

# Q1 2023 Review & Outlook

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# Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

The gauges reflect the degree of Clark Capital's positive (forward) or negative (reverse) outlook on the corresponding economic factors. The gauges represent the firm's expectations for the market, and how changes in the market will affect the strategy but are only projections which assume certain economic conditions and industry developments and are subject to change without notice.



# Executive Summary

- 2<sup>nd</sup> half of 2022 GDP momentum carried over to Q1 2023
- The Fed is easing off the brake pedal, but it is still on it
- We believe valuations are "fair" for stocks
- We believe healthy fear level keeps Investor Sentiment positive
- Yield curve remains inverted, and long rates have moved down



# Why Did We Keep the Economic Gauge Neutral?



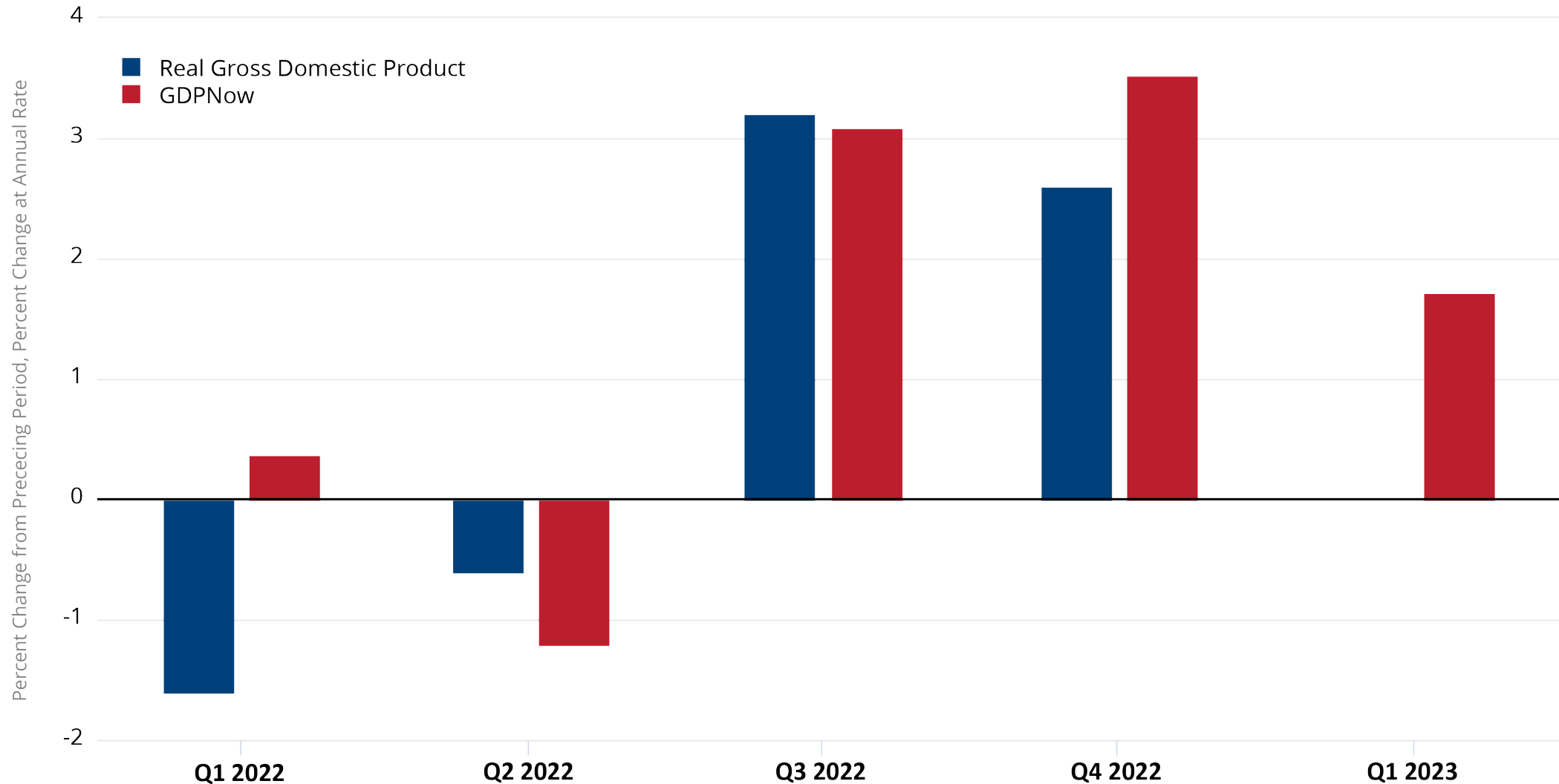
Economy

- 2<sup>nd</sup> half of 2022 GDP momentum carried over to Q1 2023. Expect economy to slow
- Labor market still robust, but we expect it to slow
- Inflation continues to moderate
- Why does this matter? . . . GDP helps drive earnings



# Economy Has Bounced Back

## Real Gross Domestic Product vs. GDPNow



Sources: BEA; Atlanta Fed; fred.stlouisfed.org

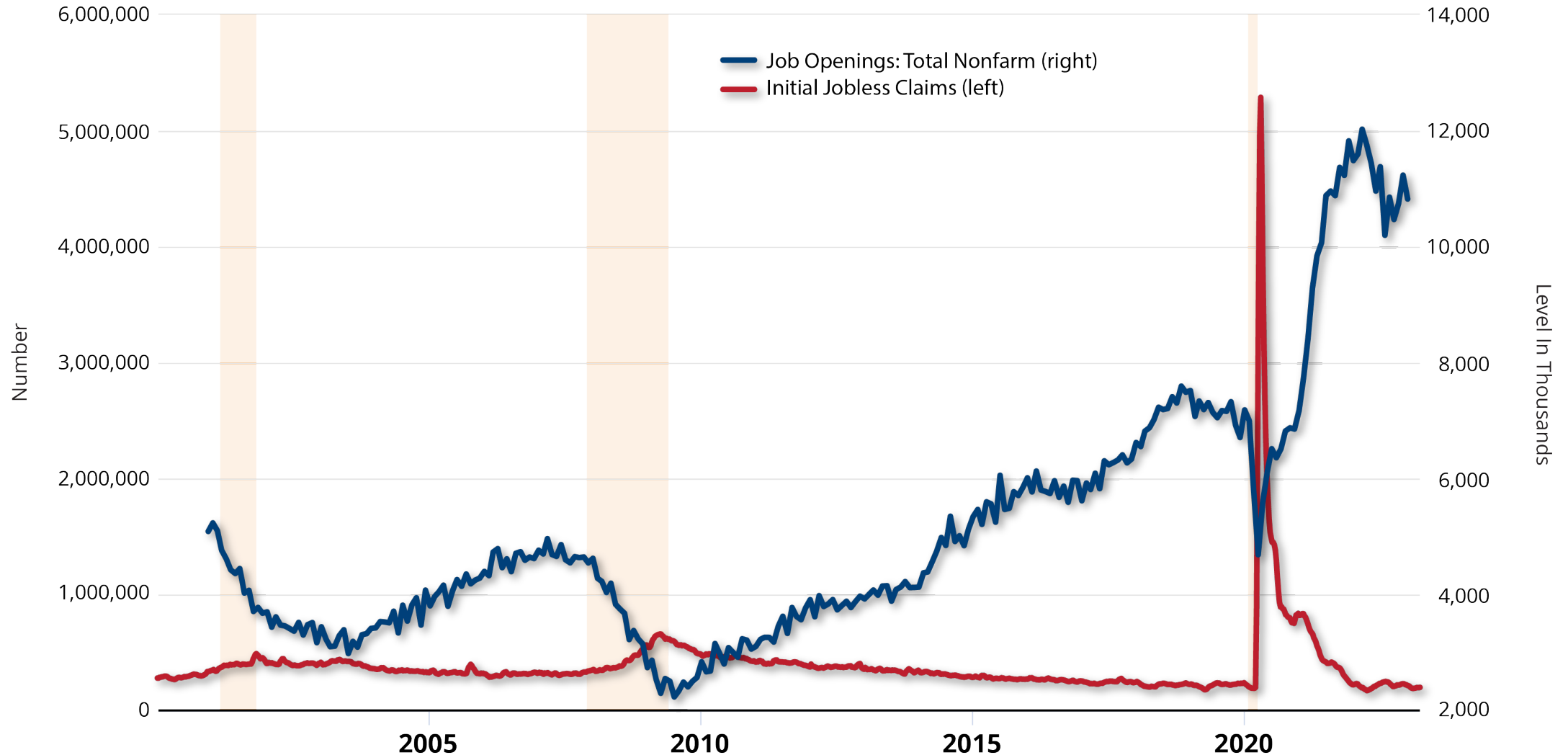
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# Labor Market Still Robust, but Expected to Weaken

