

Your Clients' Top Questions, Answered



FAQs

- Is the bear market over?
- Will there be a recession in 2023?
- Is the banking situation like 2008?
- Is the dollar losing its reserve status?
- Do I still need to worry about inflation?
- Will the debt ceiling debate impact the market?
- Should I just buy a 2-Year Treasury?



Is the Bear Market Over?

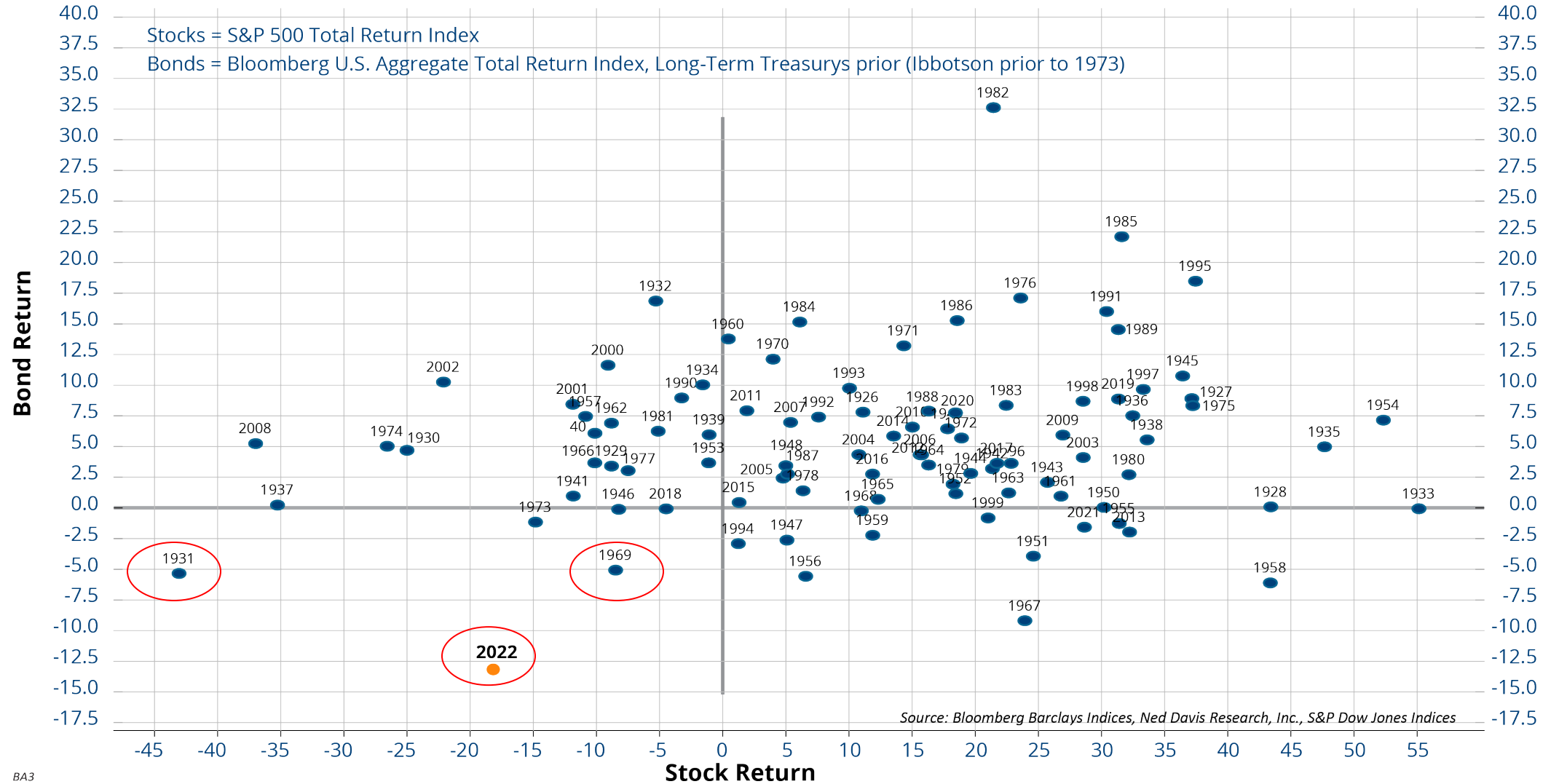
- Worst year since the 1930's for 60/40 portfolios
- Worst year ever for the bond market
- 7th worst year for the S&P 500
- Stocks and bonds off to a good start
- Positive technical signals



Unusual for Stock and Bonds to Both be Down

U.S. Stocks vs Bonds Returns

Yearly data from 1926 to 2022



Source: Bloomberg Barclays Indices, Ned Davis Research, Inc., S&P Dow Jones Indices

BA3

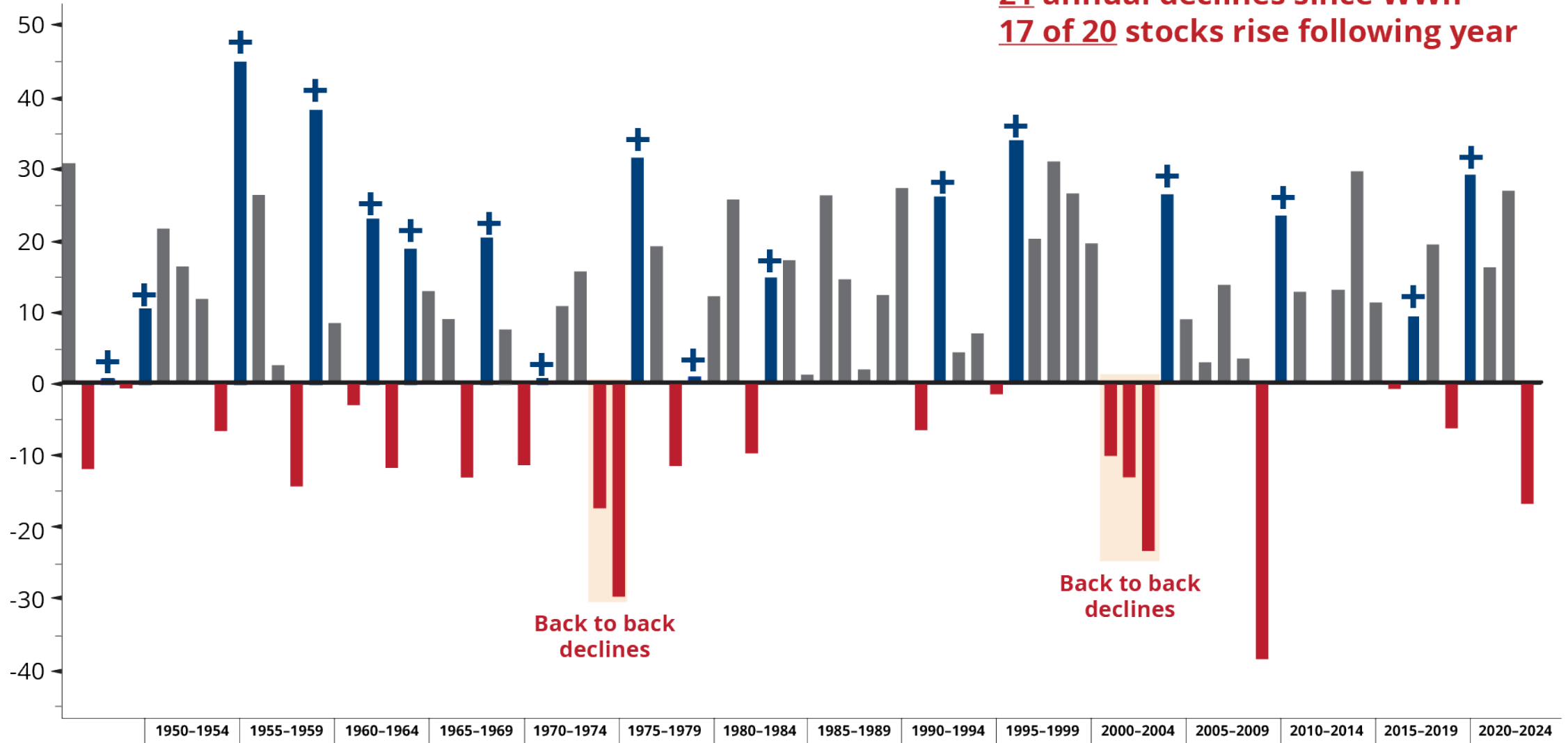
For illustrative purposes only. Past performance is not indicative of future results.

Annual S&P 500 Price Return

Rare to See Two Consecutive Annual Declines

Since WWII

21 annual declines since WWII
17 of 20 stocks rise following year



Source: Fundstrat, Bloomberg Finance L.P.

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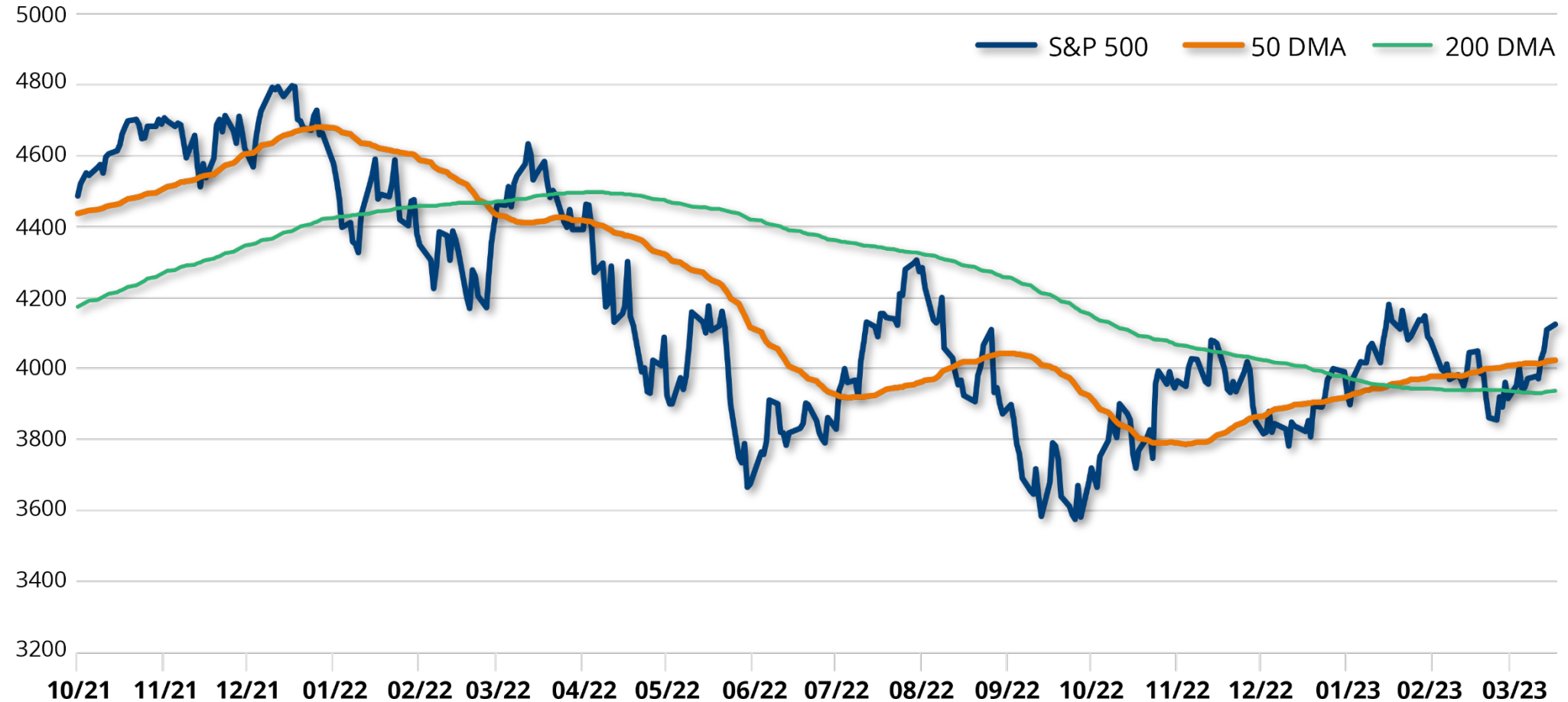
Source: Fundstrat, Bloomberg Finance L.P.



