Clark Capital Management Group

Portfolio Commentary

Navigator® MultiStrategy

Portfolio Manager

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Bursting of Bond and Growth Stock Bubbles

Market Review

While markets enjoyed a rally during the fourth quarter, it was mostly due to beginning from a washed-out starting point. Markets made new intraday lows on October 13th after a stronger than expected CPI report. However, they rallied from that point by 14% through the end of November before falling 3% in December.

The S&P 500 gained 7.6% on the quarter. The gains could not ease investors' agony from the unprecedented double whammy of stock and bond market losses in 2022. The S&P 500 produced a 18.1% loss in 2022, and the pain was much worse for large-cap growth stocks, which lost 29.1%, and the NASDAQ, which lost 32.5%.

That pain was nothing compared to fixed income, as inflation forced the Fed to raise rates dramatically, causing the Bloomberg Aggregate Bond Index to decline 13.0%, the most on record. Never in the history of the markets had the S&P 500 and the Aggregate Bond Index declined by over 10% in the same year.

Longer duration, more interest rate sensitive assets were crushed, as investment grade corporate bonds declined by 15.8%, and the 20+ Year Treasury was significantly down. Investors had nowhere to hide but cash. T-Bill rates began the year at 0.04%, but by the end of the year, had risen incredibly to 4.2%. We believe this has become a compelling, ultra-low risk alternative to stocks and bonds.

Fourth Quarter Portfolio Highlights

- Value stocks dramatically outperformed growth stocks, and the effect was felt particularly among mega-caps. The Russell Top 200 Value outperformed the Top 200 Growth by 12.3%— the fourth biggest quarterly gap since 1986. Value outperformed growth across the board. Mid-cap value increased by 12.5%, surpassing an 8.7% gain for mid-cap growth. Small-cap value was up 10.8%, while small-cap growth rose by 6.6%. The weakness in growth was exemplified by the fact that the tech and mega-cap heavy NASDAQ Composite posted a small loss of -0.8%, despite sizeable broader market gains.
- Among fundamental stock selection factors, value-oriented factors such as Price/Sales and cash flow yield were rewarded, as were beta towards inflation protection, CPI, and the strong dollar. Sensitivity towards duration and interest rates, along with credit spreads, underperformed.
- While bonds posted gains for the quarter, interest rate volatility was extreme. The 10-year Treasury yield soared from 2.6% in July to 4.2% in October, but then fell back to 3.4% in early December, only to retrace to 3.9% to end the year. The selloff in bonds to end the year proved to be a strong headwind, which blunted all attempts at an anticipated Santa Claus rally.
  The portfolio began the quarter heavily indexed amidst the bear market, favoring the S&P 500 and minimum volatility. As the quarter developed, mid-caps, particularly mid-cap value, rose in our style and factor ETF matrix and entered the

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portfolio first. As November began, the portfolio moved to favor large-cap value and buybacks. By December, the portfolio had a 100% focus on value stocks, with our largest weight in large-cap value. We also added a high dividend ETF into the mix.

Positioning and Outlook

MultiStrategy now devotes two-thirds of its fixed income exposure to tactical high yield and one-third toward tactical investment grade. Within high yield credit, the portfolio favored cash until later November, during a time in which interest rates rose substantially and Treasuries and rate sensitive bonds took on losses.

Spreads, however, peaked and rolled over before even interest rates did, and with both interest rates and spreads falling during November, our models turned bullish on high yield near the end of the month. We have owned high yield through the month of December, and while spreads are contained, a hostile Fed and potential inflation means our models are only modestly positive.

Within investment grade, as the quarter began, we were defensively positioned in cash into mid-November. During that time, interest rates rose sharply and longer duration assets took on losses. A weaker-than-expected CPI report in mid-November eased rate fears and quickly drove our models back into risk-on investment grade corporates, but rates quickly reversed and near the end of the year, our investment grade models reverted back towards favoring defensive cash.

Cash can be seen as compelling since it offers a reasonable yield and near zero interest rate risk, while investment grade corporates offer a bit more in terms of potential return but with substantial interest rate risk. High yield, by comparison, yields significantly more but with a much larger credit risk.

While the pain in bonds has been unprecedented, we would make the case that the bubble in fixed income has been to a large extent normalized. In mid-2020, over 90% of all bonds in JP Morgan's Global Government Bond Index offered zero income (mostly Japanese and European bonds) – a troubling indication of overvaluation in fixed income. As of October of 2022, that number has fallen to under 20%.