## Initial Jobless Claims vs Non-farm Job Openings

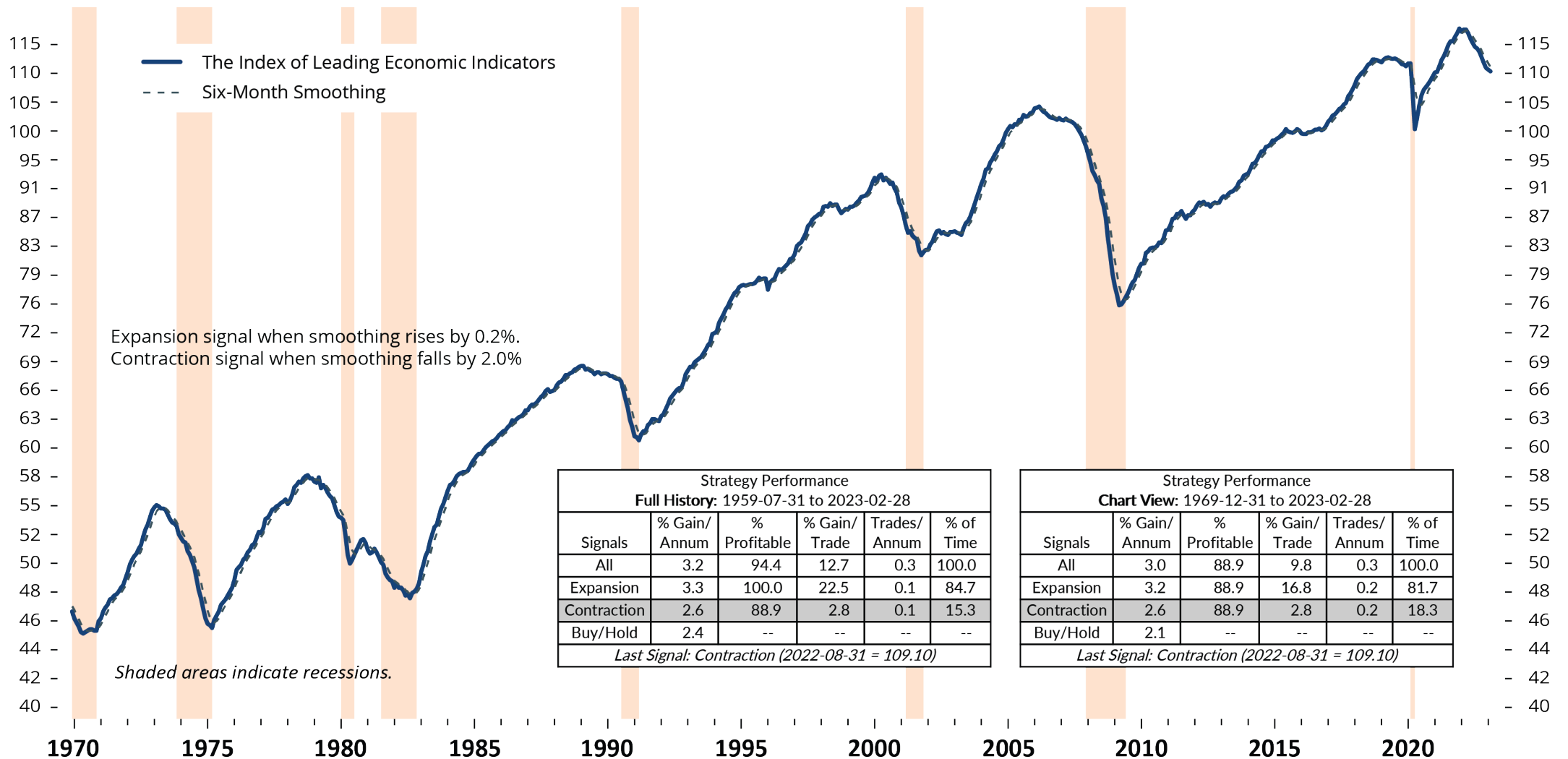
1/1/2002 to 3/31/2023



# Economy Likely to Slow

## The Index of Leading Economic Indicators

Monthly Data 12-31-1969 to 02-28-2023



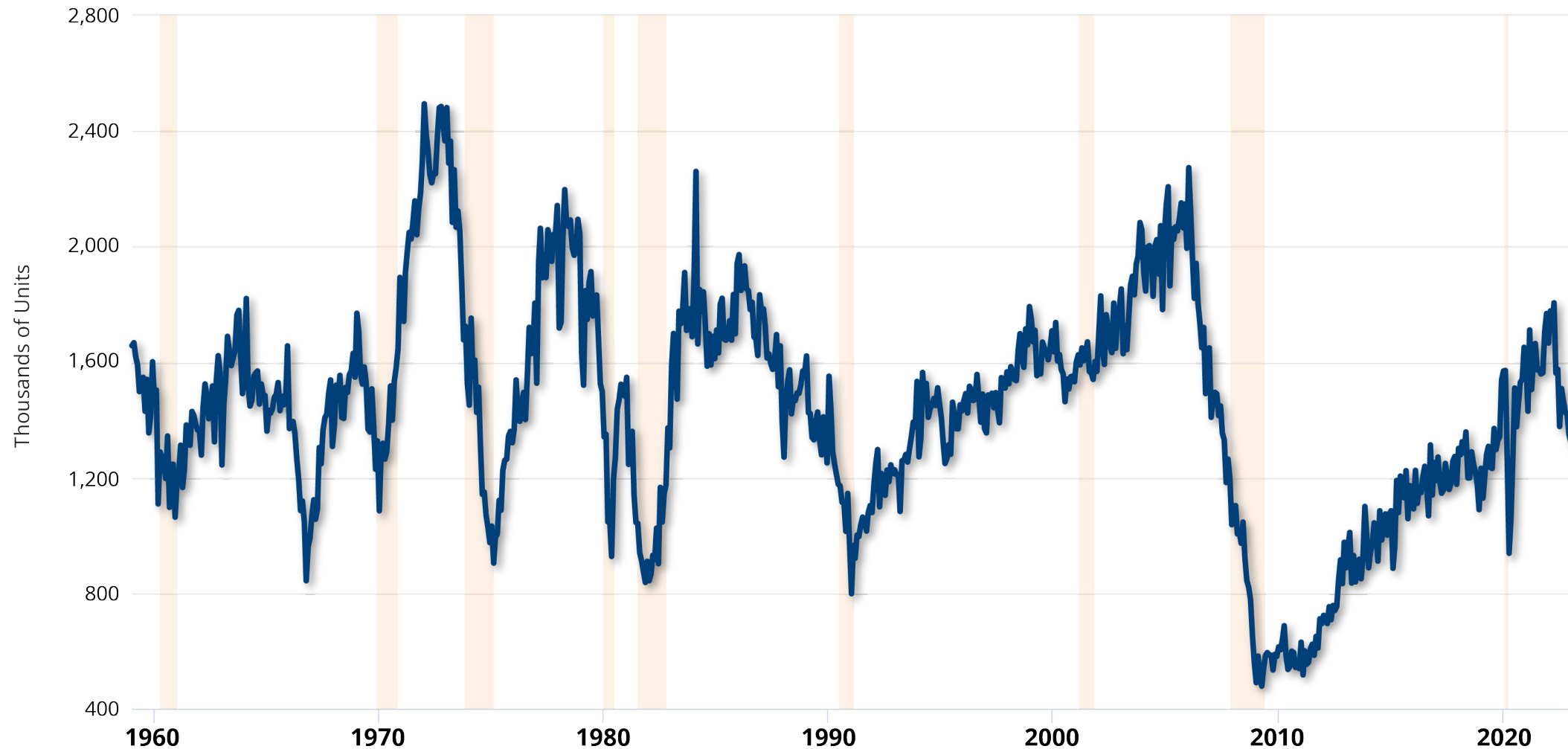
For illustrative purposes only. Past performance is not indicative of future results.

Source: The Conference Board; Ned Davis Research

# Housing Has Already Slowed

New Privately-Owned Housing Units Started: Total Units

1/1/1959 to 2/1/2023



Sources: Census; HUD; fred.stlouisfed.org



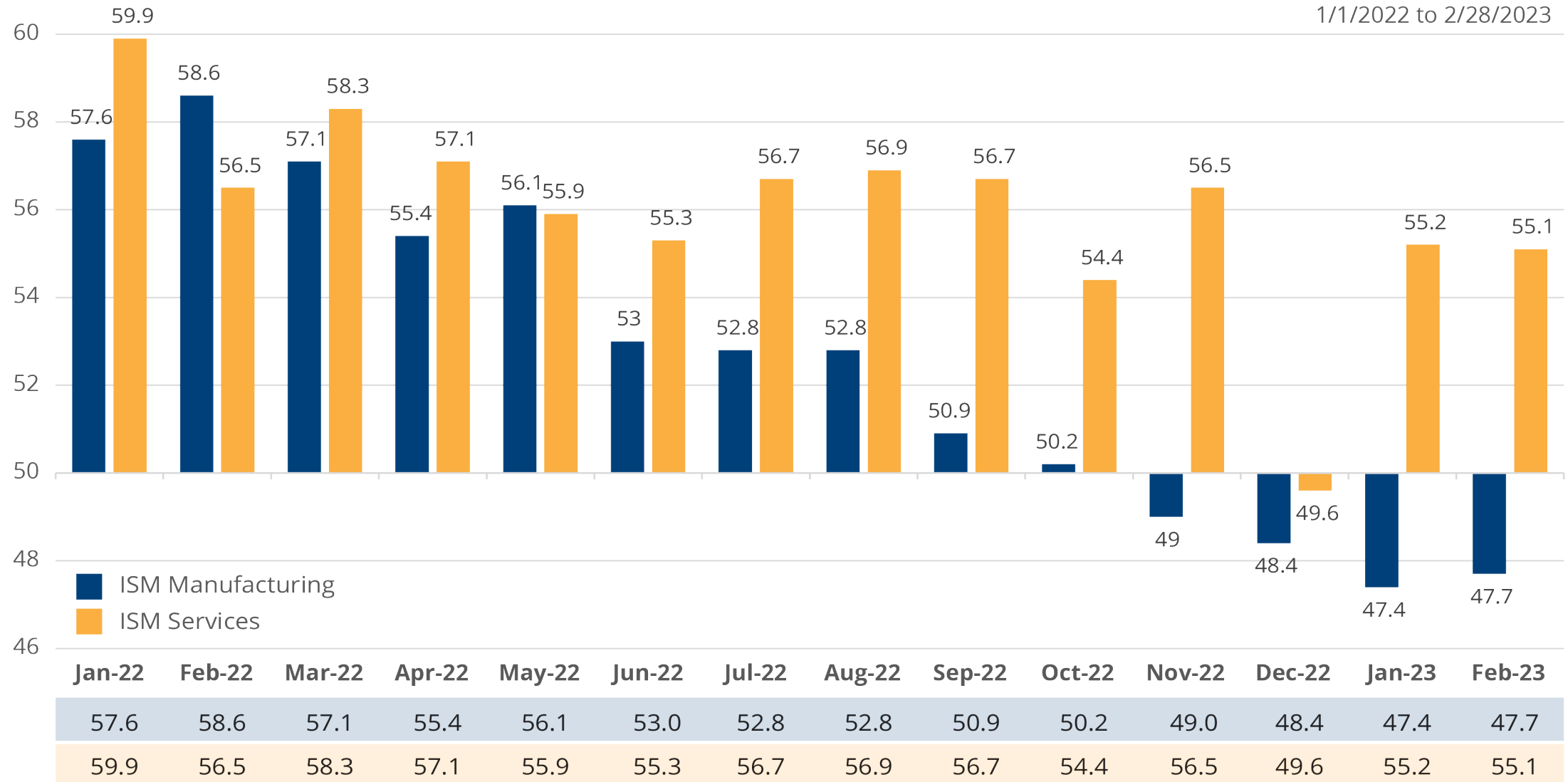
For illustrative purposes only.



# ISM Manufacturing & Service Sector PMIs

## ISM Manufacturing and Services

1/1/2022 to 2/28/2023



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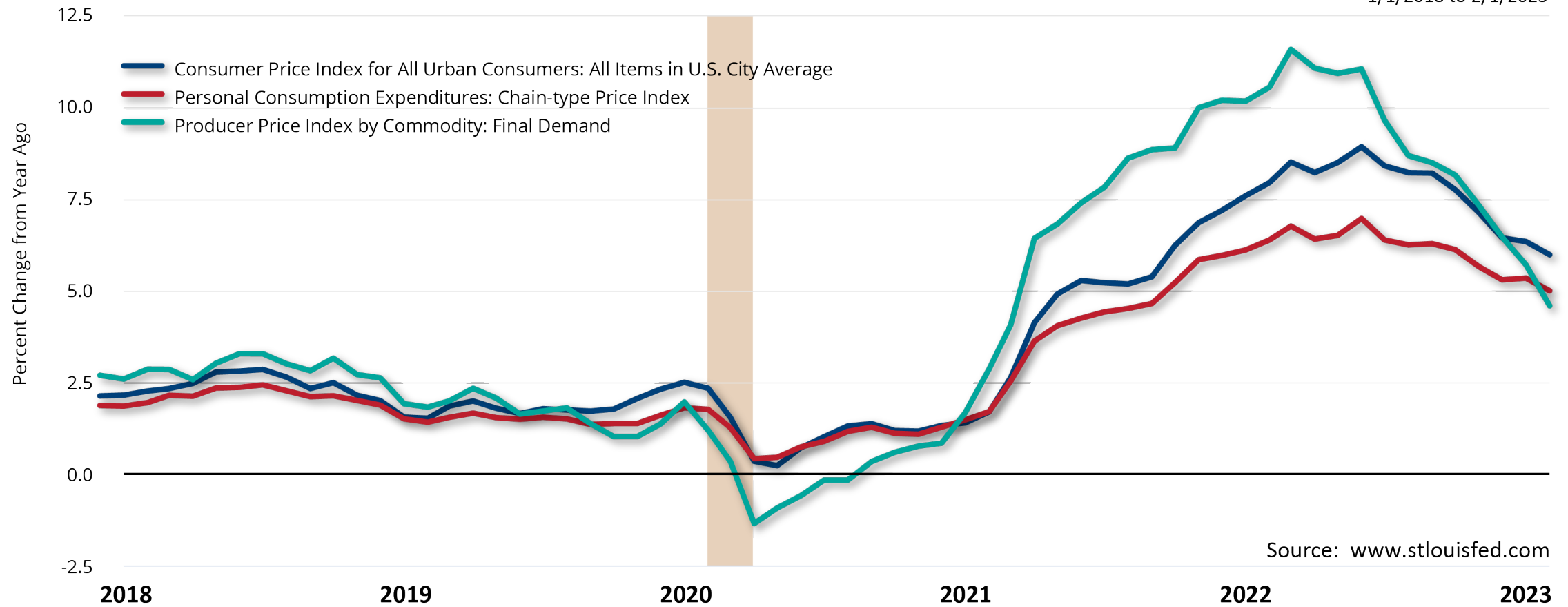
Source: Investing.com



# Inflation Continues to Recede from High Seen Last Year

## Consumer Price Index/Personal Consumption Expenditures/Producer Price Index

1/1/2018 to 2/1/2023



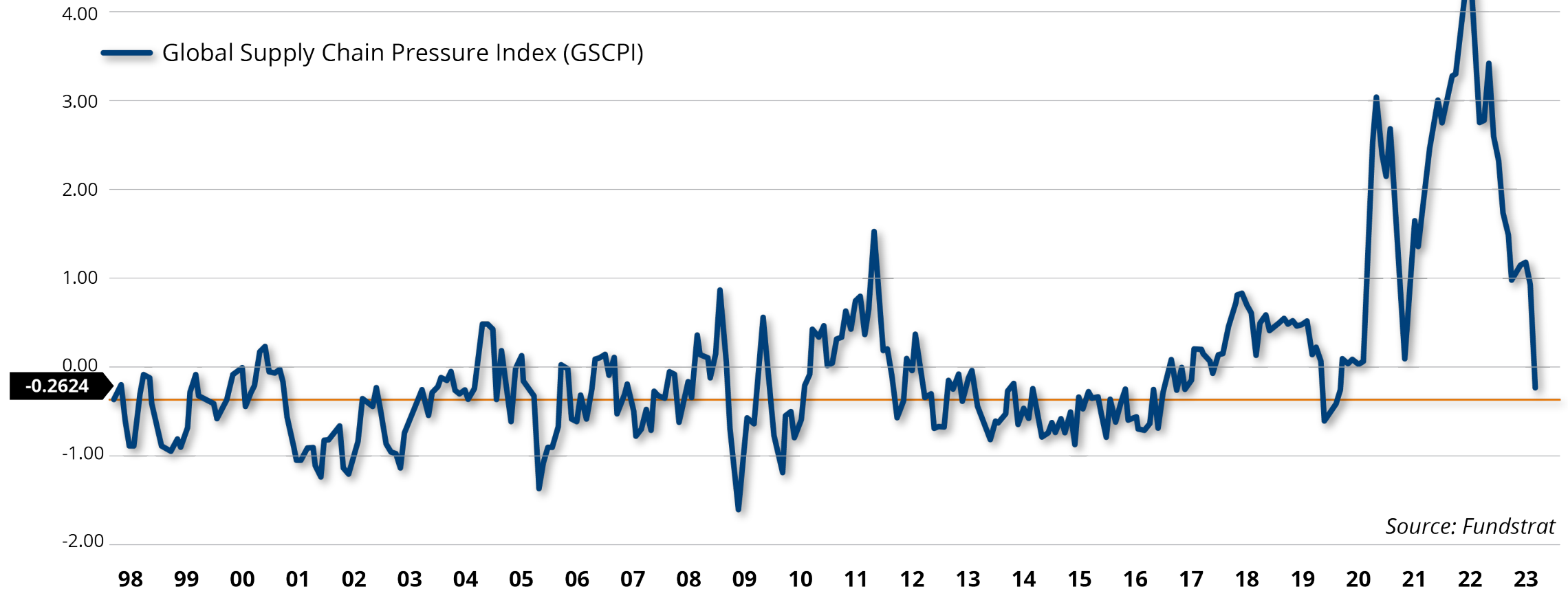
Source: [www.stlouisfed.com](http://www.stlouisfed.com)

For illustrative purposes only. Past performance is not indicative of future results.