Golden Cross: Bullish Technical Signal

Golden Cross

10/18/2022 to 4/3/2023



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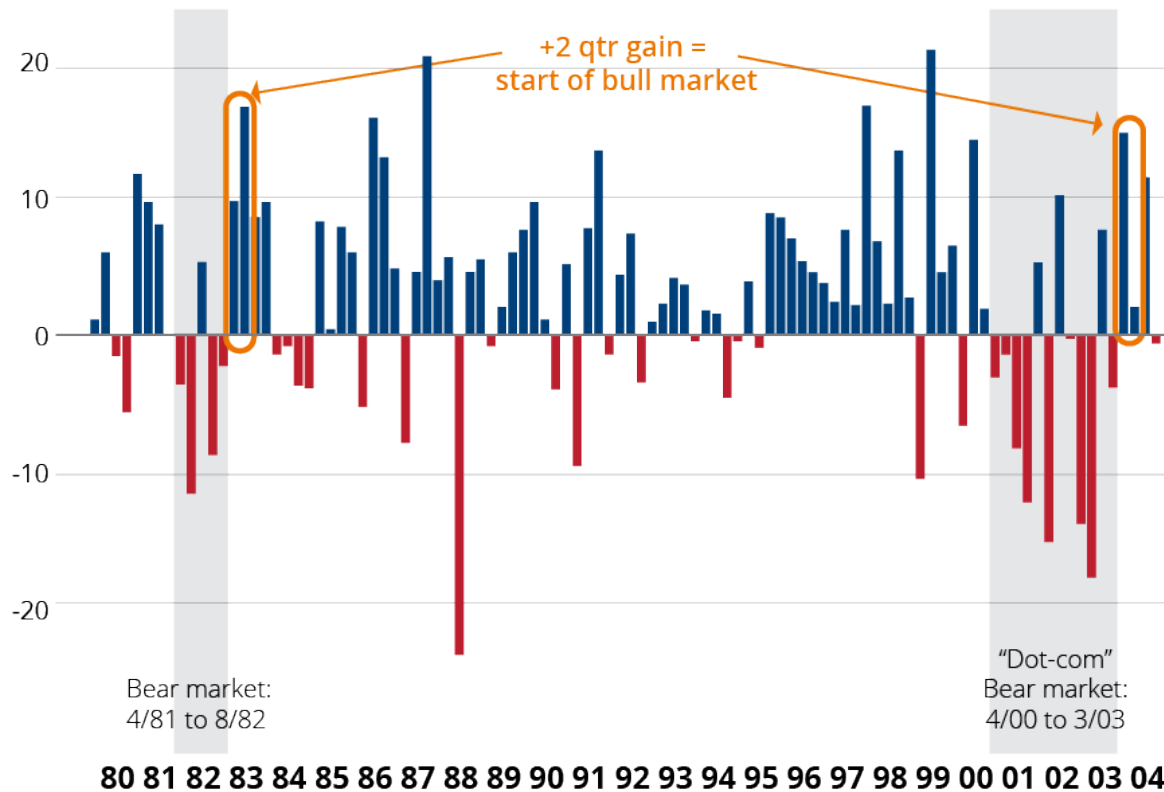
Source: Bloomberg; Clark Capital



Beginning of New Bull Market?

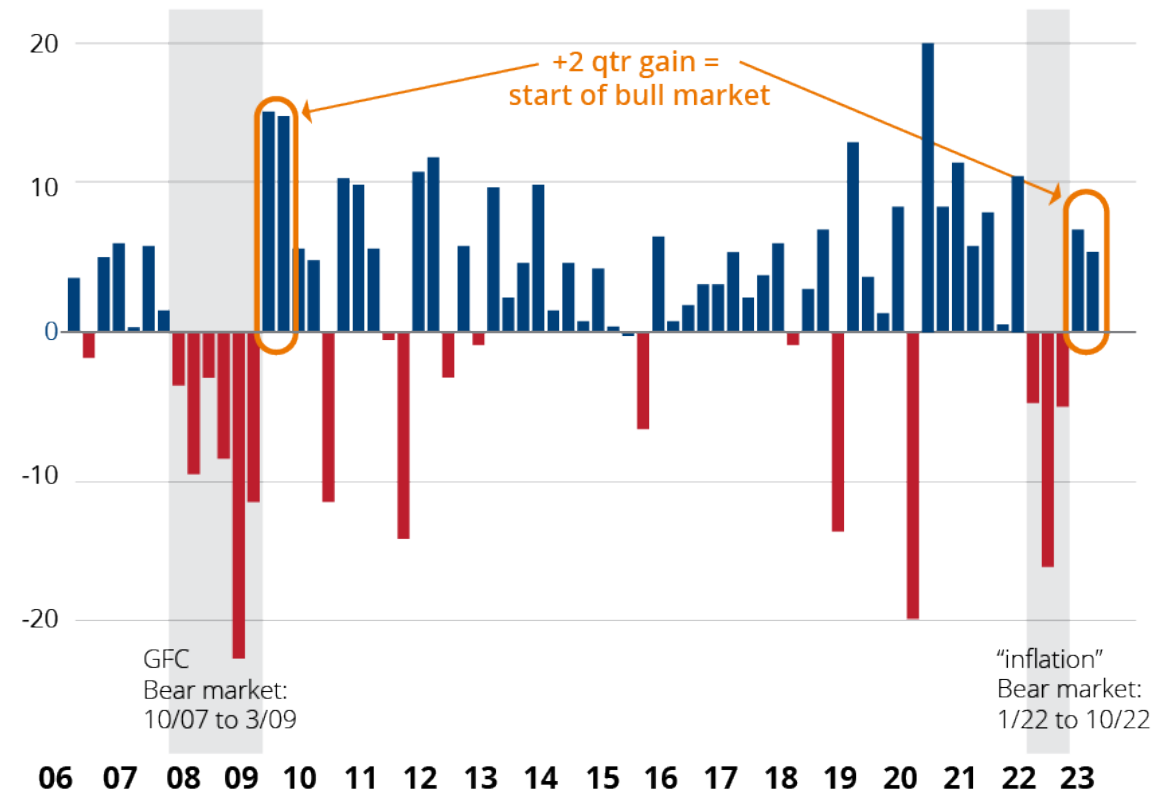
New Bull: 2 Consecutive only at start of "new bull" market

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



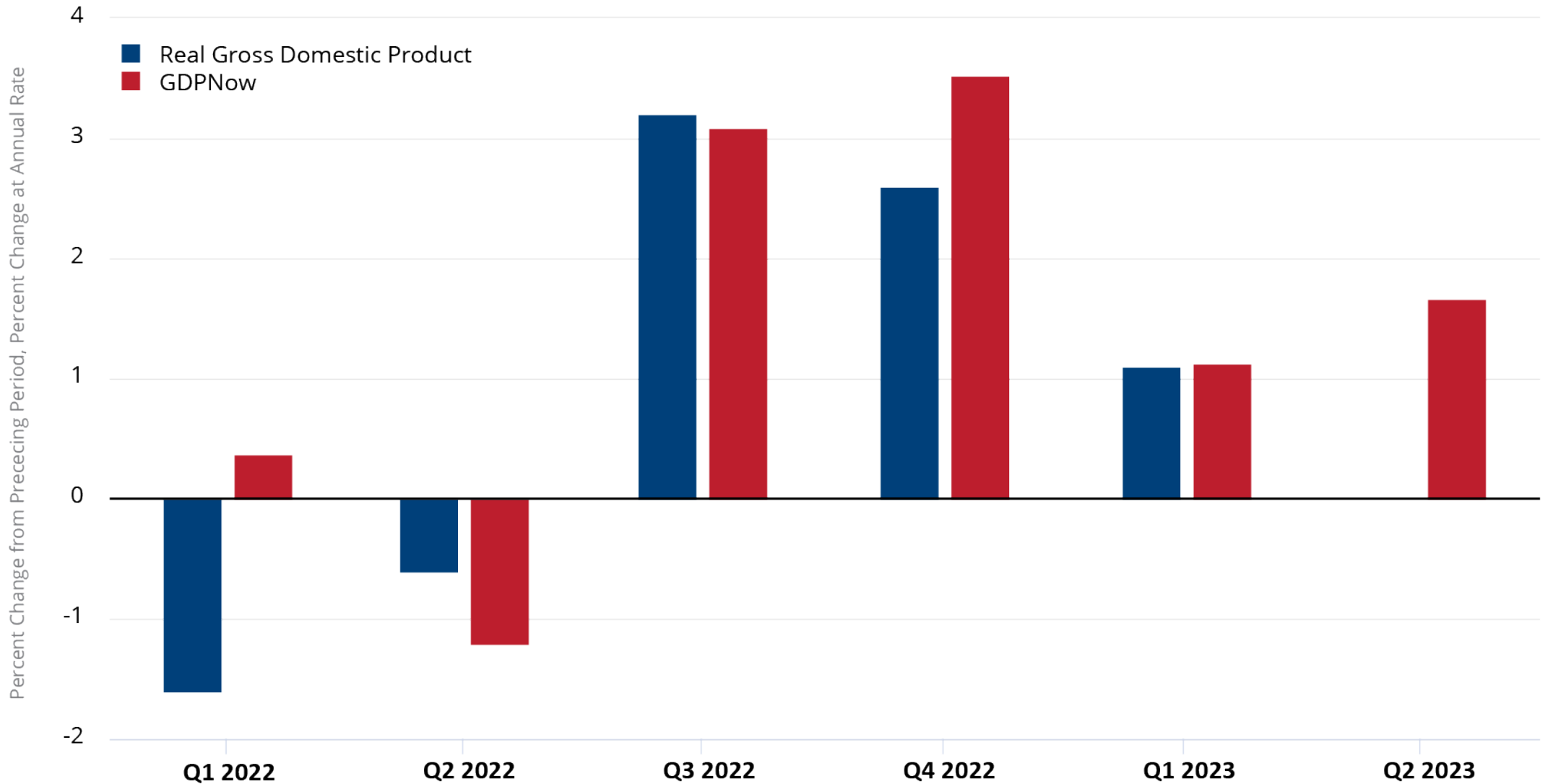
Will There be a Recession in 2023?

