stocks in the long run, has not changed. In fact, bonds are offering higher yields than they have in a number of years and as a result, we believe they are becoming a more attractive asset class.

Economic Data and Outlook

Job additions surged in July. The change in non-farm payrolls were more than twice as strong (528,000) as expectations (250,000). The unemployment rate declined to 3.5% - the same unemployment level as February 2020 prior to the pandemic. However, as the Fed is analyzing data, this "good" news might be perceived as "bad" news showing too much economic strength and more work that the Fed needs to do to slow economic growth and control inflation. Typically, one tends to see the unemployment rate start to rise heading into a recession, but at this point in the cycle, employers are still looking for workers to fill open roles. Ultimately, the job market is important to track with about 70% of U.S. economic activity driven by consumer spending.

Housing continues to show a slowing trend. Housing starts, existing home sales, and new home sales were all below expectations in July and lower than June's levels. Building permits ticked lower as well, but they did beat expectations. The rise in mortgage rates has taken some steam out of the housing market, and June did see home price increases slow compared to recent readings. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices rose by "only" 18.65%. This compares to expectations of 19.2% and the prior month's revised mark of 20.51%. The housing market has been a source of strength in the economy and has historically been a good leading indicator as well. However, the impact of higher mortgage rates, along with high home prices, is having a dampening effect on housing and home activity will likely slow as the broader economy slows down as well.

The ISM Manufacturing Index declined in July to 52.8 from the 53.0 level in June, the lowest reading for this index since June 2020, but it did beat expectations. The New Orders and Employment components recorded readings below 50 once again, but the employment reading did improve to 49.9 showing improvement and surpassing expectations. New orders were lower than expected and dropped from June's level. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, was a bright spot improving to 56.7, well ahead of estimates of 53.5 and better than June's level of 55.3. Manufacturing and service industries are still showing growth, but following the recent trend, moderation in the pace of growth has occurred. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so these current headline readings remain in growth territory.

Retail sales (ex. auto and gas) rose to a better-than-expected 0.7% in July, matching the increase from June. 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. Not surprising following a strong stock market rebound in July and ongoing job market strength, consumer confidence, based on the preliminary University of Michigan Sentiment reading for August (which came out August 12), improved to 55.1 – surpassing expectations and the prior month. The Conference Board's Leading Index declined again in July, this time by -0.4%, which was modestly better than the -0.5% expectation. Q2 2022 GDP was revised in its second reading to a -0.6% annualized decline, which was an improvement from the first reading (-0.9%) and better than expectations of -0.7%. We at Clark Capital understand that GDP growth has weakened in 2022, but we are still anticipating positive growth for the year. We do not believe we are currently in a recession but acknowledge the risk of a mild recession, most likely next year, has increased.

If there had been any lingering doubts about his views, Fed Chairman Powell reiterated his clear and almost singular focus on defeating inflation during his Jackson Hole,

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Wyoming speech. The markets had perceived a somewhat more dovish tone from Powell after the last FOMC meeting in July and Fed officials, and Chairman Powell himself, have been trying to bolster their inflation-fighting credibility to the market since. Ironically, inflation has started to improve with the headline Consumer Price Index dropping to 8.5% in July from the 9.1% reading in June and that was lower than expectations of 8.7%. Recall as well that the Fed targets the core reading of the Personal Consumption Expenditures index and that declined to 4.6% in July from 4.8% in June and was also better than expectations of 4.7%. One month is not a trend, but it has been our long-standing opinion that inflation readings would start to improve in the second part of 2022, and Core PCE has now declined in 4 of the last 5 months. Furthermore, forward inflation expectations have been rolling over for the past few months, so long-term inflation worries have not become an imbedded part of the economic outlook. The Fed meets again in September and a 50 or 75 basis point rate hike is expected at that time, but we believe we are in the latter innings of this rate hike cycle heading into the last few months of the year.

The shift in Fed policy from a stimulatory environment to more restrictive monetary conditions is having an impact on the economy. The job market has been an area of strength and it is a critical component of our overall economy. The Fed is focused on bringing inflation under control, but its primary tool in achieving that goal is raising interest rates, which is a headwind to economic activity. Markets are resetting valuations based on higher interest rates and lower corporate earnings expectations in this rate-tightening cycle. We continue to expect the economy to grow this year, but the chances of the Fed pushing us into a recession, due to their aggressive rate hikes, have risen. 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. Importantly, stocks historically have hit their lows early in the rate hike cycle, well before the Fed has made its final rate hikes.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Federal Reserve Chairman Jerome Powell reiterated his commitment to quashing inflation expectations and acknowledged the potential economic pain of lifting short-term rates. The Fed is now set to double the pace of quantitative tightening or balance sheet reduction, and is expected to increase the Fed Funds rate by another 0.50% - 0.75% in September. After a brief 2-month rally from mid-June to mid-August, volatility increased with the market giving back some of its gains into month-end. Risk assets across the board came under pressure following Powell's comments and high yield credit spreads widened but remain well below their early-July peak.