# Supply Chain is Normalizing

## Supply Chain: NY Fed Global Supply Chain Pressure Index

6/30/1997 - 3/31/2023



Source: Fundstrat



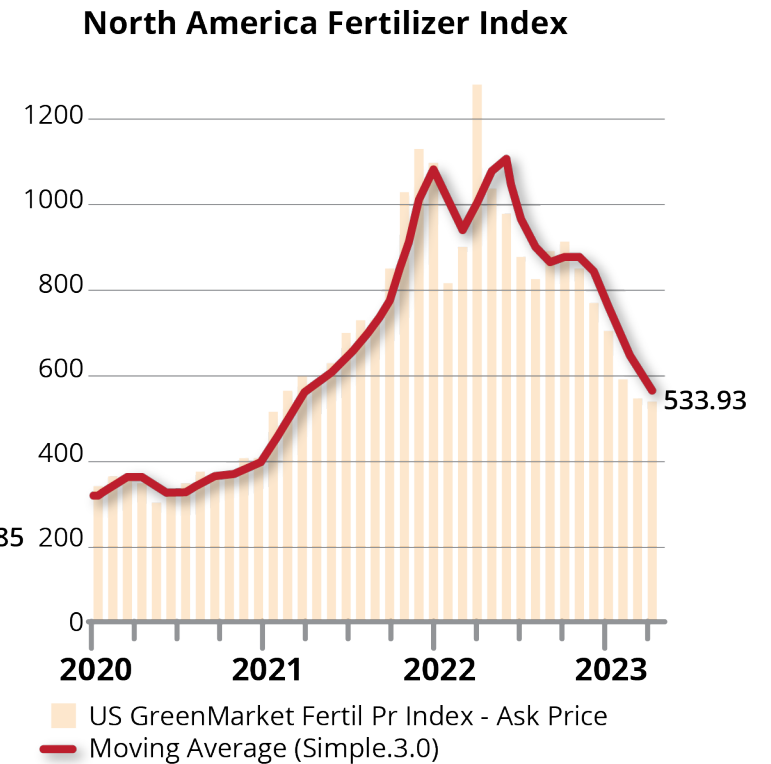
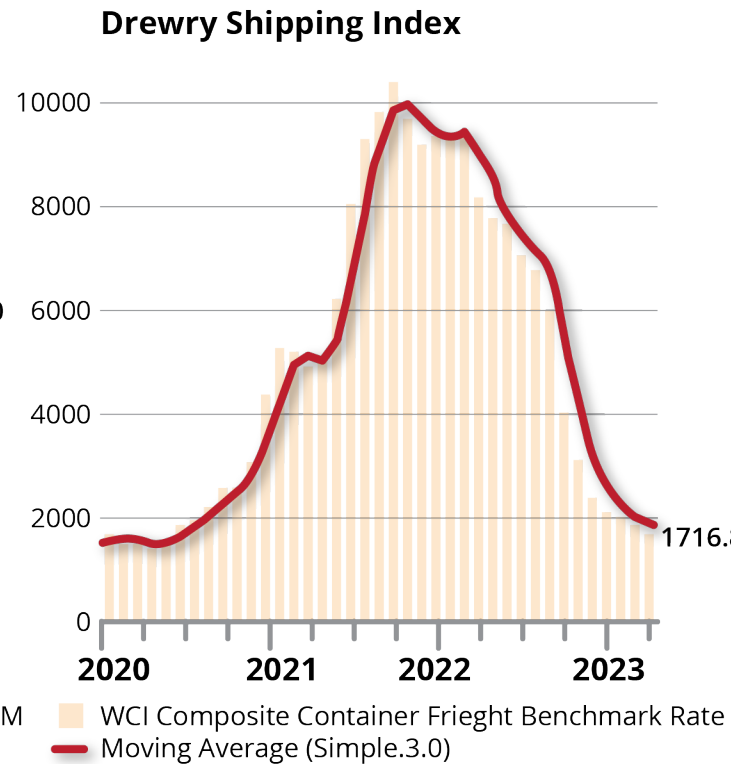
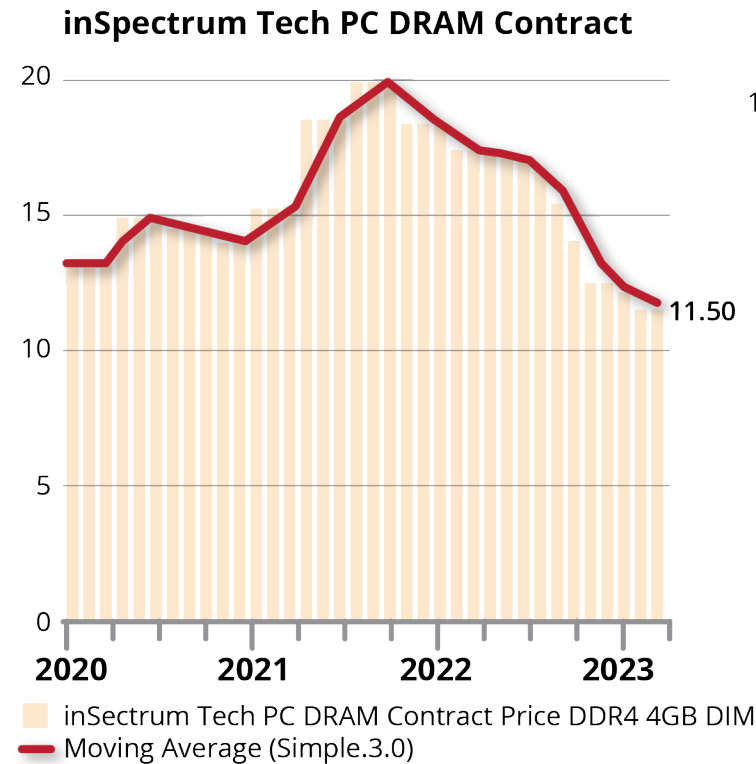
For illustrative purposes only. Past performance is not indicative of future results.

Source: Fundstrat

Source: Fundstrat, Federal Reserve, Bloomberg Finance L.P.

# Input Costs are Declining

## Input Costs

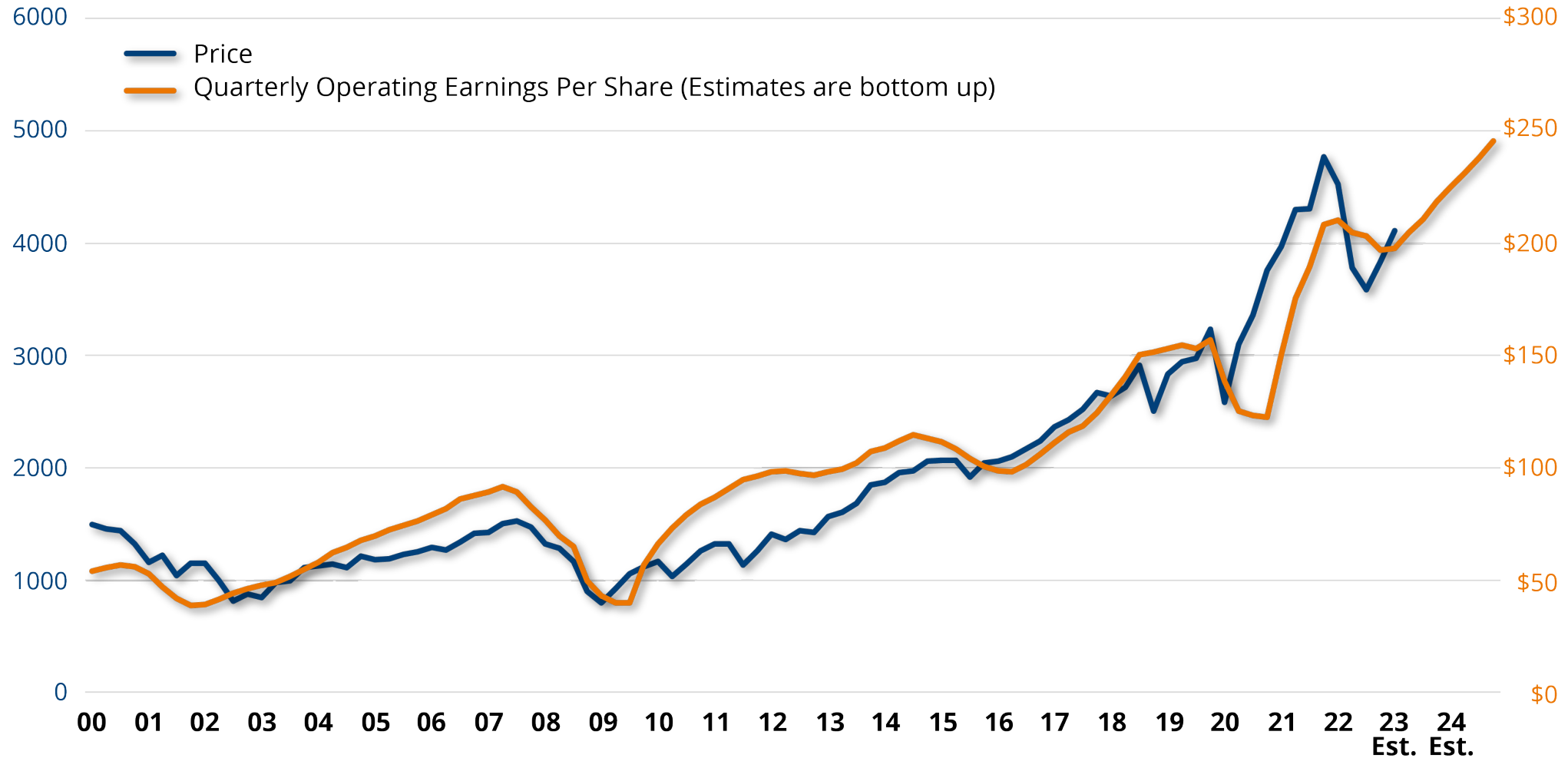


Source: Fundstrat, Bloomberg, — 3M Average



# Earnings Drive Stock Prices

## S&P 500 vs. Operating Earnings



Source: Clark Capital, S&P Global, Bloomberg

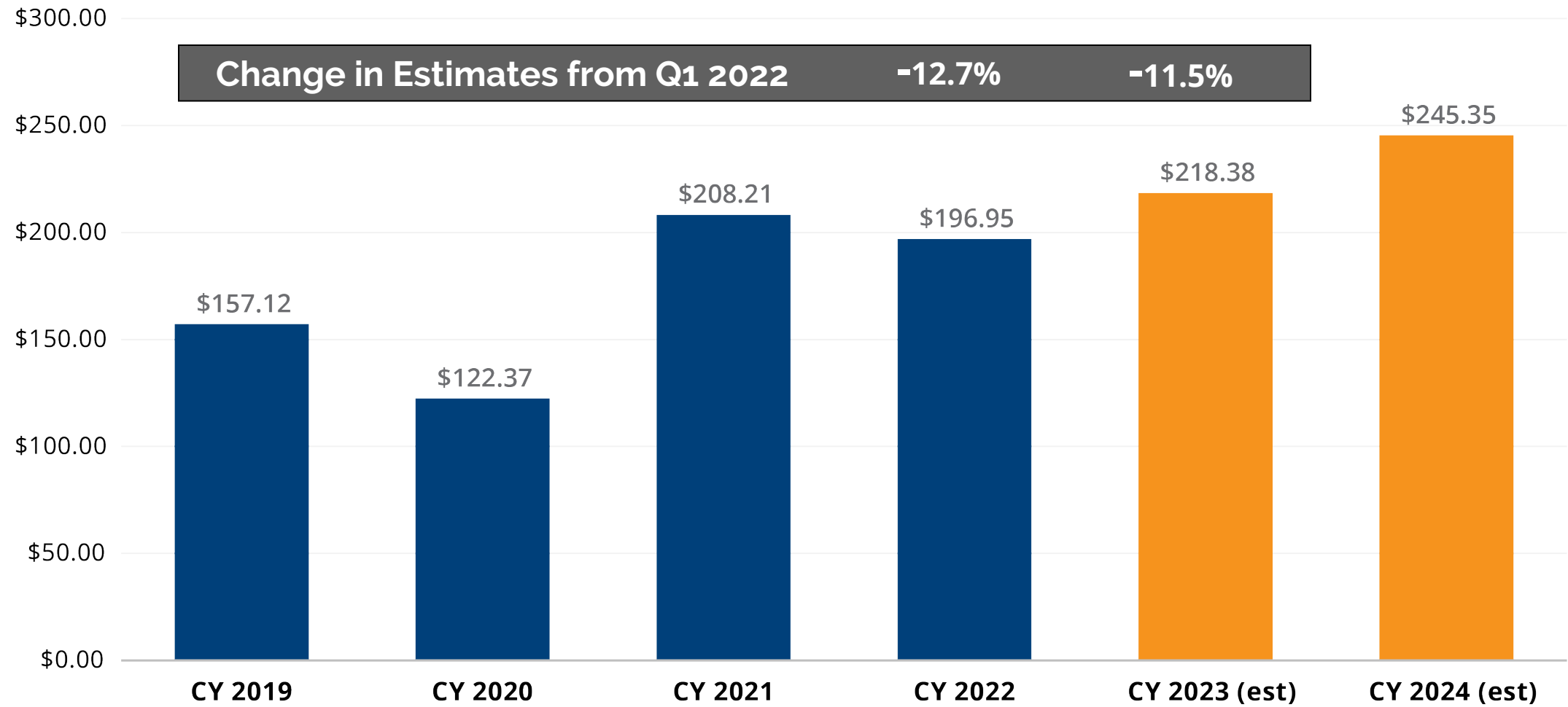
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# Earnings Drive Stock Prices

## S&P 500 Calendar Year Operating EPS Actuals & Estimates

1/1/1996 to 3/31/2023



Source: S&P Global

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## Why Did We Move the Monetary Gauge Forward One Notch?