- The economy rebounded in the second half of 2022
- The Atlanta Fed GDPNow is forecasting Q1 growth
- Parts of the economy remain resilient, while others have begun to soften
- We believe a slowdown in growth expected later this year
- We believe the odds of a mild recession are on the rise



Economy Has Bounced Back

Real Gross Domestic Product vs. GDPNow



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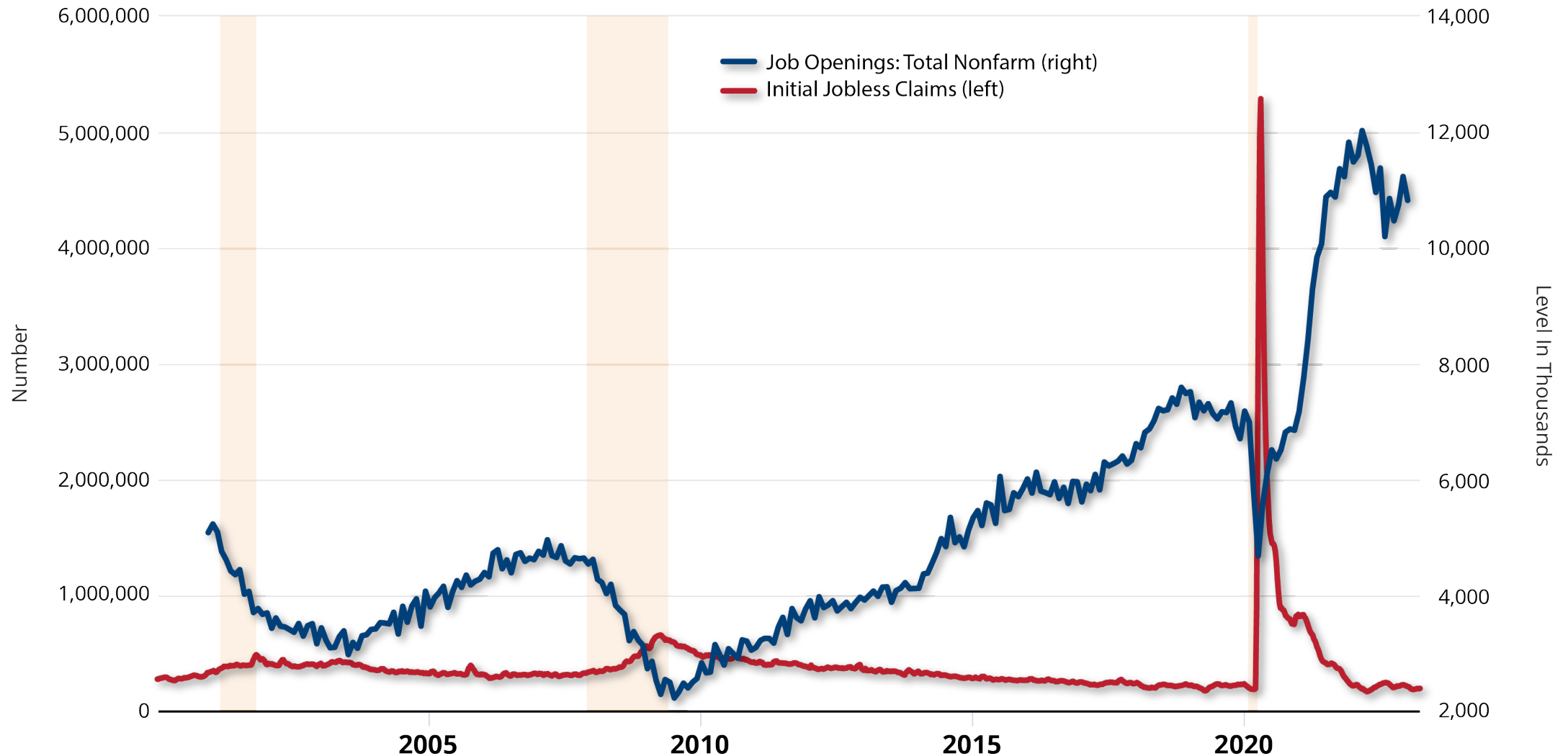
Sources: BEA; Atlanta Fed; fred.stlouisfed.org



Labor Market Still Robust, but Expected to Weaken

Initial Jobless Claims vs Non-farm Job Openings

1/1/2002 to 3/31/2023



For illustrative purposes only.

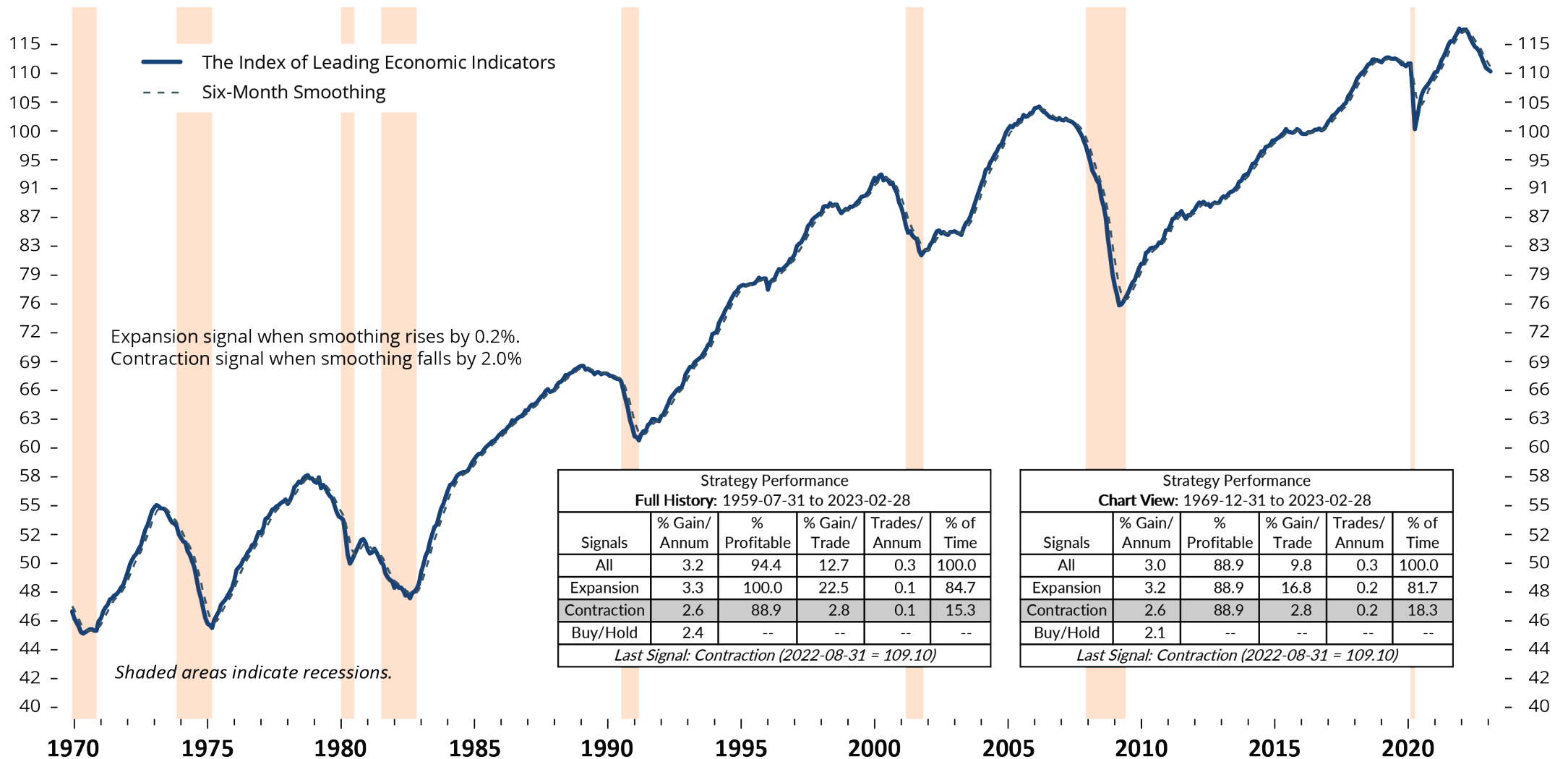
Source: fred.stlouisfed.org



Economy Likely to Slow

The Index of Leading Economic Indicators

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



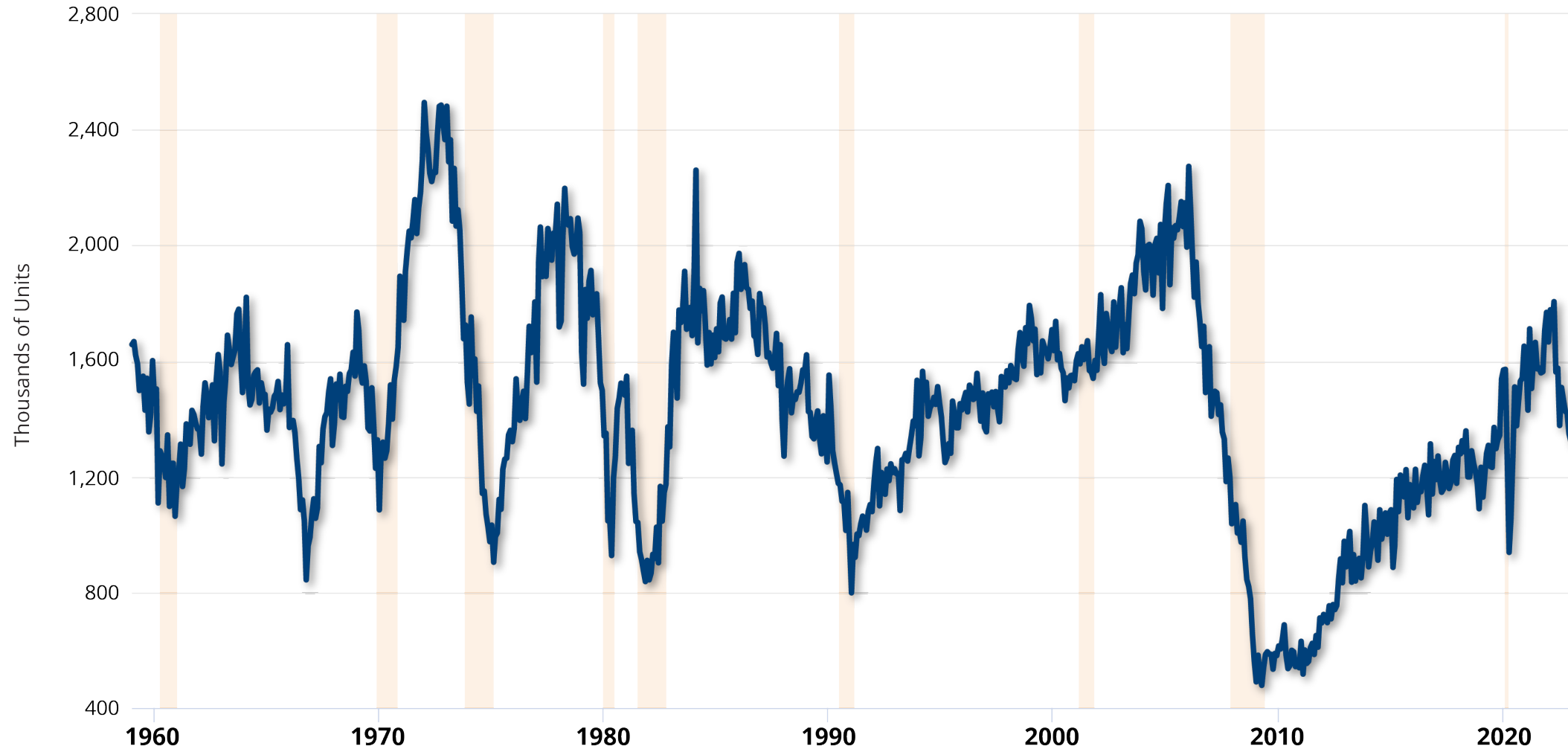
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Source: The Conference Board; Ned Davis Research

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.

Timing NBER Recession Declarations

Recession Start Declared	S&P 500	Recession End Declared	S&P 500	Missed Return
06/08/2020	3232	07/19/2021	4258	31.74%
12/01/2008	816	09/20/2010	1143	40.00%
11/26/2001	1157	07/17/2003	982	-15.18%
04/25/1991	379	12/22/1992	440	16.10%
01/06/1982	119	07/08/1983	168	40.59%
06/03/1980	111	07/08/1981	128	16.12%
			Average	21.56%

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



Is the Banking Situation Like 2008?