September has historically been a seasonally weak month, especially in midterm election years, so we anticipate some

additional volatility over the coming weeks. Some of our tactical strategies turned defensive with the Fixed Income Total Return and Global Tactical portfolios reallocating into a risk-off position as the month ended.

Clark Capital's Bottom-Up, Fundamental Strategies

The July rally ended in August with low volume and persistent selling pressure spurred by Powell's hawkish comments at Jackson Hole and expectations for a longer stretch of monetary tightening well into 2023. Chairman Powell's "keep at it until the job is done" commentary leaves Treasury yields close to resistance, with the 10-Year Treasury yield back above 3.0%. Longer duration stocks weakened as evidenced by the Russell 1000 Growth versus the Russell 1000 Value ratio retreating, indicating a shift to value outperformance ahead.

Although earnings have come in better than expected, fears of flatter earnings could fuel more volatility into September, a historically bad month for the market. We continue to invest the High Dividend Equity portfolio in dividend growers at what we believe are reasonable prices with exposure to both cyclical and growth sectors. We also see opportunity in international markets, with valuations about one-third less than U.S. benchmarks. International ADR continues to seek out what we believe are undervalued, high-quality companies in both developed and emerging markets to add to the portfolio. In our fixed income portfolios, we continue to shift into higher quality, more liquid holdings in anticipation of wider spreads going into the large amount of new issue supply in September.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	July	52.0	52.8	53.0	—
ISM Services Index	July	53.5	56.7	55.3	—
Change in Nonfarm Payrolls	July	250k	528k	372k	398k
Unemployment Rate	July	3.6%	3.5%	3.6%	—
Average Hourly Earnings YoY	July	4.9%	5.2%	5.1%	5.2%
JOLTS Job Openings	June	11000k	10698k	11254k	11303k
PPI Final Demand MoM	July	0.2%	-0.5%	1.1%	1.0%
PPI Final Demand YoY	July	10.4%	9.8%	11.3%	—
PPI Ex Food and Energy MoM	July	0.4%	0.2%	0.4%	—
PPI Ex Food and Energy YoY	July	7.7%	7.6%	8.2%	8.4%
CPI MoM	July	0.2%	0.0%	1.3%	—
CPI YoY	July	8.7%	8.5%	9.1%	—
CPI Ex Food and Energy MoM	July	0.5%	0.3%	0.7%	—
CPI Ex Food and Energy YoY	July	6.1%	5.9%	5.9%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	July	0.4%	0.7%	0.7%	—
Industrial Production MoM	July	0.3%	0.6%	-0.2%	0.0%
Building Permits	July	1640k	1674k	1685k	1696k
Housing Starts	July	1527k	1446k	1559k	1599k
New Home Sales	July	575k	511k	590k	585k
Existing Home Sales	July	4.86m	4.81m	5.12m	5.11m
Leading Index	July	-0.5%	-0.4%	-0.8%	-0.7%
Durable Goods Orders	July P	0.8%	0.0%	2.0%	2.2%
GDP Annualized QoQ	2Q S	50.0	51.1	50.0	—
U. of Mich. Sentiment	Aug P	52.5	55.1	51.5	—
Personal Income	July	0.6%	0.2%	0.6%	0.7%
Personal Spending	July	0.5%	0.1%	1.1%	1.0%
S&P CoreLogic CS 20-City YoY NSA	June	19.20%	18.65%	20.50%	20.51%

Source: Bloomberg: P=Preliminary, S=Secondary

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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 University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

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. Secur-

ties 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 MSCI Emerging Markets (EM) Eastern Europe Index captures large and mid cap representation across 3 Emerging Markets (EM) countries' in Eastern Europe. With 21 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measure 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 New Orders Index shows if businesses in the sector are growing with new customers or orders. An index value above 50 percent indicates a positive development in the service sector new orders, whereas a value below 50 percent indicates a negative situation.

Employee Component means, collectively, those provisions of the Plan under which Awards may be granted to Employees that are intended to satisfy the requirements of an "employee share scheme" within the meaning of section 1166 of the Companies Act 2006.

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 "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX™) call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

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.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

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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