- 25bps, 50bps, 75bps x4, 50bps, 25bps x2
- Market says we are done – maybe, maybe not
- Not QE, but Fed's balance sheet has expanded
- The Fed raises until they break something
- Why does this matter?

*Fed tightening is a headwind for stocks*



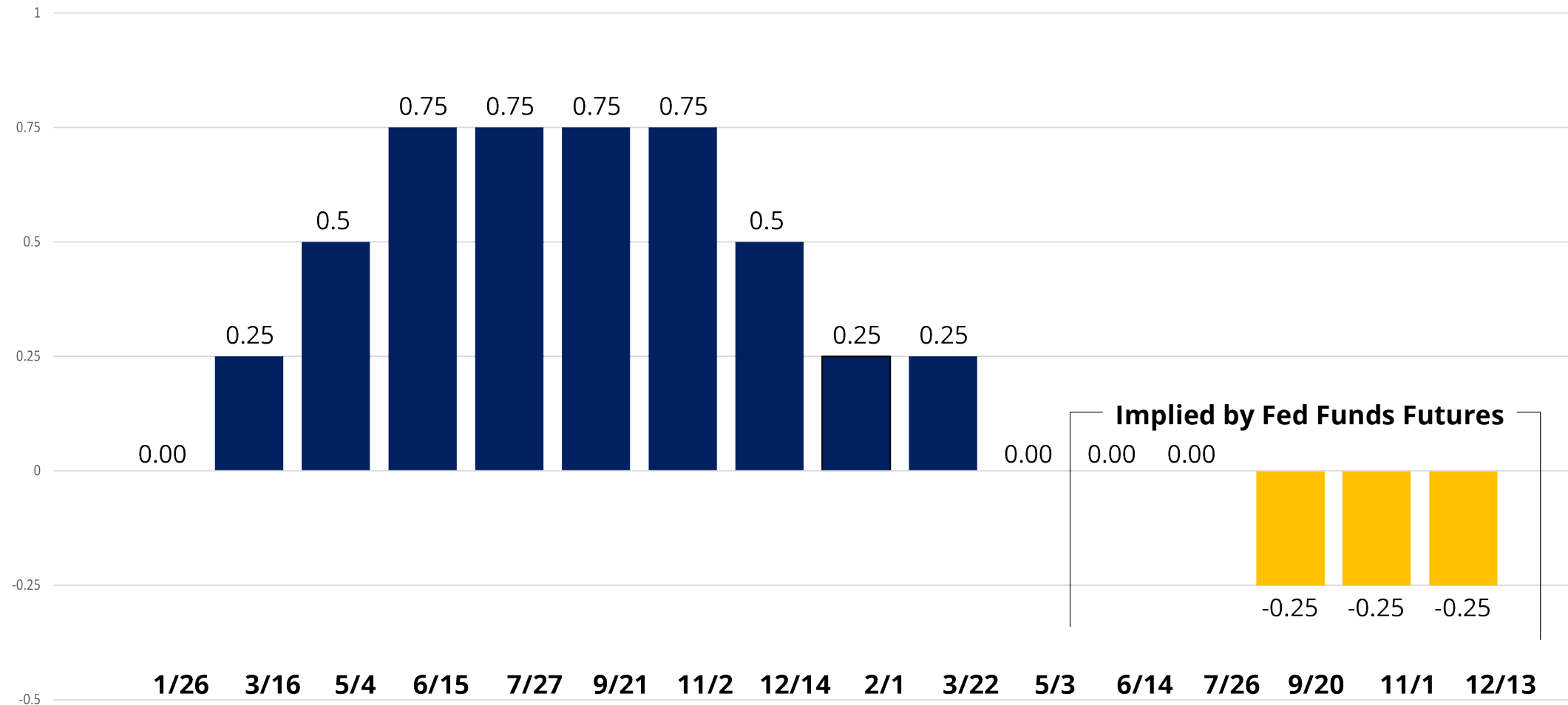
Monetary Policy



# Rates Up ...

## Fed Rate Hikes: Actual and Implied by Fed Funds Futures

As of 3/31/2023



Source: Clark Capital, fred.stlouisfed.org, CME FedWatch Tool

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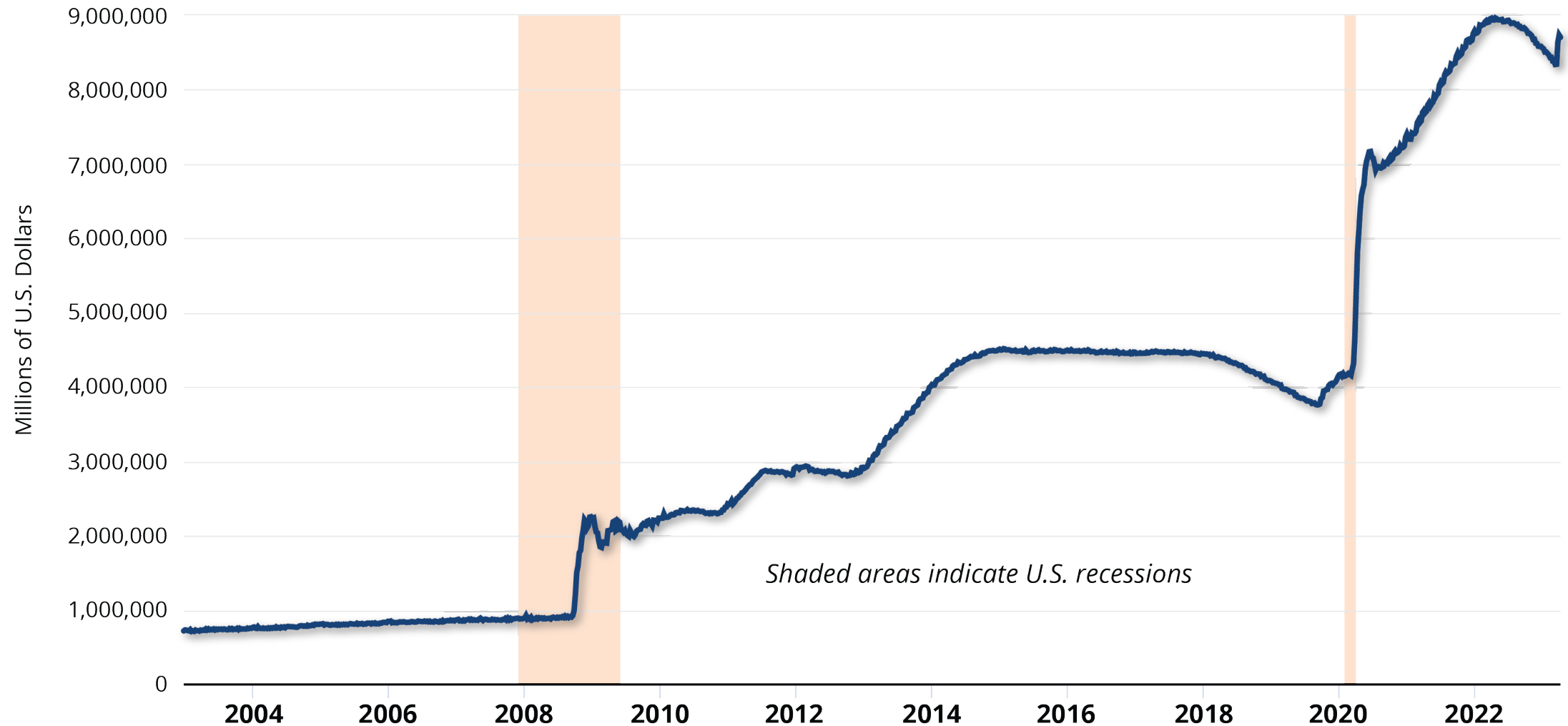




# Not QE, but it is Liquidity

Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level

Monthly Data 2002-12-18 to 2023-03-31



Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

For illustrative purposes only. Past performance is not indicative of future results.



## Why Did We Keep Valuation Gauge Neutral?

- Forward P/Es near long-term averages
- Downward earnings estimate revisions have slowed
- Why does this matter?