- Timeline of events
- Liquidity vs asset impairment
- Banks are better capitalized
- Delinquency and charge-off rates are low
- Commercial real estate
- Expect more regulation and oversight



Timeline of Events

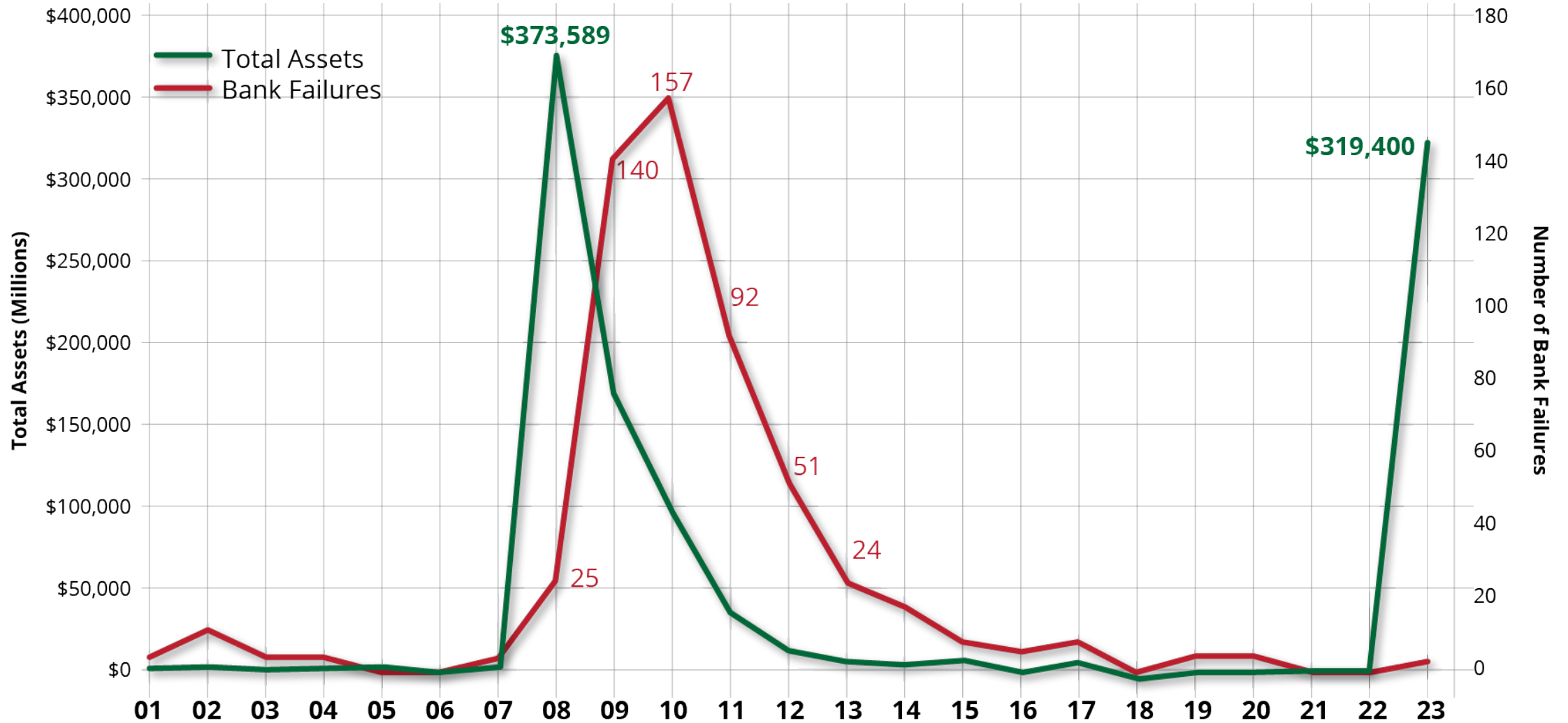
- Wednesday, March 8 — Silvergate Capital Corp — Announces it will wind down operations and liquidate its assets
- Friday, March 10 — FDIC took control of Silicon Valley Bank
- Sunday, March 12 — FDIC shuts down Signature Bank Treasury, Federal Reserve and FDIC
- Wednesday, March 15 — Swiss authorities 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



563 Bank Failures from 2001 Through 2023

Bank Failures in Breif — Summary 2001 through 2023

There were 563 bank failures from 2001 through 2023.



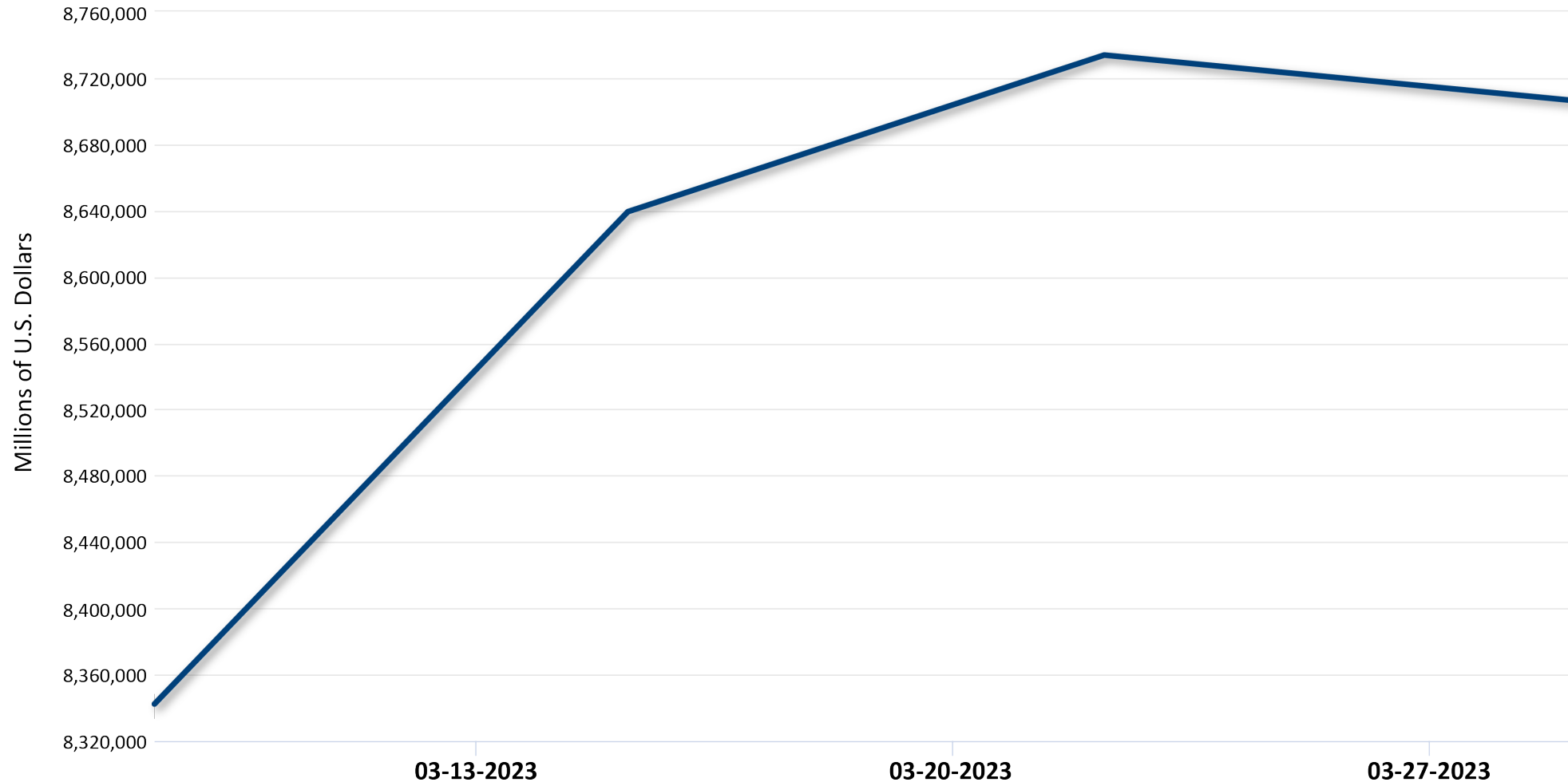
For illustrative purposes only. Past performance is not indicative of future results.

Source: FDIC.gov



Banks Scramble for Liquidity

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



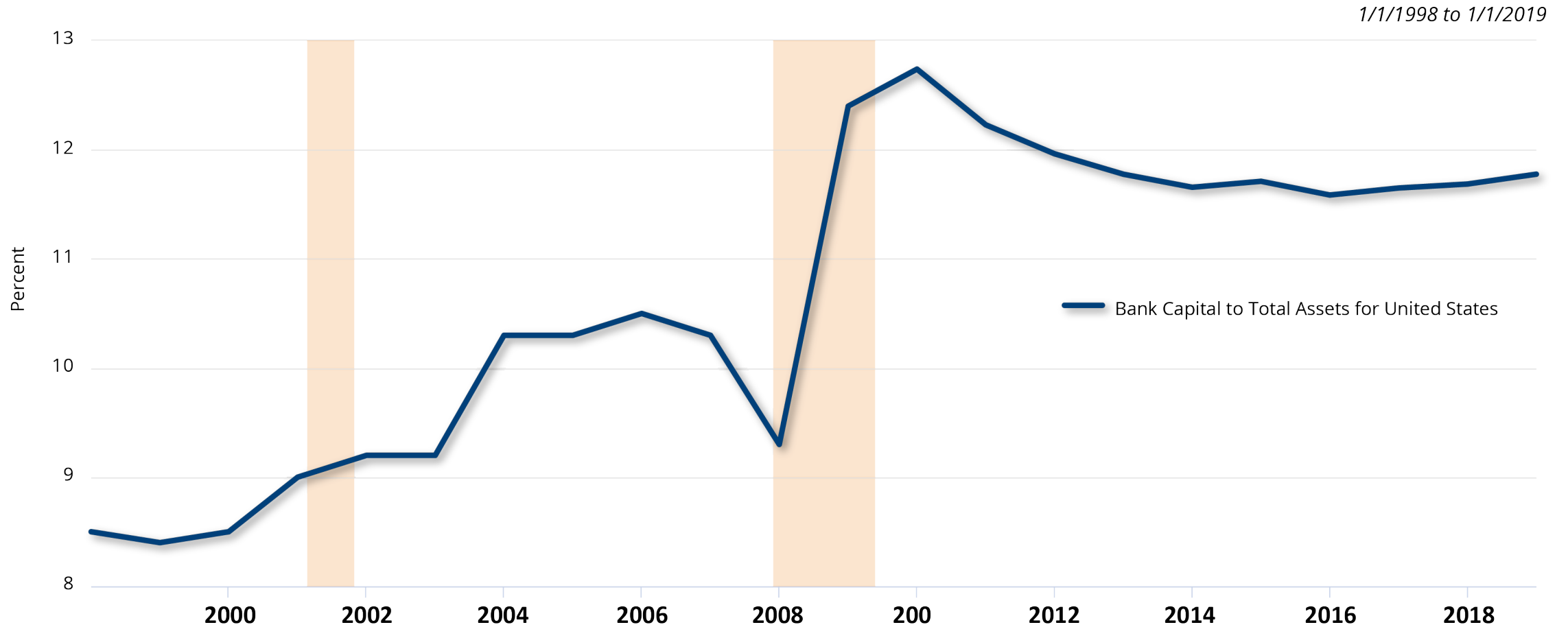
For illustrative purposes. Past performance is not indicative of future results.