U.S. investment grade bonds yielded 1.7% at the end of 2020 and only 2.33% at the end of 2021. Now at the end of 2022, the yield has risen to 5.4%. With T-Bills yielding 4.2%, investment grade bonds offer a below normal spread above Treasuries to take on duration risk. However, if inflation were to moderate – and we believe that it has put in an important peak – we believe that corporate bonds could offer a solid yield and the potential for capital appreciation.

Large-cap growth stocks also experienced a bubble – their second in the past 25 years. It was glorious for investors on the way up, but is agonizing now. Between most of 1999 and 2001, large-cap growth stocks' forward P/E exceeded 60 before collapsing down. COVID and massive global quantitative easing drove large-cap growth's forward P/E over 40 between 2020 and 2021.

While this year's painful decline has reduced that P/E to 27.4, that remains large-cap growth's highest valuations outside of its bubble periods. Its valuations have not even approached long-term historical averages, much less historically cheap and compelling levels. Thus, while large-cap growth's valuations have come in, more pain could be in store, which is reflected in its persistently poor relative price action.

In contrast, large-cap value's forward P/E stands at 12.5, a reasonable level that is in line with its history. Currently, the MultiStrategy portfolio has a 100% allocation to value-oriented stocks, which is in line with our ranking matrix. Over the longer term, we expect value stocks to play a greater role in the portfolio than they have over the past five years. That does not exclude the possibility that a huge rally will drive us into large-caps and growth; a Fed pause in 2023 would make that a probable scenario. However, in the longer run, we believe that fundamentals indicate that value stocks should present a compelling risk-reward case.

MultiStrategy 25-75 Top Contributors as of December 31, 2022

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	6.90	0.76
Navigator Tactical Fixed Income Fund Class I	48.88	0.59
SPDR S&P 400 Mid Cap Value ETF	4.41	0.54

MultiStrategy 25-75 Top Detractors as of December 31, 2022

Company Name	Average Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 Value ETF	4.99	-0.03
iShares Core High Dividend ETF	0.19	-0.02
iShares MSCI USA Min Vol Factor ETF	0.54	0.02

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.

MultiStrategy 50-50 Top Contributors as of December 31, 2022

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	18.34	2.33
iShares MSCI USA Momentum Factor ETF	3.15	0.77
SPDR S&P 400 Mid Cap Value ETF	7.93	0.72

MultiStrategy 50-50 Top Detractors as of September 30, 2022

Company Name	Average Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 Value ETF	9.30	-0.09
iShares Core High Dividend ETF	0.37	-0.04
iShares MSCI USA Min Vol Factor ETF	0.63	0.02

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.

MultiStrategy 75-25 Top Contributors as of December 31, 2022

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	27.12	3.49
SPDR S&P 400 Mid Cap Value ETF	11.61	1.13
iShares MSCI USA Momentum Factor ETF	4.73	1.13

MultiStrategy 75-25 Top Detractors as of December 31, 2022

Company Name	Average Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 Value ETF	14.73	-0.18
iShares Core High Dividend ETF	0.51	-0.06
iShares MSCI USA Min Vol Factor ETF	1.01	0.04

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.

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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).

The manager utilizes a proprietary investment model to assist with the construction of the strategy and to assist the manager with making investment decisions. Investments selected using this process may perform differently than expected as a result of the factors used in the model, the weight placed on each factor, and changes from the factors' historical trends. There is no guarantee that Clark Capital's use of a model will result in effective investment decisions.

Nasdaq is a global electronic marketplace for buying and selling securities.

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 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 iShares 7-10 Year Treasury Bond ETF (IEF) seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between seven and ten years.

The 10-year Treasury yield is the yield that the government pays investors that purchase the specific security. Purchase of the 10-year note is essentially a loan made to the U.S. government.

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 nd services.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less.

The JP Morgan Global Government Bond Index measures the performance of leading Government bond markets based on total return in US currency. By including only traded issues, the Index provides a realistic measure of market performance for international investors.

The Russell Top 200 Growth Index offers measures the performance of the especially large cap segment of the US equity universe represented by stocks in the largest 200 by market cap.

The iShares Russell Top 200 Growth ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit growth characteristics.

The S&P 500 Growth Index is a stock index administered by Standard & Poor's-Dow Jones Indices. As its name suggests, the purpose of the index is to serve as a proxy for growth companies included in the S&P 500. The index identifies growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum.

The iShares S&P 500 Value ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit value characteristics.

Investing involves risk, including loss of principal.

The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

One of the most effective smart beta strategies for achieving a reduction of risk are known as 'minimum volatility' strategies, which are specifically designed with this goal in mind, seeking to deliver market-like returns with less volatility by targeting lower volatility stocks.

Minimum volatility ETFs (commonly referred to as "min vol" ETFs) attempt to reduce exposure to stock market volatility. Min vol ETFs do not ensure against losses.

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