*We believe stocks still have appreciation potential*



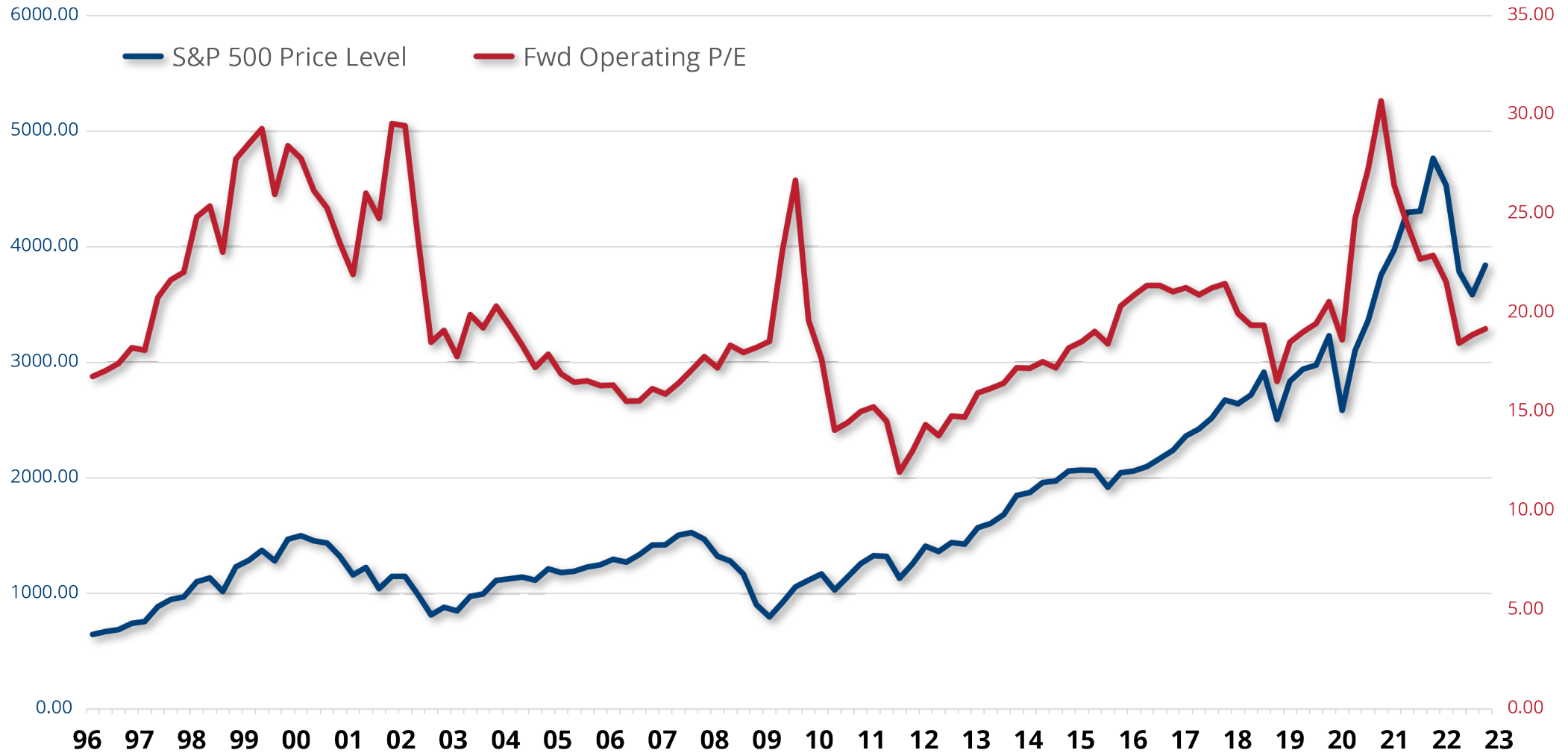
Valuations



# Stock Valuations inline with LT Averages

## S&P 500 Price Level vs Fwd Operating P/E

1/1/1996 to 3/31/2023



Source: S&P Dow Jones Indices; Clark Capital

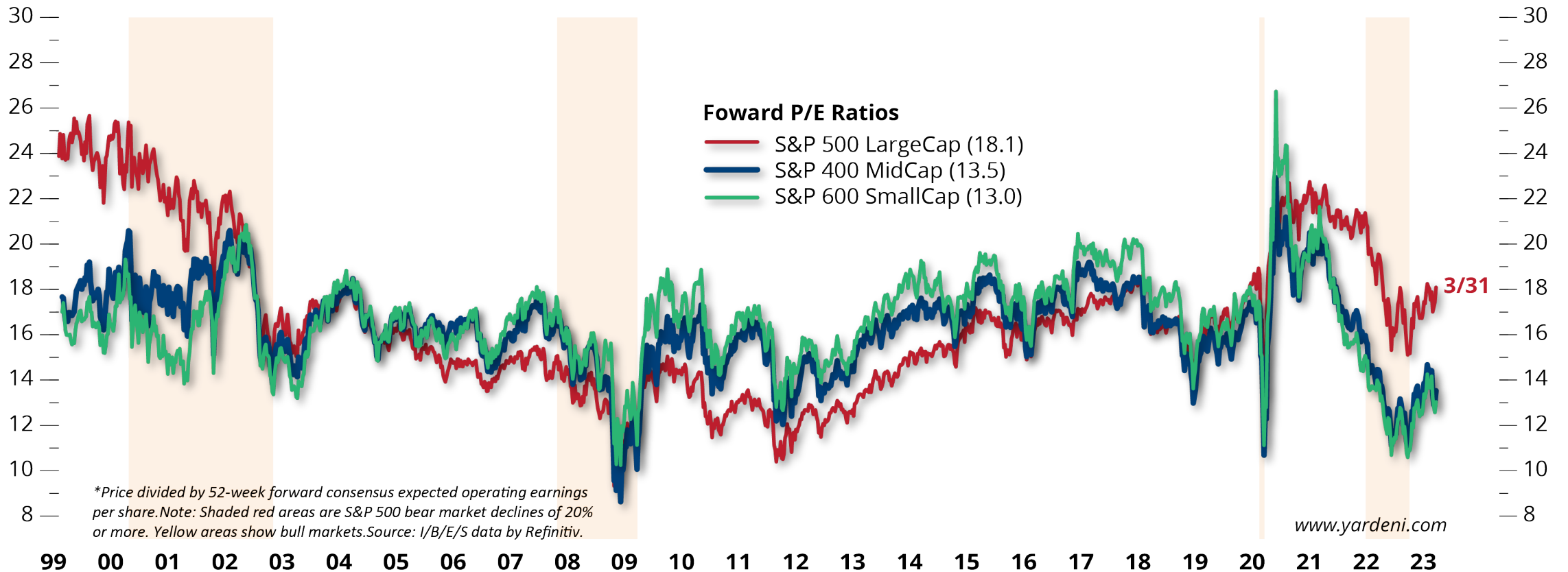
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# Mid & Small Look Cheaper

## S&P 500 Forward P/E Ratios for S&P Indexes\*

1/1/1999 to 3/31/2023



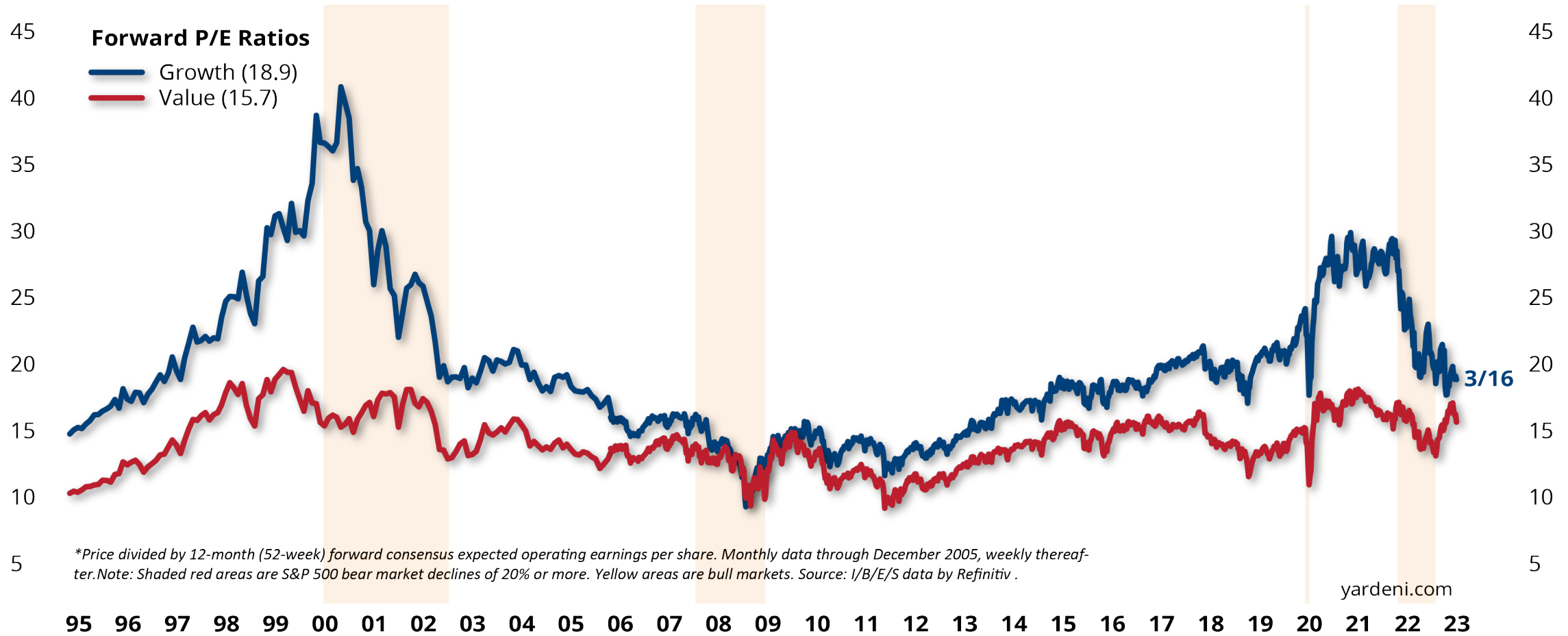
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# Growth/Value Has Tightened

## S&P 500 Forward P/E Ratios for Growth & Value\*

1/1/1995 to 3/31/2023



For illustrative purposes only. Past performance is not indicative of future results.



# International Cheaper Than US

## Forward P/E: US Vs All Country World Ex-US MSCI

1/1/2002 to 3/31/2023



For For illustrative purposes only. Past performance is not indicative of future results.



## Why Did We Keep the Investor Sentiment Gauge One Notch Positive?



Investor Sentiment

- Fear levels less extreme, but still present
- Peak pessimism hit just before stocks bottomed
- Very sensitive gauge — can change quickly
- Markets climb a wall of worry
- Why does this matter?  
*Bottoms are formed when fear levels are high*

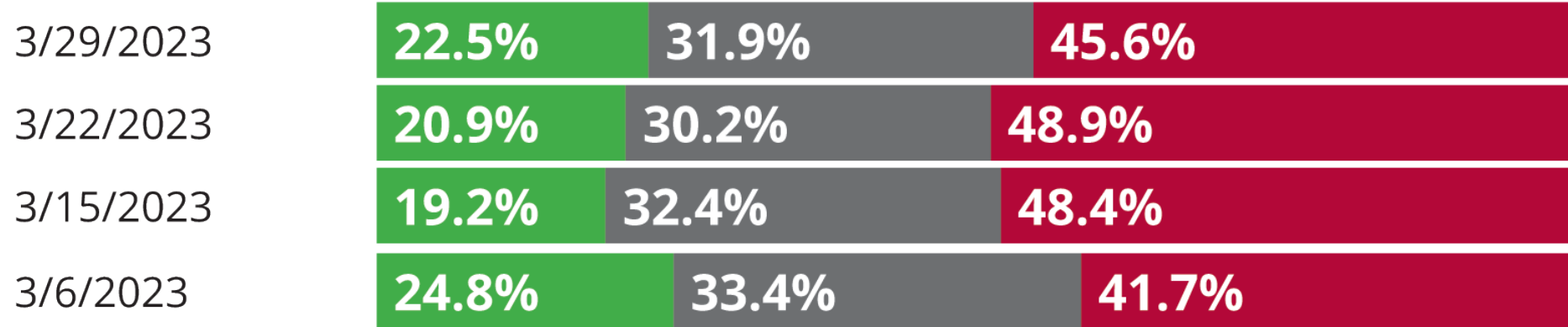


# Bottoms are Formed When Pessimism is High

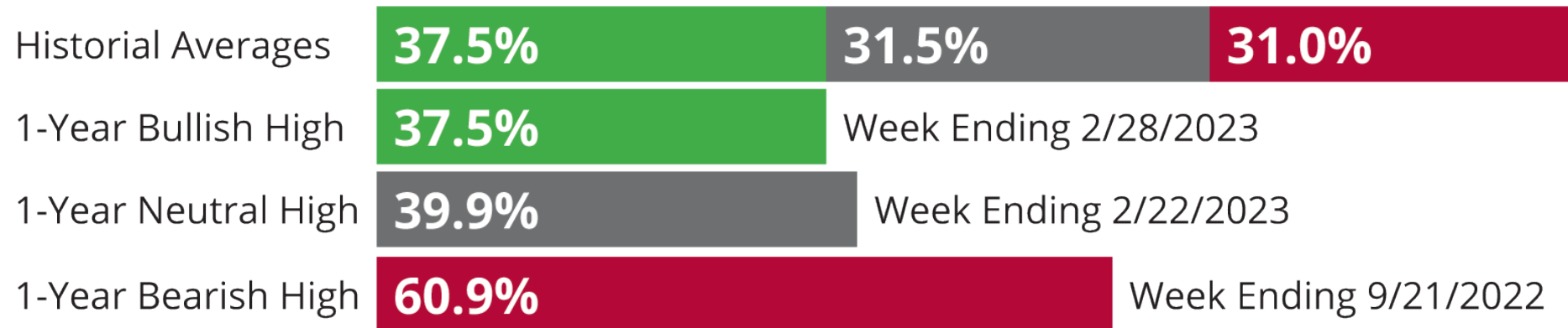
## Sentiment Votes

### Week Ending

■ Bullish ■ Neutral ■ Bearish



## Historial View



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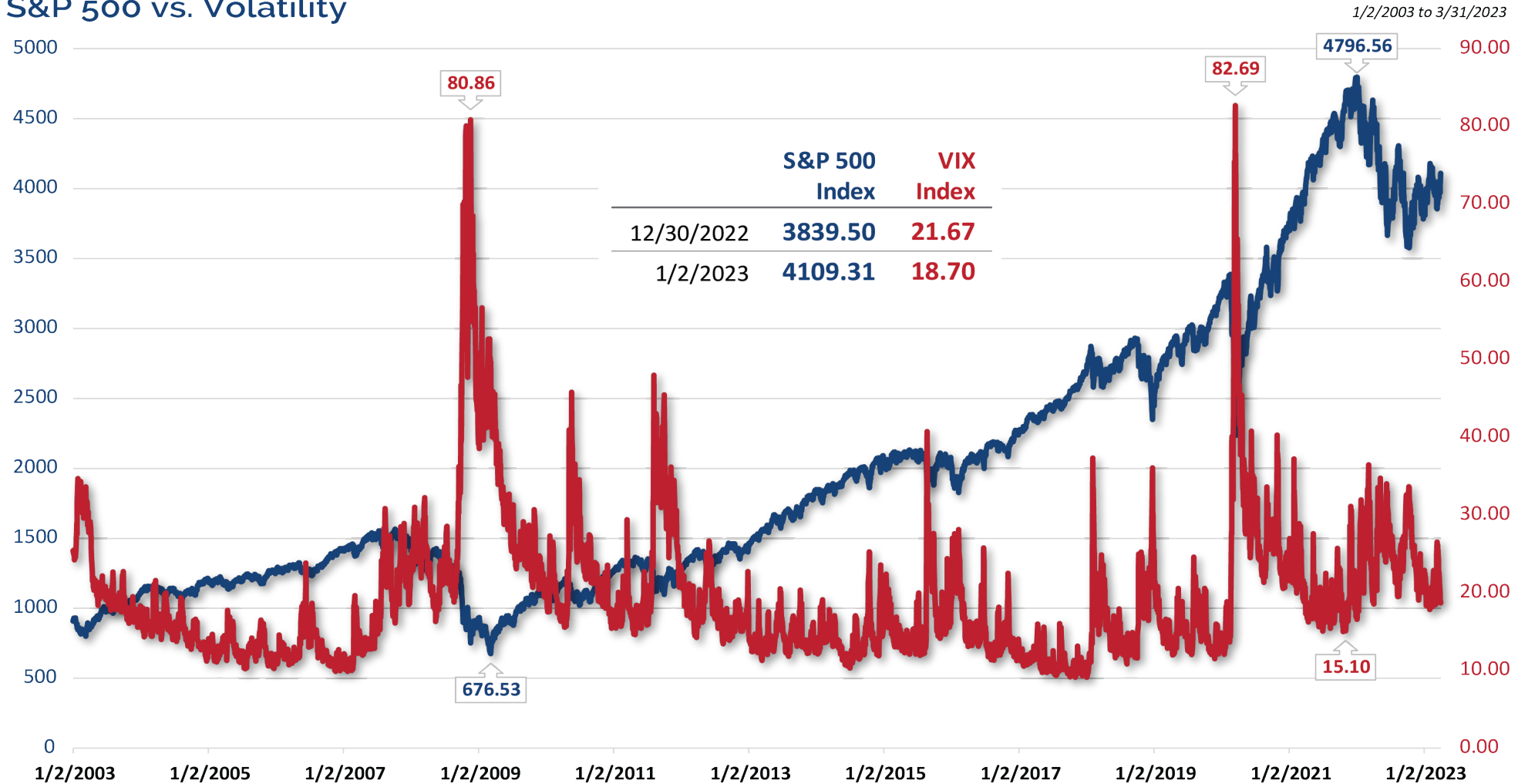
Source: American Association of Individual Investors