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



Banks are Better Capitalized

Bank Capital to Total Assets for United States



Source: World Bank, Fred.StLouisFed.org

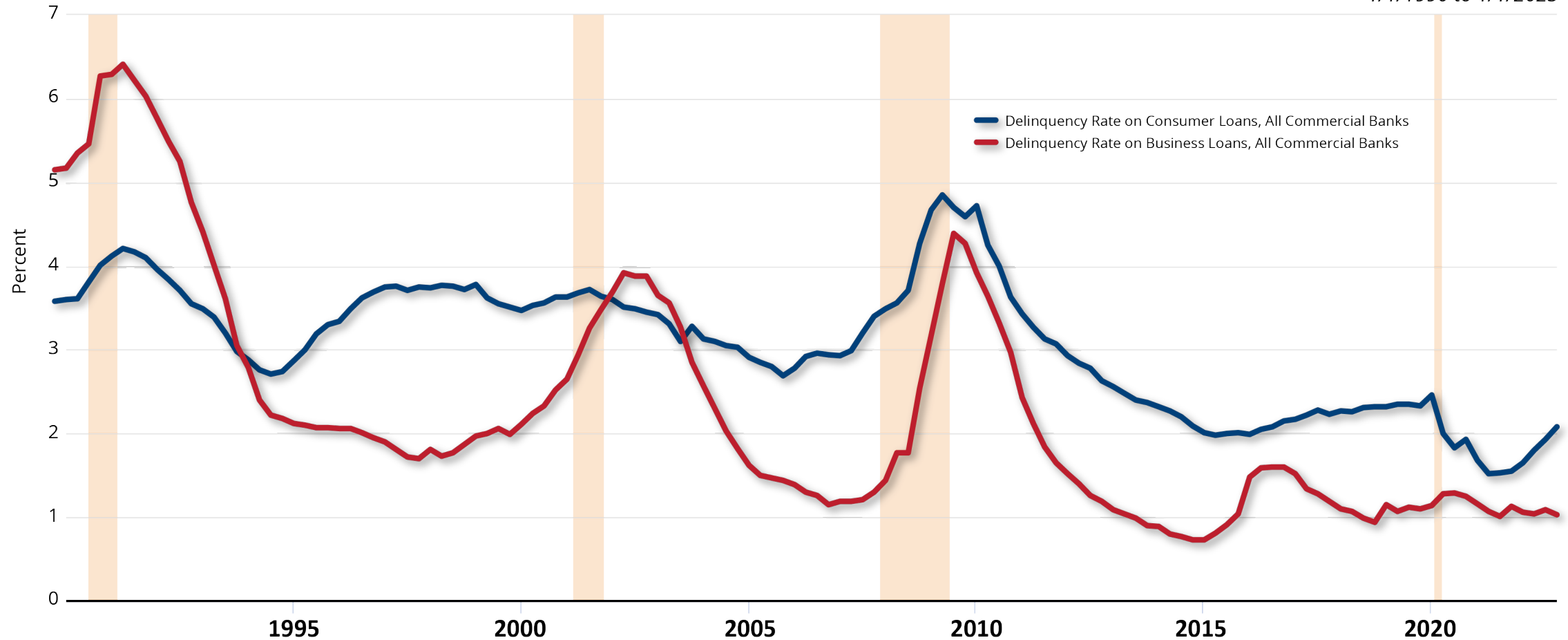
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Delinquency Rates on Consumer/Business Loans Are Low

Delinquency Rate on Consumer Loans, All Commercial Banks
Delinquency Rate on Business Loans, All Commercial Banks

1/1/1990 to 1/1/2023



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

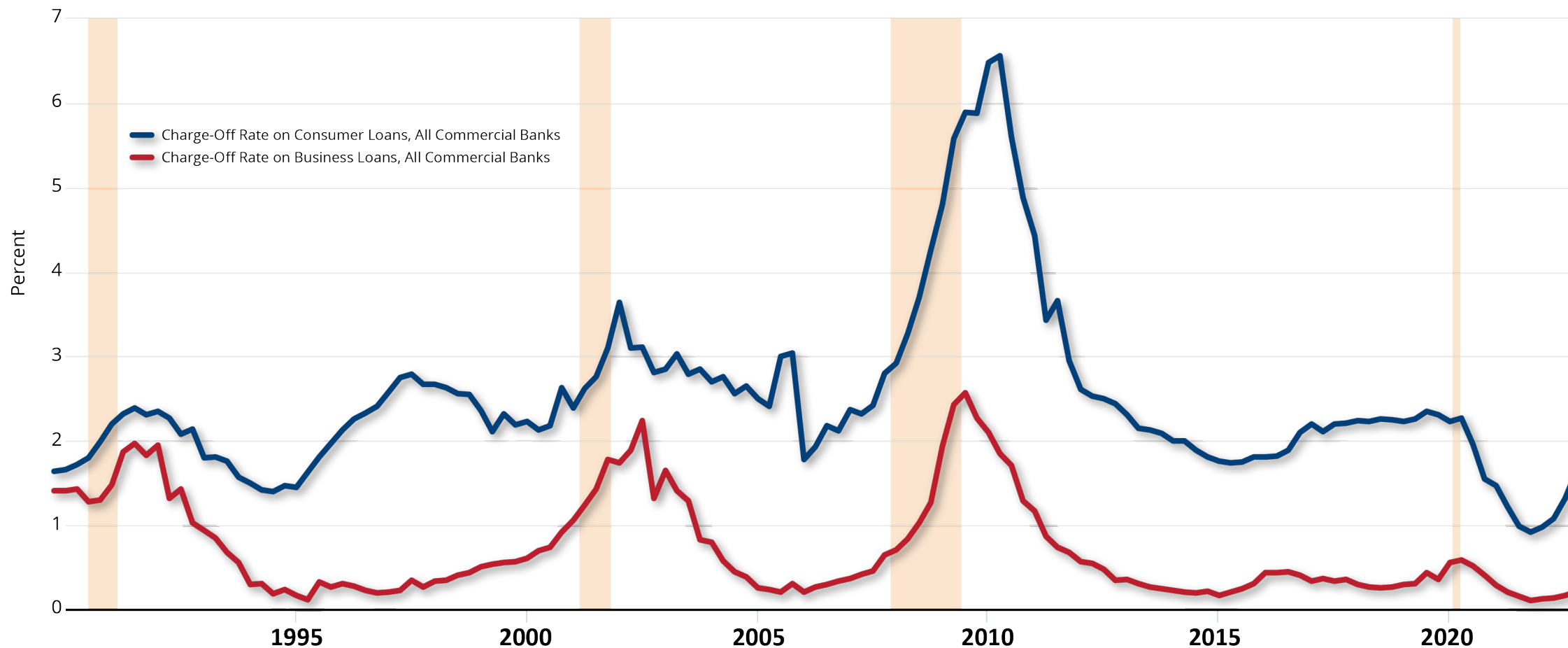
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Charge-Off Rates on Consumer/Business Loans Are Also Low

Charge-Off Rate on Consumer Loans, All Commercial Banks
Charge-Off Rate on Business Loans, All Commercial Banks

1/1/1990 to 1/1/2023



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

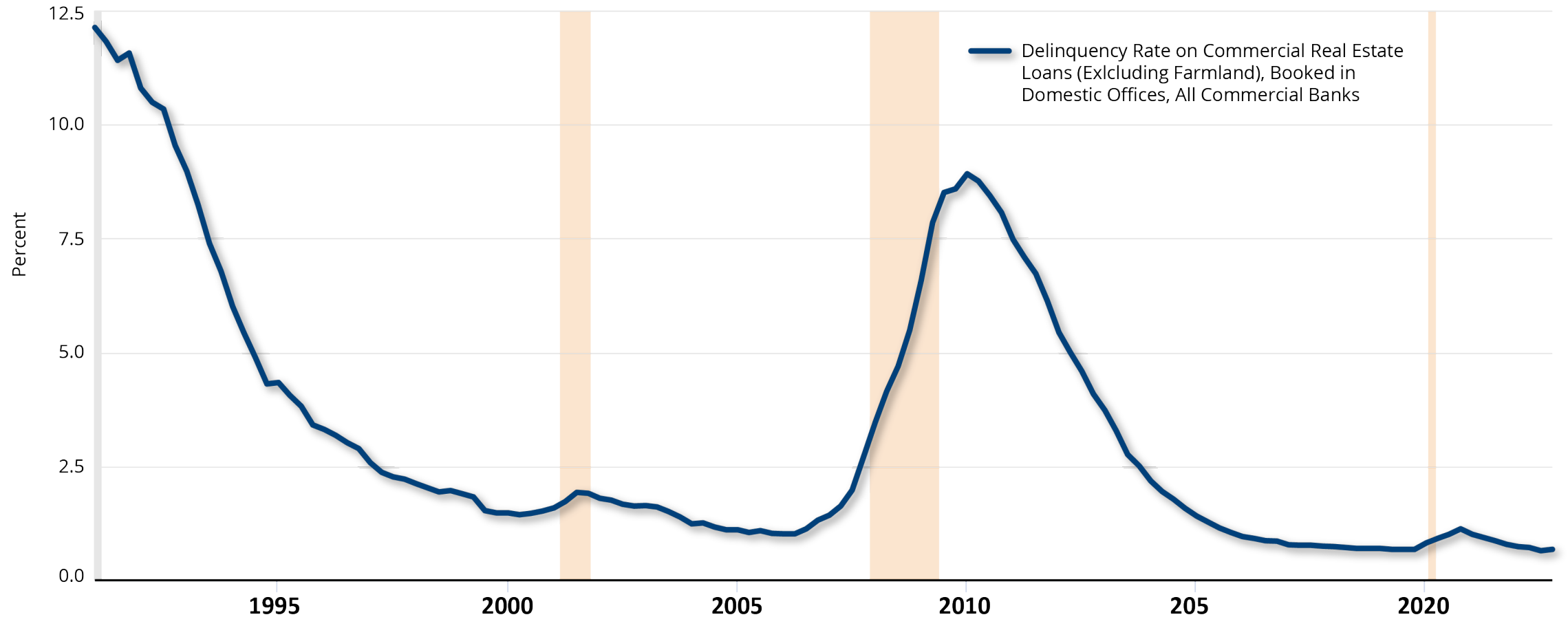
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Delinquency Rates on Commercial Real Estate are Low, Too

Delinquency Rate on Commercial Real Estate Loans (Excluding Farmland), Booked in Domestic Offices, All Commercial Banks

1/1/1993 to 1/1/2021



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

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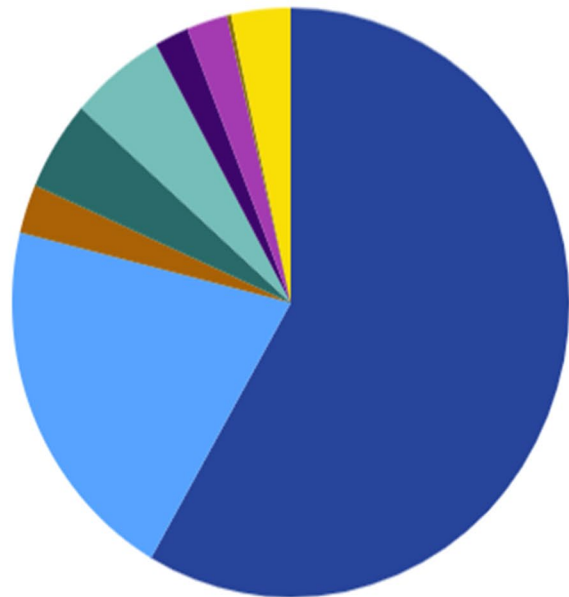
Is the Dollar going to Lose Its Reserve Status?