# Stock Volatility Declining

S&P 500 vs. Volatility



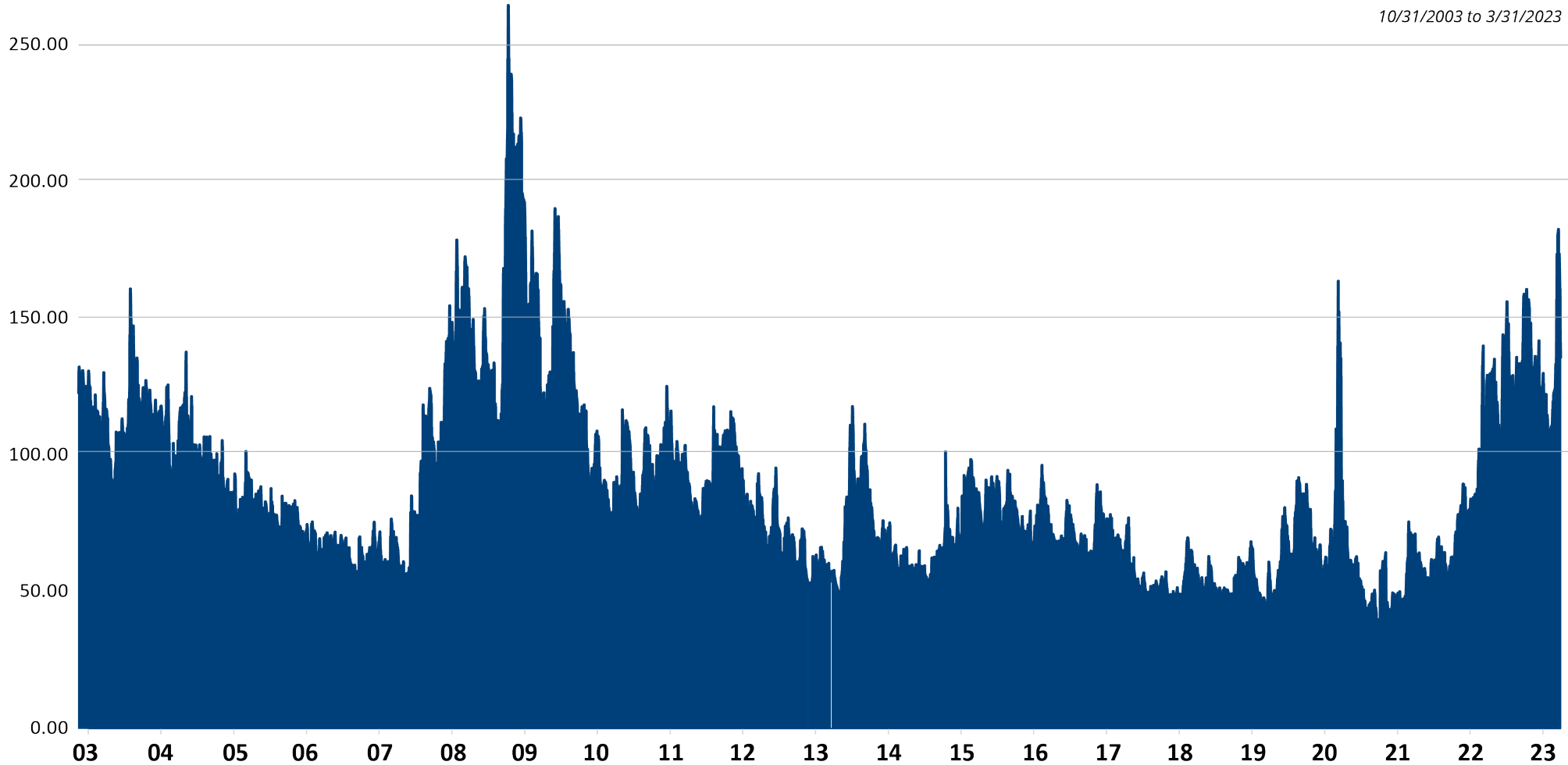
Source: Bloomberg; S&P 500; Clark Capital

For illustrative purposes only. Past performance is not indicative of future results.



# Bond Volatility Has Exploded!

ICE BofA-ML Move Index



10/31/2003 to 3/31/2023

Source: Bloomberg; Clark Capital

For illustrative purposes only. Past performance is not indicative of future results.



# Not All Volatility Is Bad

	<b>Days down 1% or More</b>	<b>Days up 1% or More</b>	<b>Total Days Greater than 1% Change</b>
2023	-13	16	29
2022	-63	58	121
2021	-21	34	55
2020	-45	64	109

For illustrative purposes only. Past performance is not indicative of future results.



## Why Did We Keep the Interest Rate Gauge in Slow Negative?

- Yield curve remains inverted
- As expected, long-term rates have been declining
- Why does this matter?

*Higher rates and flat/inverted yield curve have historically been a headwind for stocks*



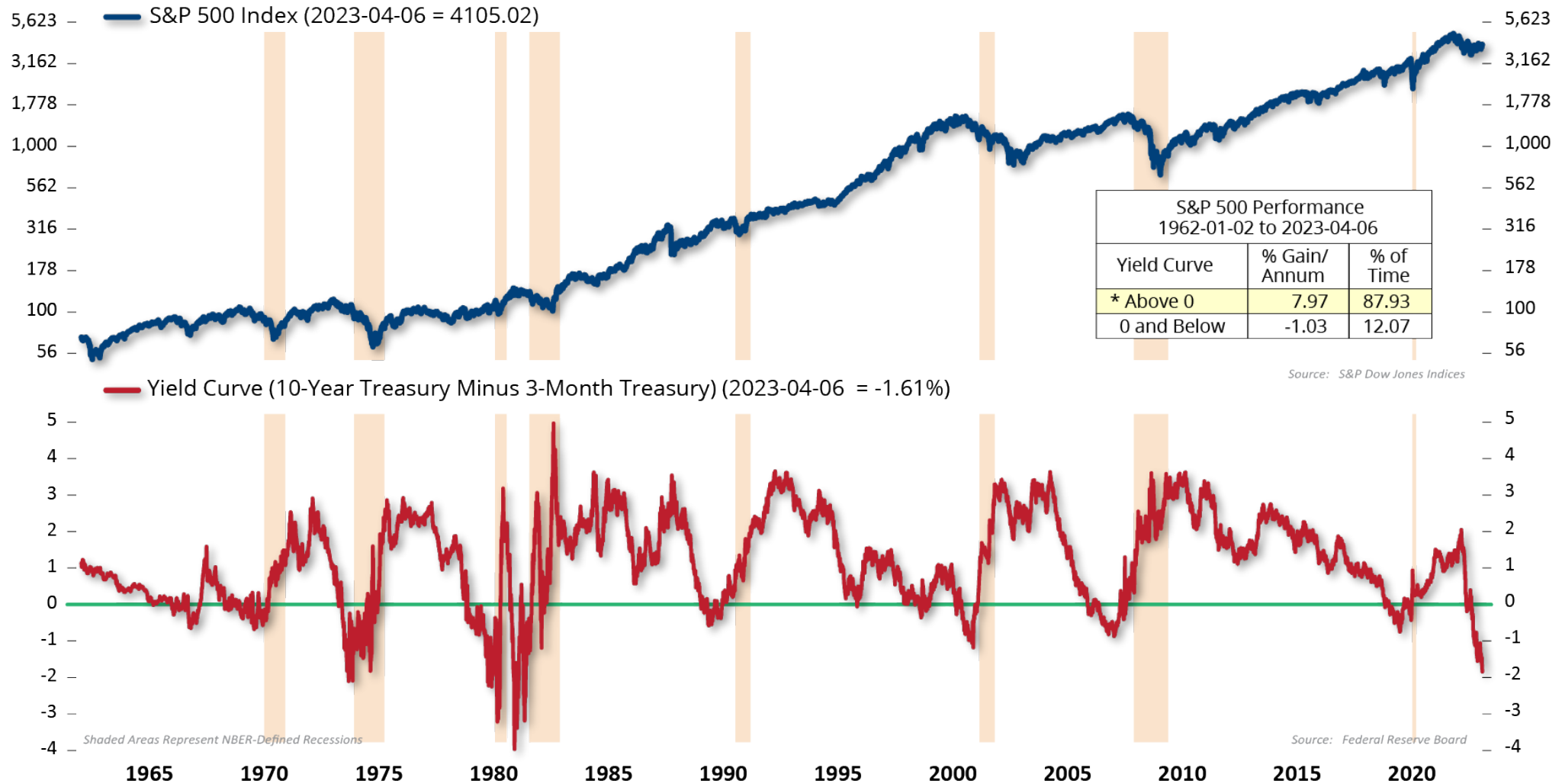
Interest Rates



# Inverted Yield Curve is a Concern

## S&P 500 vs. Yield Curve (10-Year Minus Three-Month)

Daily Data 1962-01-02 to 2023-04-06 (Log Scale)



S890B

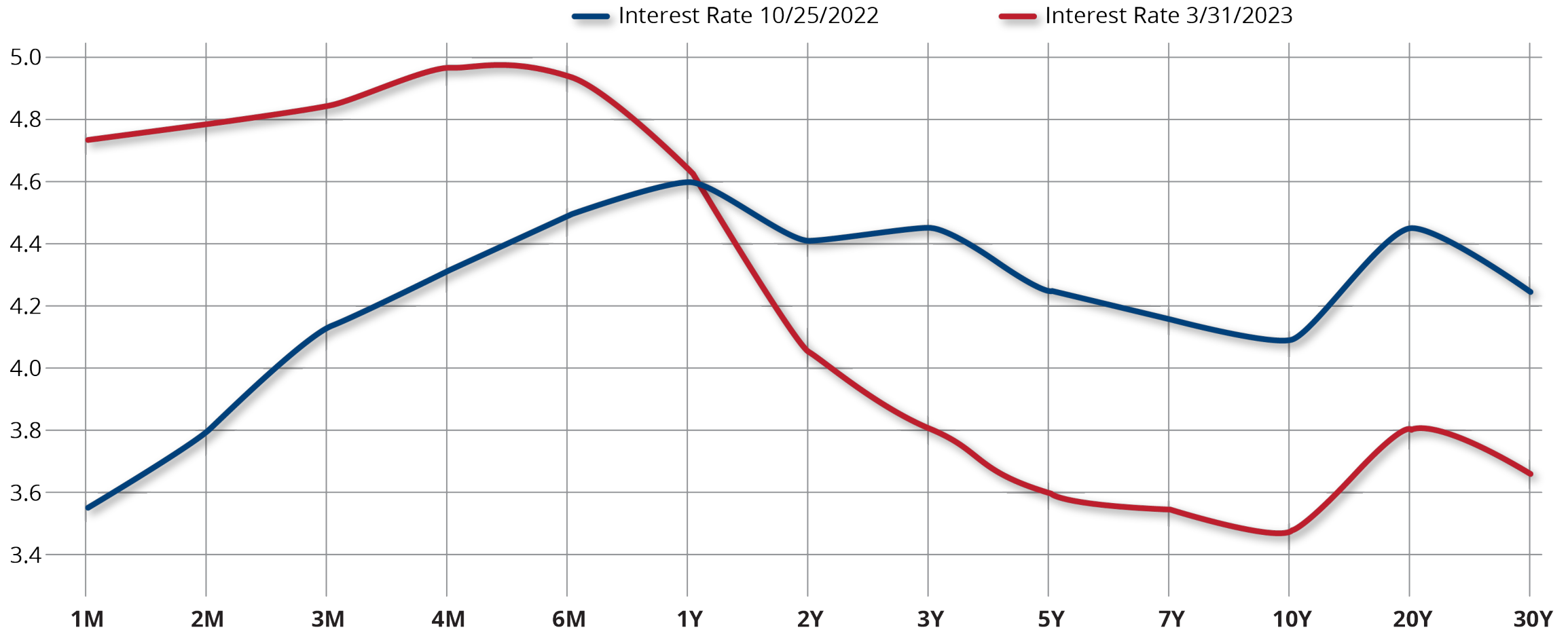
For illustrative purposes only. Past performance is not indicative of future results.

Source: Ned Davis Research



# Long-Term Rates Typically Peak After Fed Funds Spike – History is Rhyming

## U.S. Treasuries Yield Curve



Source: [USTreasuryyieldcurve.com](https://www.stlouisfed.org/outgoing/docs/monetary/USTreasuryyieldcurve.com)

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## Special Topics

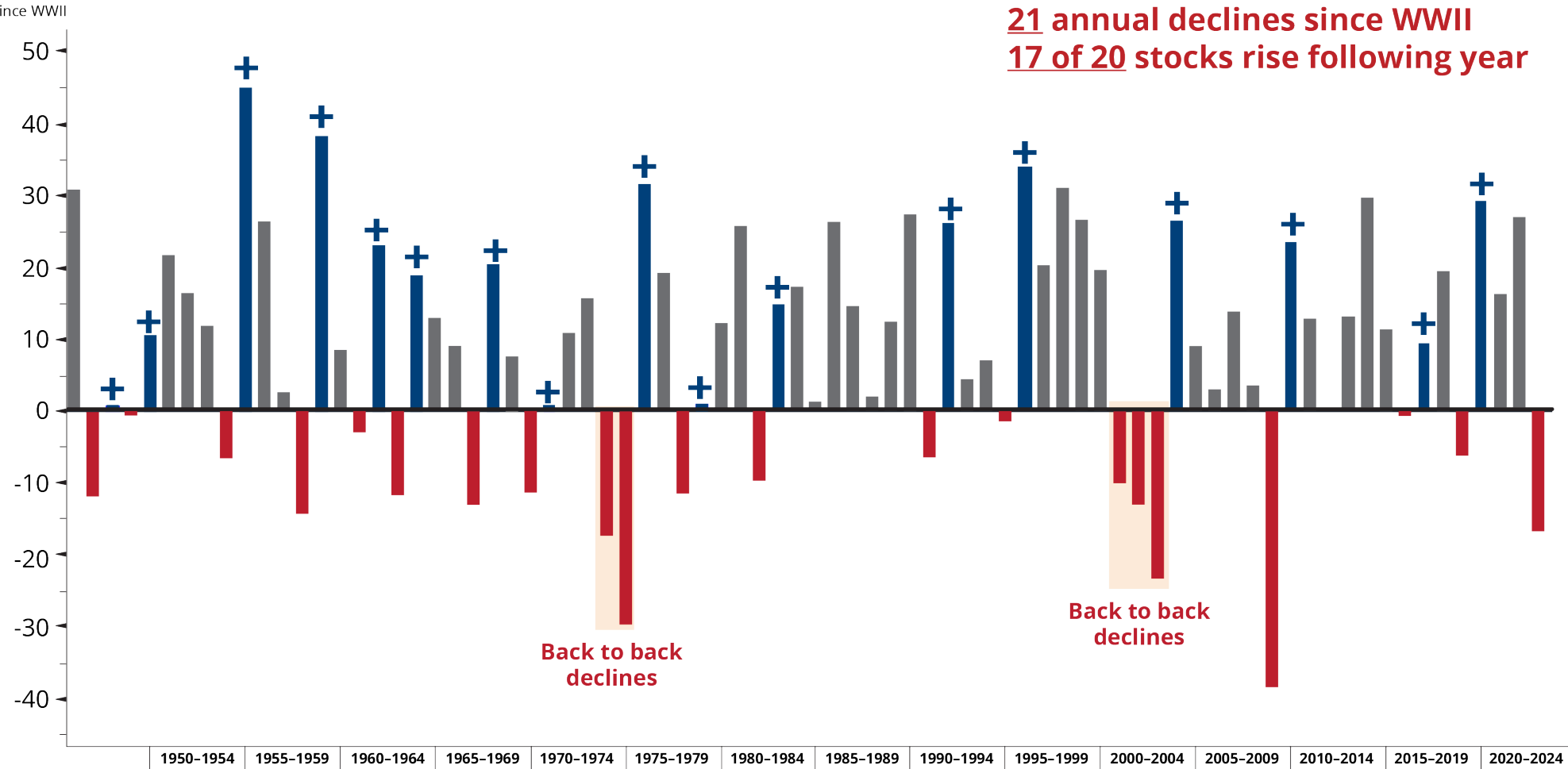
- Is the Bear Market Over
- Don't Take the Bait
- Banking Situation



# Is the Bear Market Over?

## Annual S&P 500 Price Return Rare to See Two Consecutive Annual Declines

Since WWII



Source: Fundstrat, Bloomberg Finance L.P.

For illustrative purposes. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially.

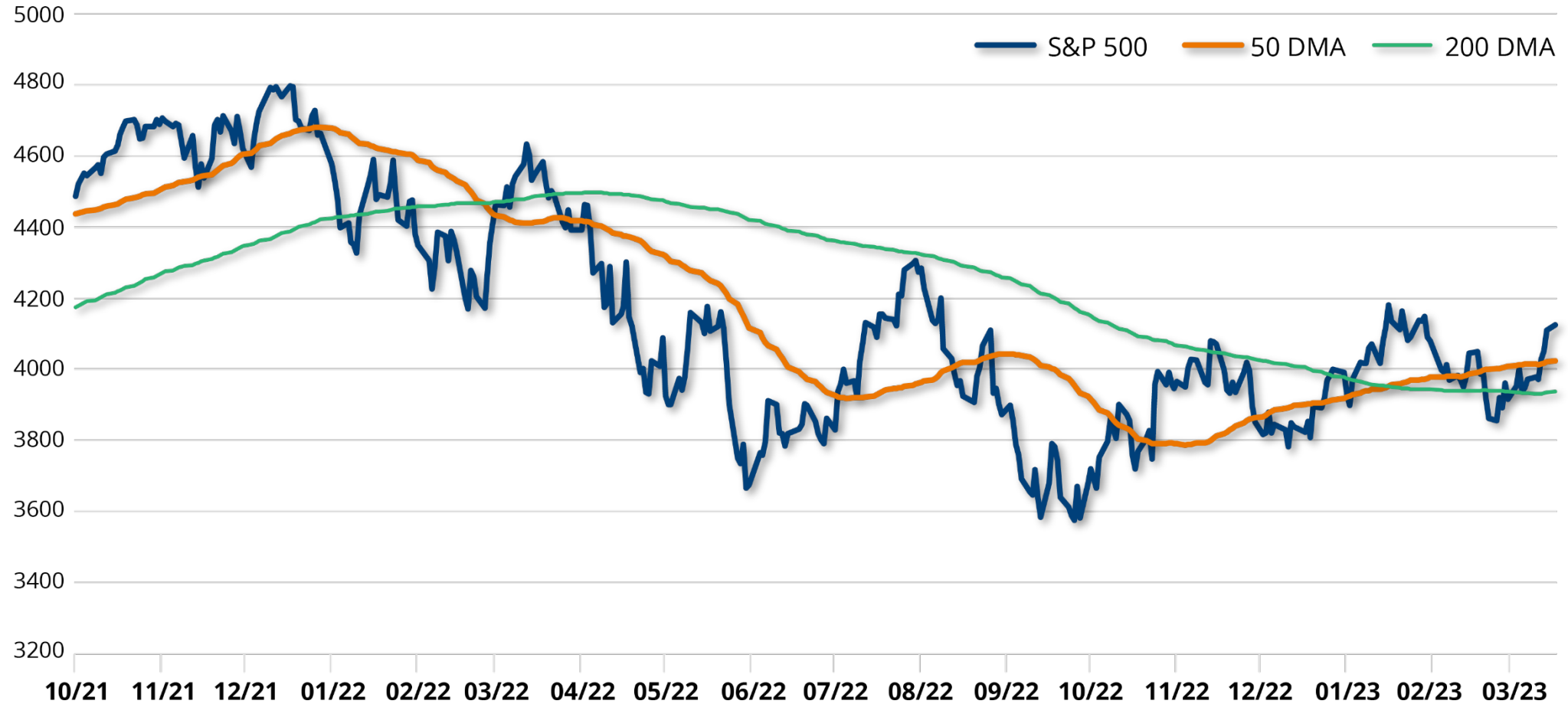




# Is the Bear Market Over?

## Golden Cross

10/18/2022 to 4/3/2023



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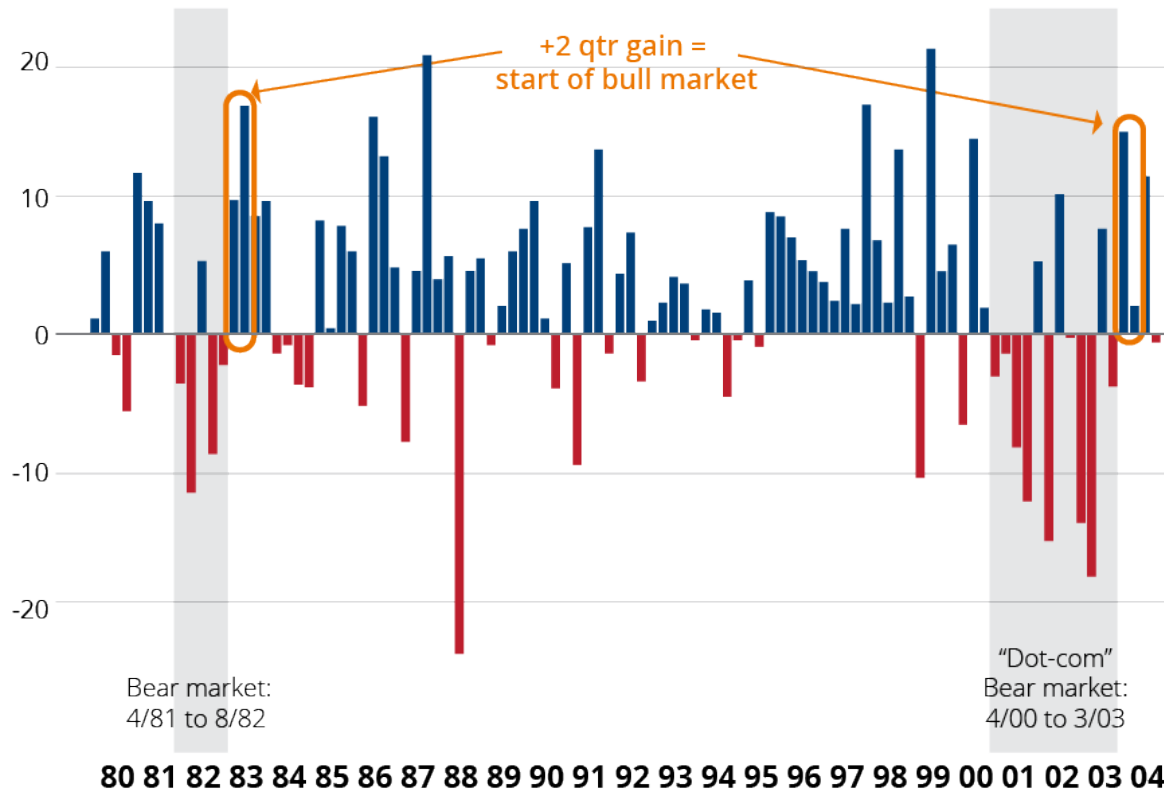
Source: Bloomberg; Clark Capital



# Beginning of New Bull Market?

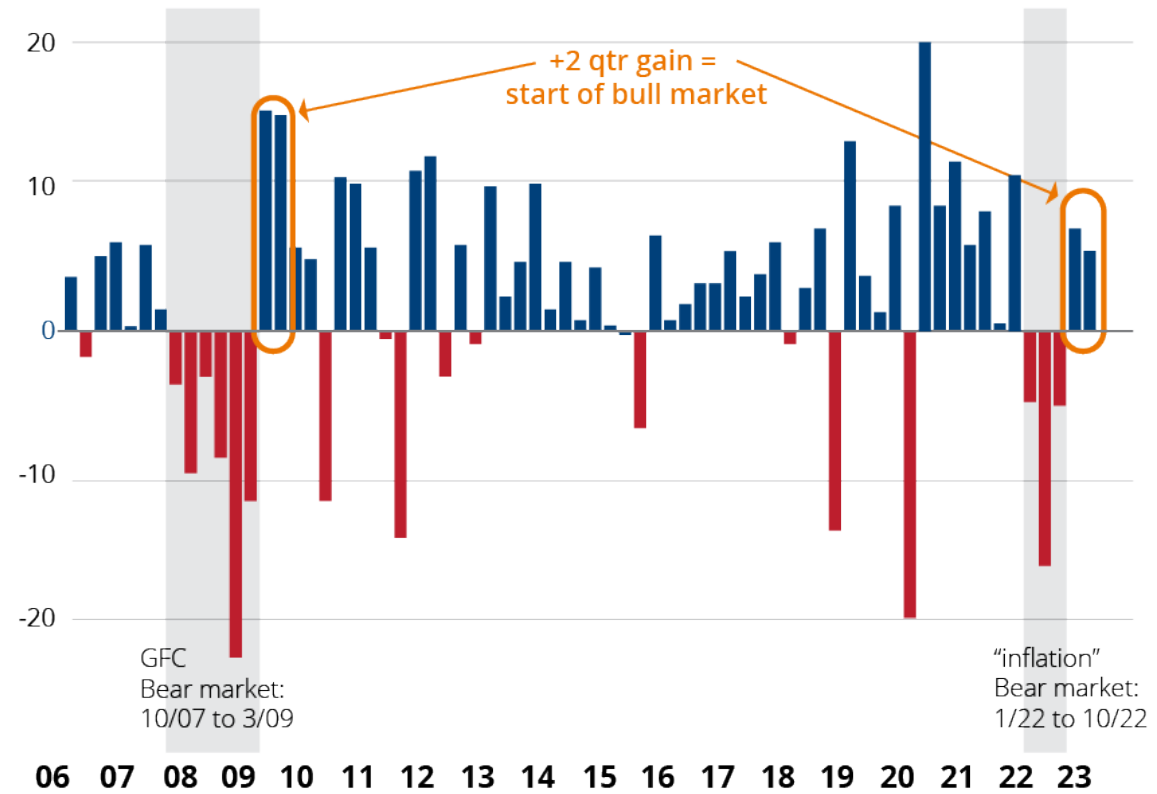
**New Bull: 2 Consecutive only at start of "new bull" market**