- Widely used by central banks around the world
- Accounts for ~60% of foreign exchange reserves
- Accounts for ~90% of all foreign exchange transactions
- Can be a safe haven during times of crisis



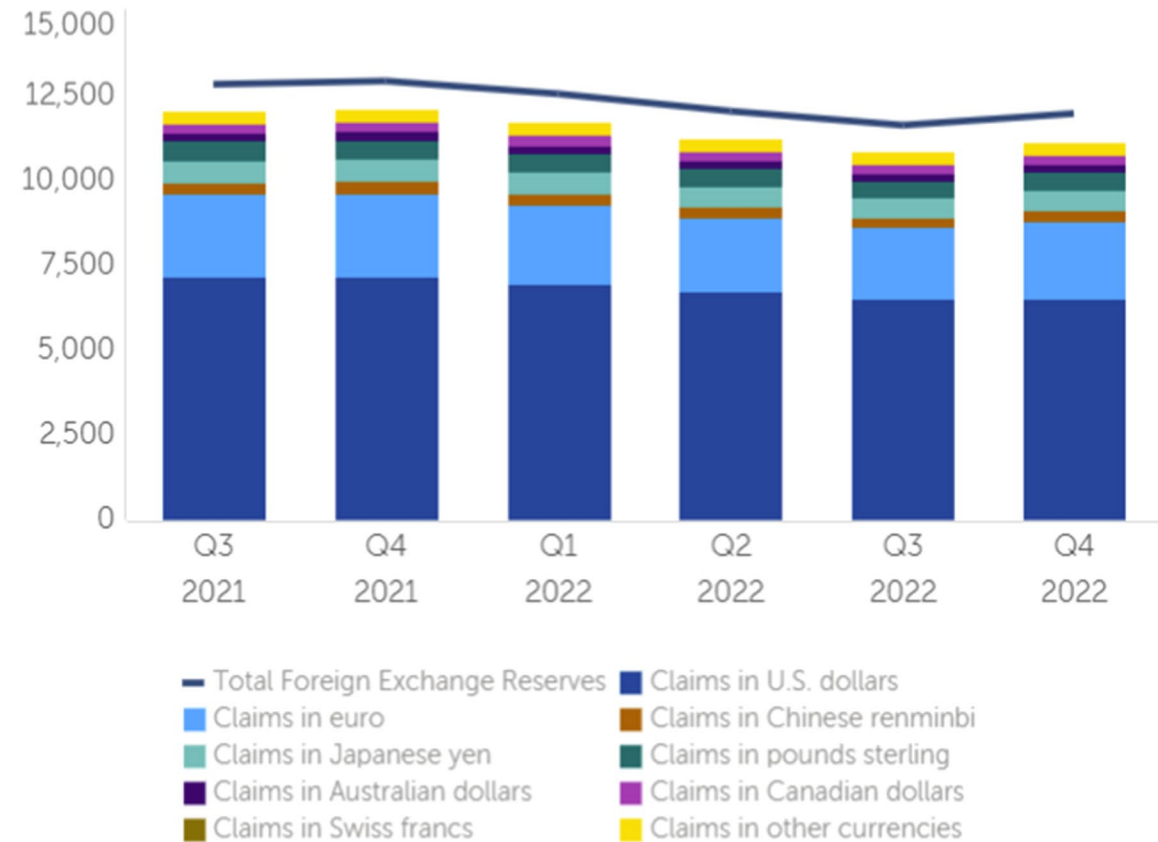
Foreign Exchange Reserves

World – Allocated Reserves by Currency for 2022 Q4



- U.S. dollars
- Euro
- Chinese renminbi
- Pounds sterling
- Japanese yen
- Australian dollars
- Canadian dollars
- Swiss francs
- Other currencies

World – Official Foreign Exchange Reserves by Currency (U.S. Dollars, Billions)



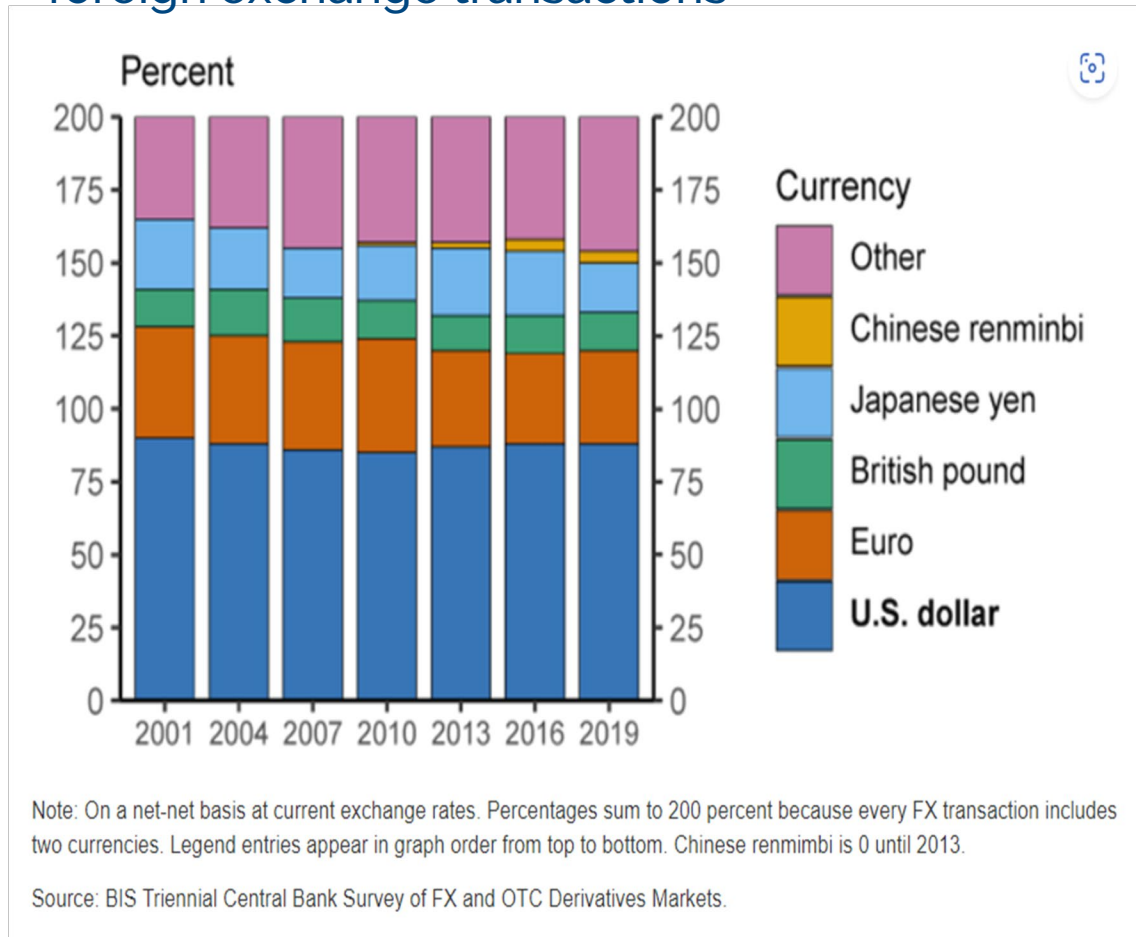
- Total Foreign Exchange Reserves
- Claims in U.S. dollars
- Claims in euro
- Claims in Chinese renminbi
- Claims in Japanese yen
- Claims in pounds sterling
- Claims in Australian dollars
- Claims in Canadian dollars
- Claims in Swiss francs
- Claims in other currencies

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Foreign Exchange Transactions

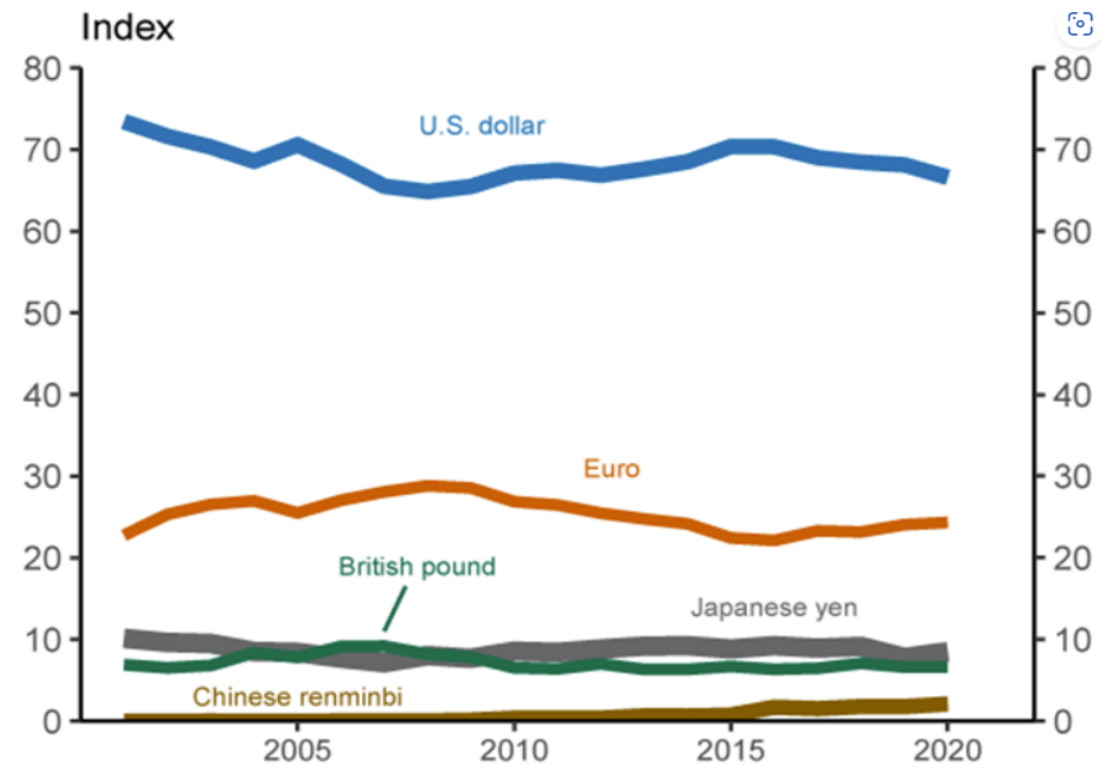
Share of over-the-counter foreign exchange transactions