**S&P 500 Quarterly: looks like a new bull**



**Returns: 2 Consecutive quarters of gains = "new" bull market**

**S&P 500 Quarterly: looks like a new bull**



Source: Fundstrat, Bloomberg



# NASDAQ 100 Already There

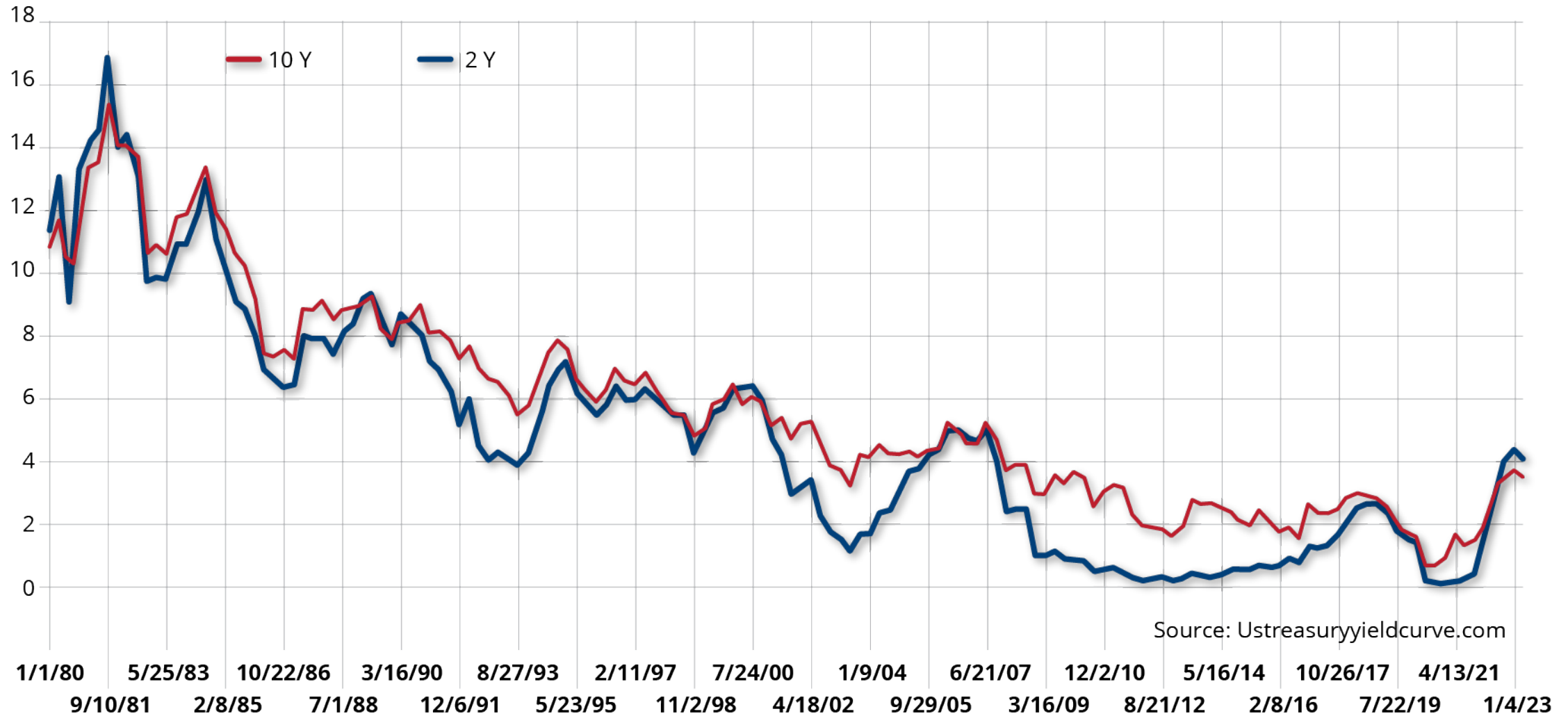
## **Nasdaq 100 Enters Bull Market as Bank Jitters Ease, Tech Rallies**

- Tech-heavy index rises 20% from its Dec. 28 closing low
- Top megacap Nasdaq names rallied \$600 billion this month

Past performance is not indicative of future results. This is not a recommendation to buy or sell a particular security. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges. Please see attached disclosures.



# Why Not Just Buy a 2 Year Treasury?



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# Banking Crisis?



For illustrative purposes.

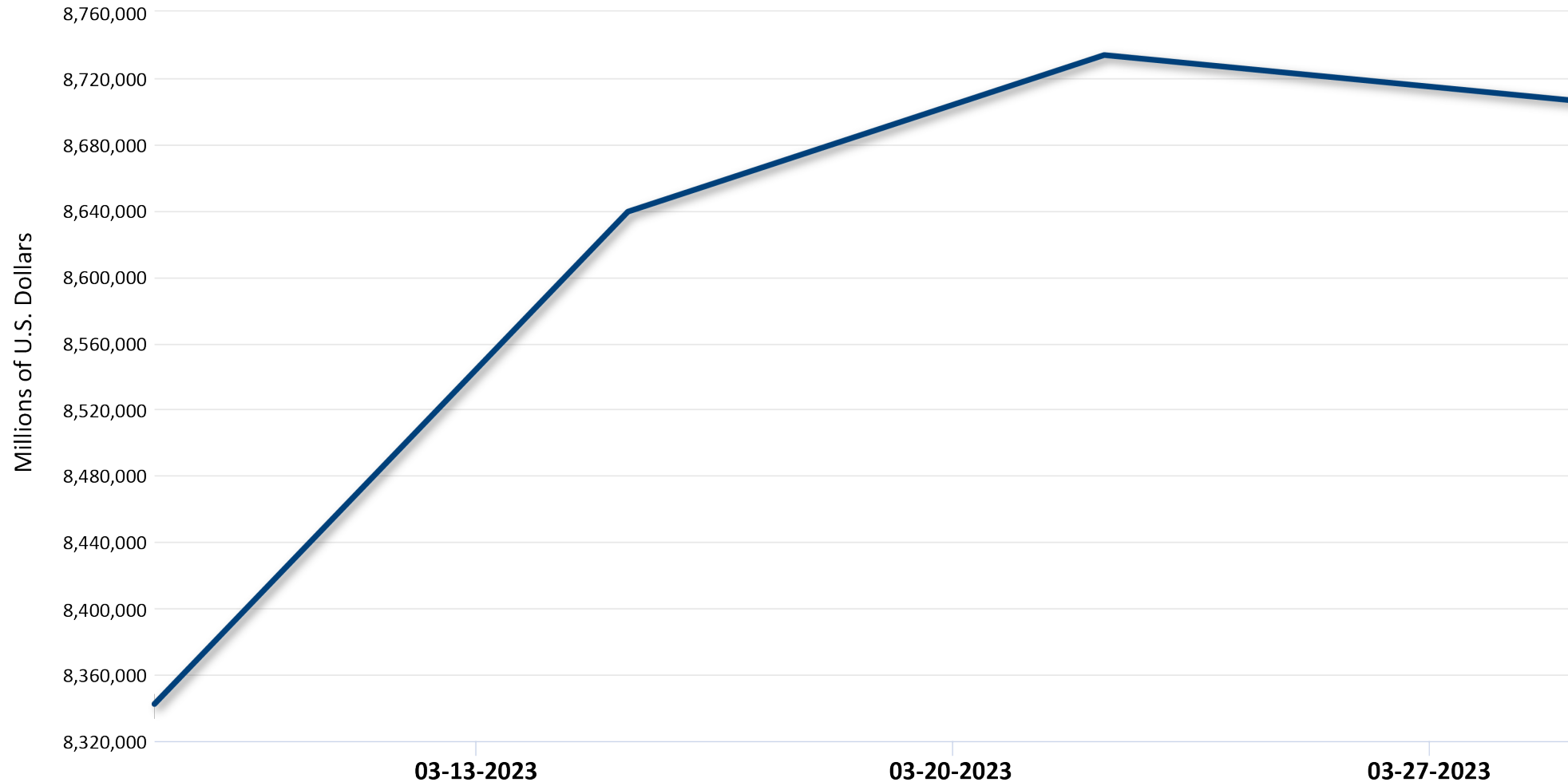
# Timeline of Events

- Wednesday, March 8 – Silvergate Capital Corp – Announces it will wind down operations and liquidate its assets
- Friday, March 10 – FDIC took control of Silicon Valley Bank
- Sunday, March 12 – FDIC shuts down Signature Bank Treasury, Federal Reserve and FDIC
- Wednesday, March 15 – Swiss authorities backstop Credit Suisse
- Thursday, March 16 – Large banks deposit money into First Republic
- Sunday, March 19 – UBS agrees to buy Credit Suisse
- Monday, March 20 – Flagstar Bank agrees to buy loans and deposits of Signature Bank
- Sunday, March 26 – First Citizens agrees to buy loans and deposits of Silicon Valley Bridge Bank



# Banks Scramble for Liquidity

Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level



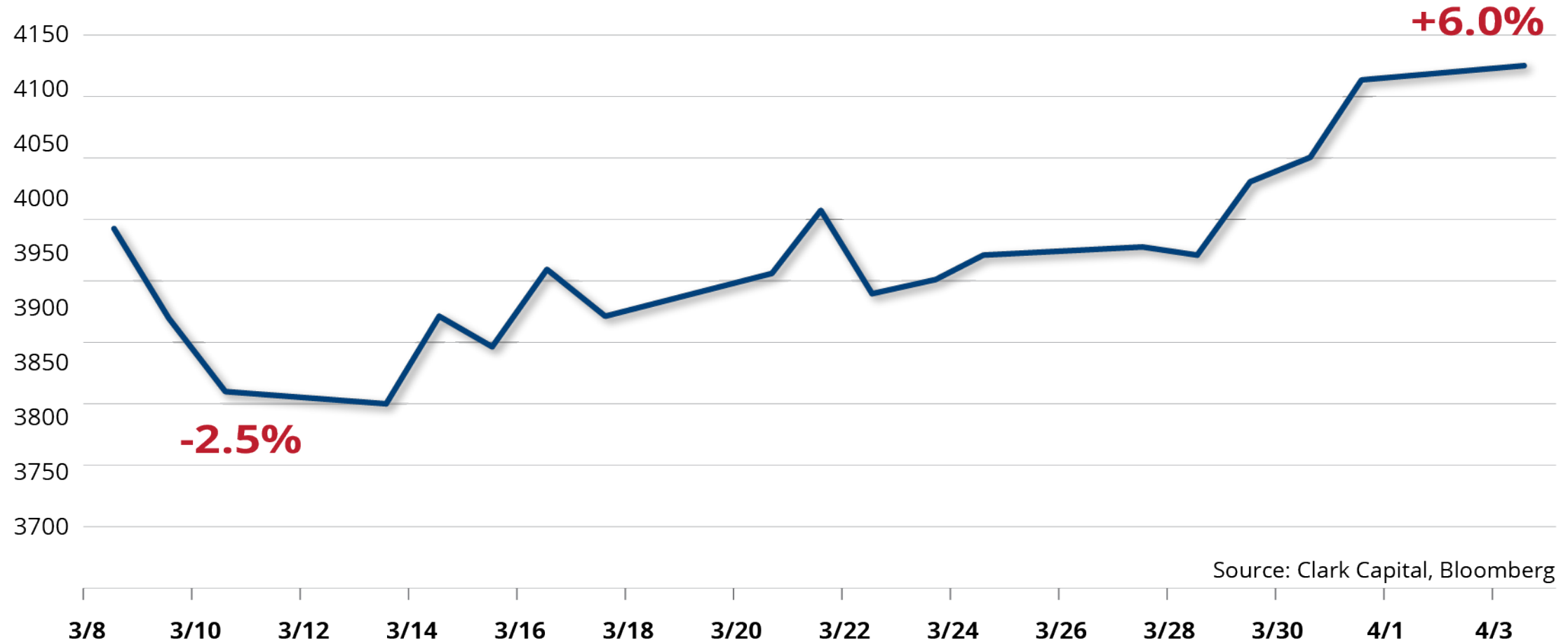
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Source: Board of Governors of the Federal Reserve System (US)



# Stocks Recovered Quickly

S&P 500 3/8/23 to 4/3/23



Source: Clark Capital, Bloomberg

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Q&A



# Disclosure

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Investing involves risk, including loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to

adverse market, economic, regulatory, political, or other developments affecting those sectors.

Fixed incomes 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), extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase), and inflation risk (rising prices will lower the purchasing power of the investment at maturity).

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# Benchmark Descriptions

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.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The MSCI Emerging Markets Index captures large and mid cap representation across 26 Emerging Markets covering approximately 85% of the free float-adjusted market capitalization in each country..

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries, excluding the US, and 26 Emerging Markets countries covering approximately 85% of the global equity opportunity set outside the US.

BBgBarc U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

The Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. It is used to predict the direction of global economic movements in future months. The index is composed of 10 economic components whose changes tend to precede changes in the overall economy.

The Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Gross domestic product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

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.

The volatility (beta) of an account may be greater or less than its respective benchmark.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

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. GDPNow is a forecasting model that provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis.

VIX of VIX (or VVIX) is a measure of the volatility of the Chicago Board Options Exchange (CBOE) Volatility Index (VIX). The CBOE's VIX measures the short-term volatility of the S&P 500 indexes, and the VVIX measures the volatility of the price of the VIX. In other words, VVIX is a measure of the volatility of the S&P 500 index and alludes to how quickly market sentiment changes.

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 2-Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 2 years. The 2-year treasury yield is included on the shorter end of the yield curve and is important when looking at the overall US economy.

The Daily Moving Average is a technical indicator used to analyze price trends over a security's average closing price over a period of time.

The MOVE Index measures U.S. interest rate volatility. The index tracks the movement in U.S. Treasury yield volatility implied by current prices of 1-month OTC options.