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

Source: FederalReserve.gov

Index of international currency usage



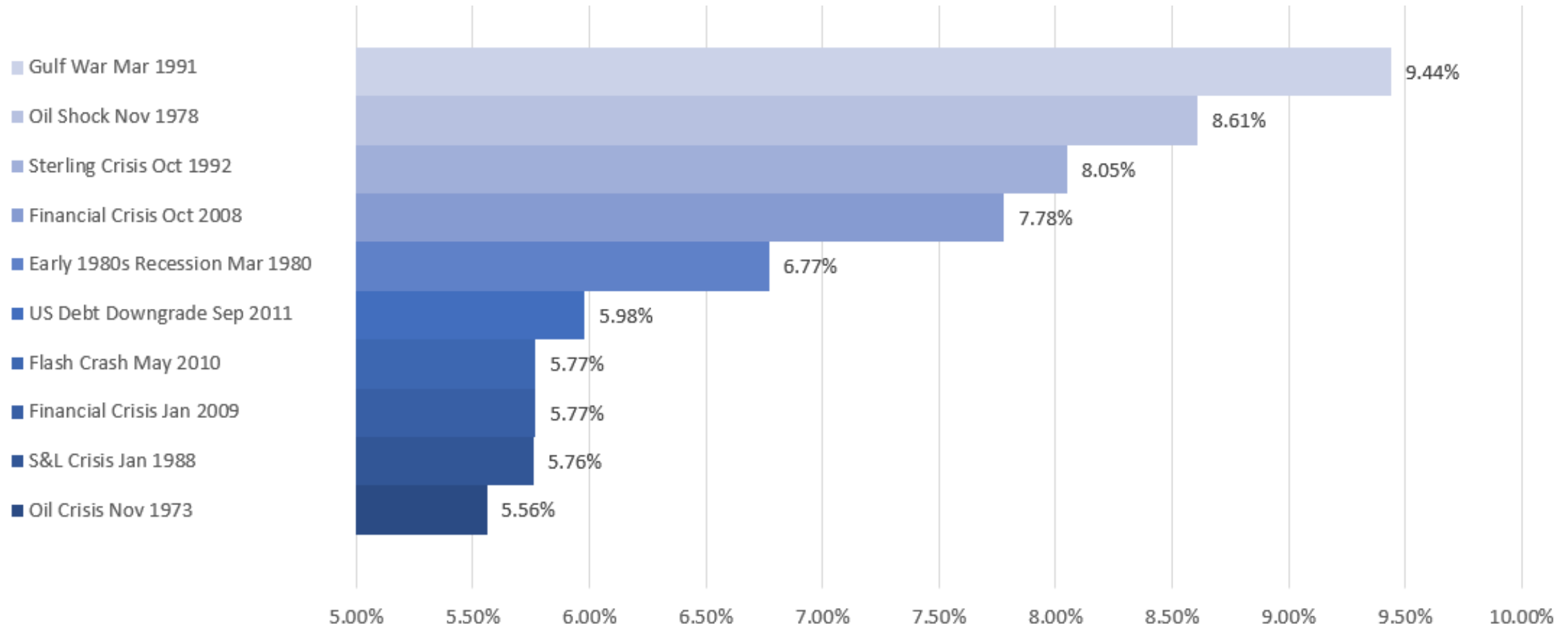
Note: Index is a weighted average of each currency's share of globally disclosed FX reserves (25 percent weight), FX transaction volume (25 percent), foreign currency debt issuance (25 percent), foreign currency and international banking claims (12.5 percent), and foreign currency and international banking liabilities (12.5 percent).

Source: IMF COFER; BIS Triennial Central Bank Survey of FX and OTC Derivatives Market; Dealogic; Refinitiv; BIS locational banking statistics; Board staff calculations.



US Dollar Can Be a Safe Haven

Biggest Monthly Gains in USD



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Do I Still Need to Worry About Inflation?

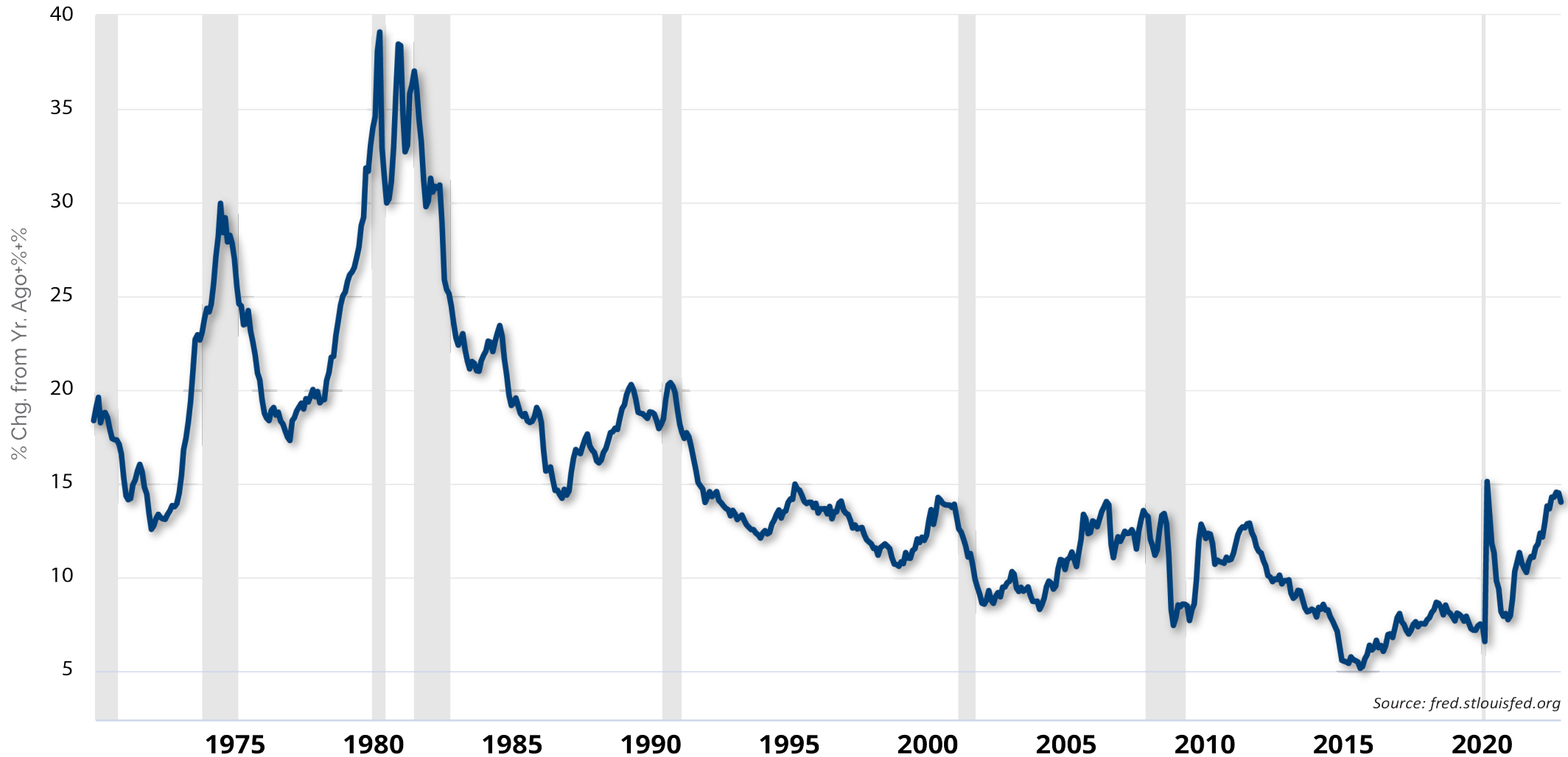
- Economy not like the 1970s
- We believe Inflation peaked last year
- Many commodities are off their highs
- Core PCE Inflation still above the Fed's target
- We feel that the Fed is near the end of its rate hike cycle



Not That 70's Show

Consumer Price Index for All Urban Consumers:

All items in U.S. City Average + Unemployment Rate + Federal Fund Effective Rates



Source: fred.stlouisfed.org

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



Commodity Prices Are Off Their Highs



Lumber

03/04/22 \$1477

03/01/23 \$377

-75%



Crude Oil

03/08/22 \$129

03/01/23 \$78

-40%

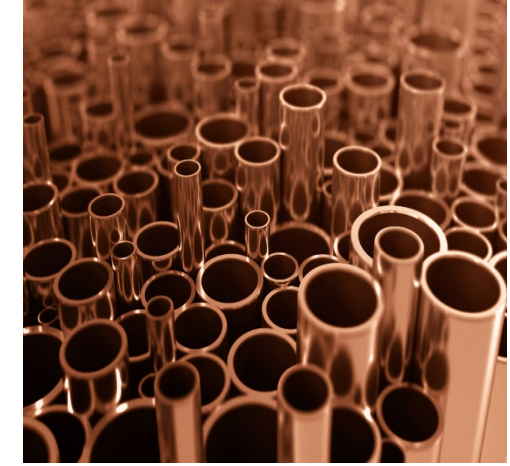


Wheat

03/04/22 \$1340

03/01/23 \$710

-47%



Copper

03/07/22 \$4.92

03/01/23 \$3.81

-15%



For illustrative purposes only.

Source: Investing.com

Used Cars, Home Prices, and Freight Rates Are Also Lower



Used Cars

Jan 2022 257.7
Feb 2023 234.5
-9%



Home Prices

Jun 2022 308.37
Dec 2022 294.68
-4.44%



Baltic Dry Index

10/07/21 5650
03/01/23 1099
-81%



Container Rates

Sep 2021 \$10377
03/02/23 \$1859
-82%



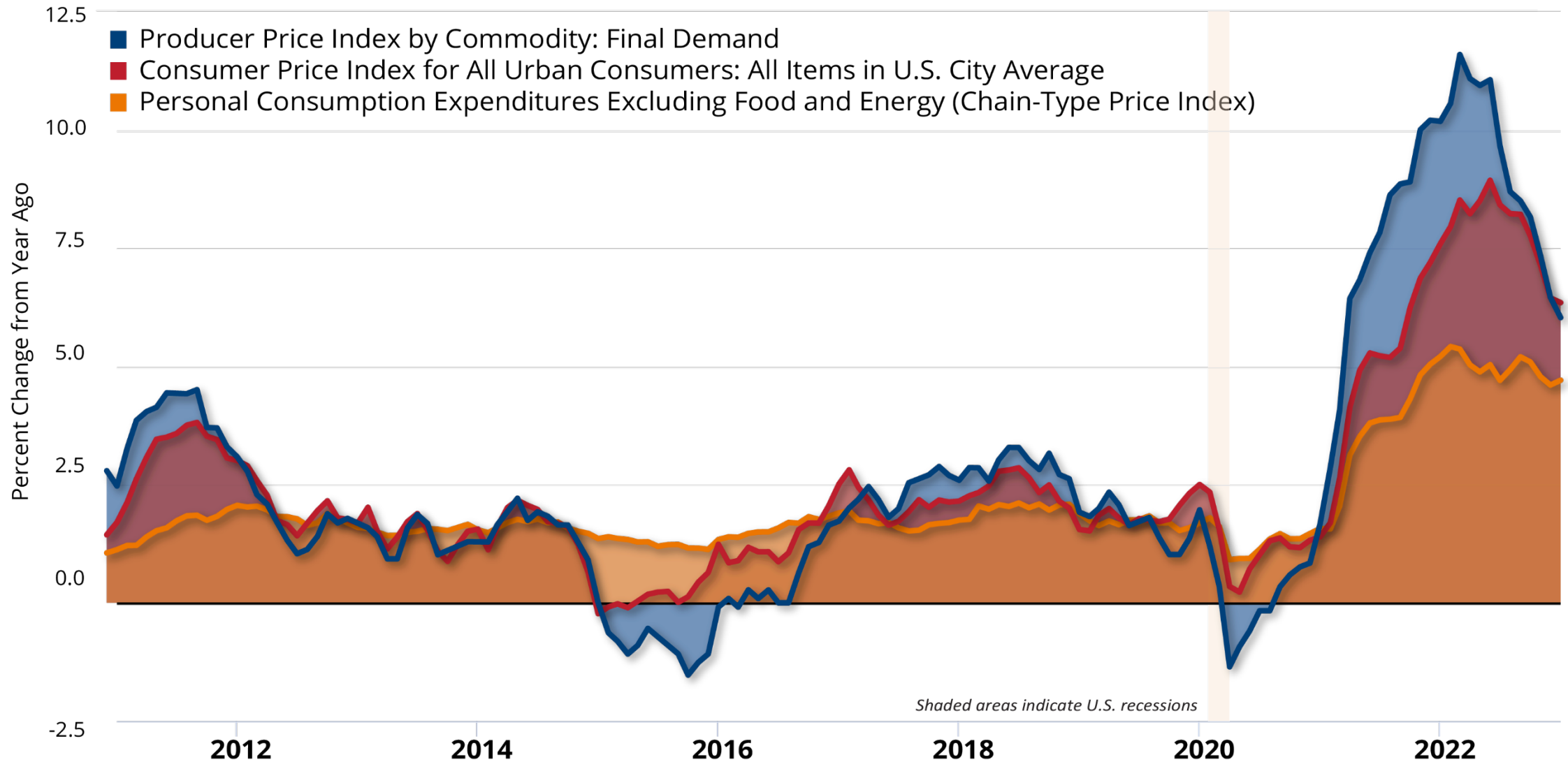
For illustrative purposes only.

Source: Manheim, Case-Shiller, Investing.com, Drewry

Our Take: Inflation Has Likely Peaked

Producer Price Index vs Consumer Price Index vs Personal Consumption

1/1/2011 to 2/28/2023



Shaded areas indicate U.S. recessions

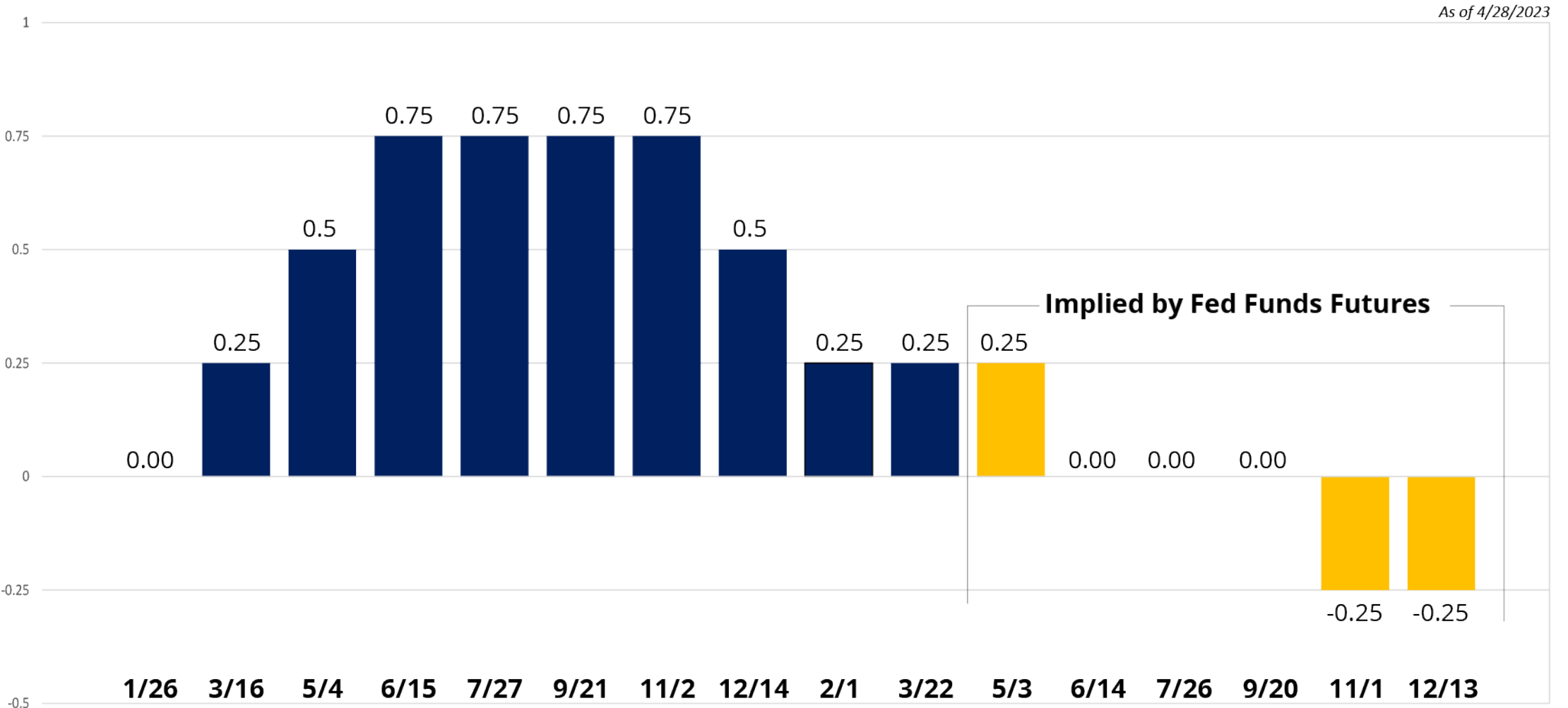
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Source: fred.stlouisfed.org



One and Done?

Fed Rate Hikes: Actual and Implied by Fed Funds Futures



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

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S&P 500 Returns and the Fed Funds Rate

Fed Funds Rate	Number of months	Avg Monthly Return	Annualized Return	Worst Month	Return	Best Month	Return
Less than 2%	222	0.96%	12.15%	Oct 2008	-16.94%	Apr 2020	12.68%
Between 2%-4%	173	0.24%	2.92%	Sep 2022	-9.34%	Nov 1962	10.16%
Between 4%-6%	197	1.13%	14.44%	Aug 1998	-14.58%	Jan 1976	11.83%
Greater than 6%	228	0.39%	4.78%	Oct 1987	-21.76%	Oct 1974	16.30%
Total	820	0.69%	8.60%				

Jul 1954 to Oct 2022

For illustrative purposes. Past performance is not indicative of future results. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.



Stock Returns and Economic Metrics Under Each Fed Chair

Fed Chair	Start	End	S&P 500 CAGR Returns	10yr Treasury Start	10yr Treasury End	GDP	Inflation
Bill Martin	04/02/51	01/31/70	7.6%	2.6%	7.75%	3.9%	2.1%
Arthur Burns	02/01/70	01/31/78	0.6%	7.75%	7.94%	3.1%	6.6%
William Miller	03/08/78	08/06/79	13.4%	8.03%	8.91%	4.9%	11.2%
Paul Volcker	08/06/79	08/11/87	15.6%	8.91%	8.72%	2.9%	5.7%
Alan Greenspan	08/11/87	01/31/06	7.5%	8.72%	4.52%	3.2%	3.1%
Ben Bernanke	02/01/06	01/31/14	4.2%	4.56%	2.64%	1.3%	2.1%
Janet Yellen	02/03/14	02/03/18	12.2%	2.58%	2.84%	2.3%	1.5%
Jay Powell	02/05/18	02/21/23*	8.5%	2.71%	3.95%	2.0%	3.8%

*Current as of 3/1/2023. For illustrative purposes. Past performance is not indicative of future results. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.



How Will the Debt Ceiling Debate Impact the Market?

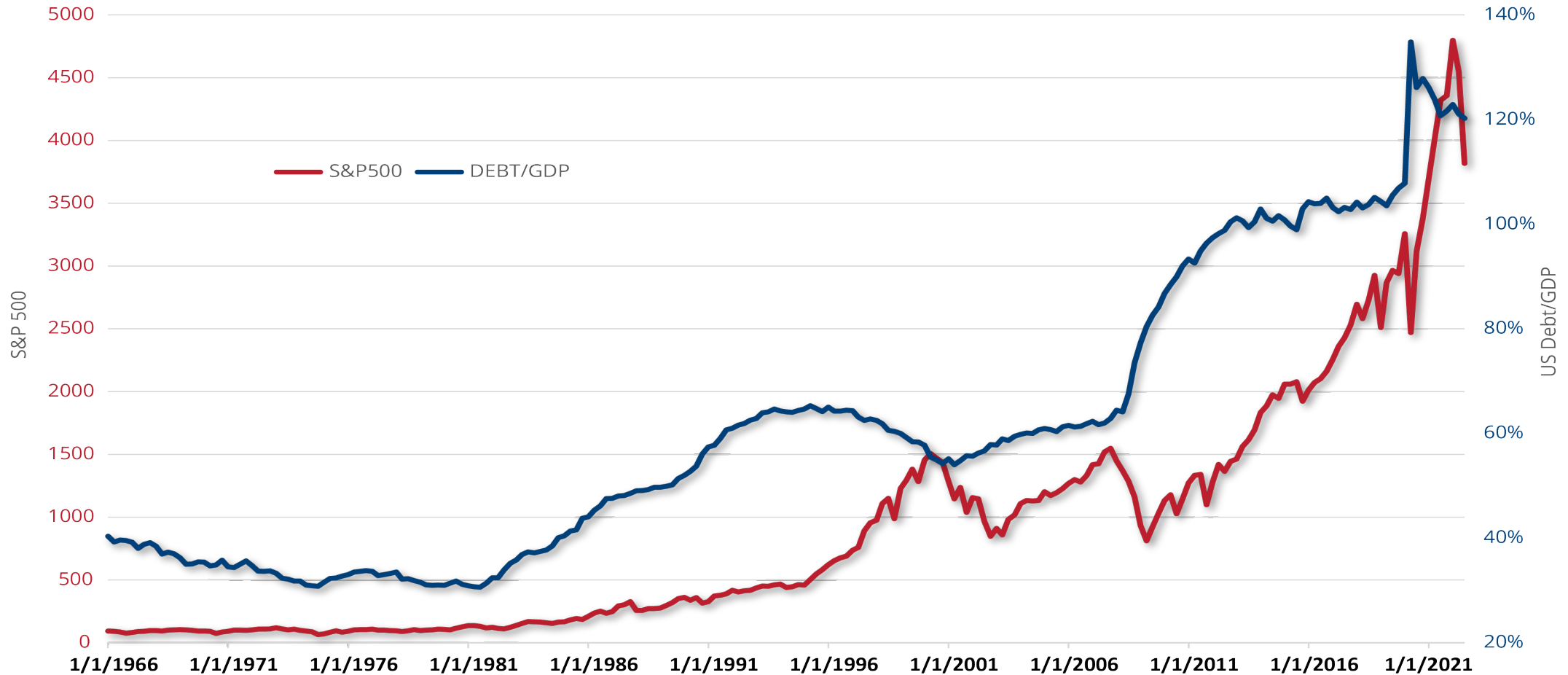
- US Debt/GDP has risen since the 1960s
- So has the S&P 500
- 20 Funding gap/govt shutdowns since 1976
- Minimal impact to market in prior episodes



US Govt Debt – Only 1 Piece of the Puzzle

S&P 500 and U.S. Debt/GDP

Quarterly Data 01-01-1966 to 07-01-2022



Source: S&P Dow Jones Indices, FRED, Board of Governors of the Federal Reserve System

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US Funding Gaps/Shutdowns

S&P 500			
Start	End	# of days	Return
9/30/1976	10/11/1976	11	-3.421%
9/30/1977	10/13/1977	13	-3.180%
10/31/1977	11/9/1977	9	0.693%
11/30/1977	12/9/1977	9	-1.244%
9/30/1978	10/18/1978	18	-1.999%
9/30/1979	10/12/1979	12	-4.418%
11/20/1981	11/23/1981	3	-0.090%
9/30/1982	10/2/1982	2	1.287%
12/17/1982	12/21/1982	4	0.815%
11/10/1983	11/14/1983	4	1.320%
9/30/1984	10/3/1984	3	-2.203%
10/3/1984	10/5/1984	2	0.148%
10/16/1986	10/18/1986	2	-0.288%
12/18/1987	12/20/1987	2	0.000%
10/5/1990	10/9/1990	4	-2.055%
11/13/1995	11/19/1995	6	1.312%
12/15/1995	1/6/1996	22	0.060%
9/30/2013	10/17/2013	17	3.069%
1/19/2018	1/22/2018	3	0.807%
12/21/2018	1/25/2019	35	10.268%
Average		9	0.04%

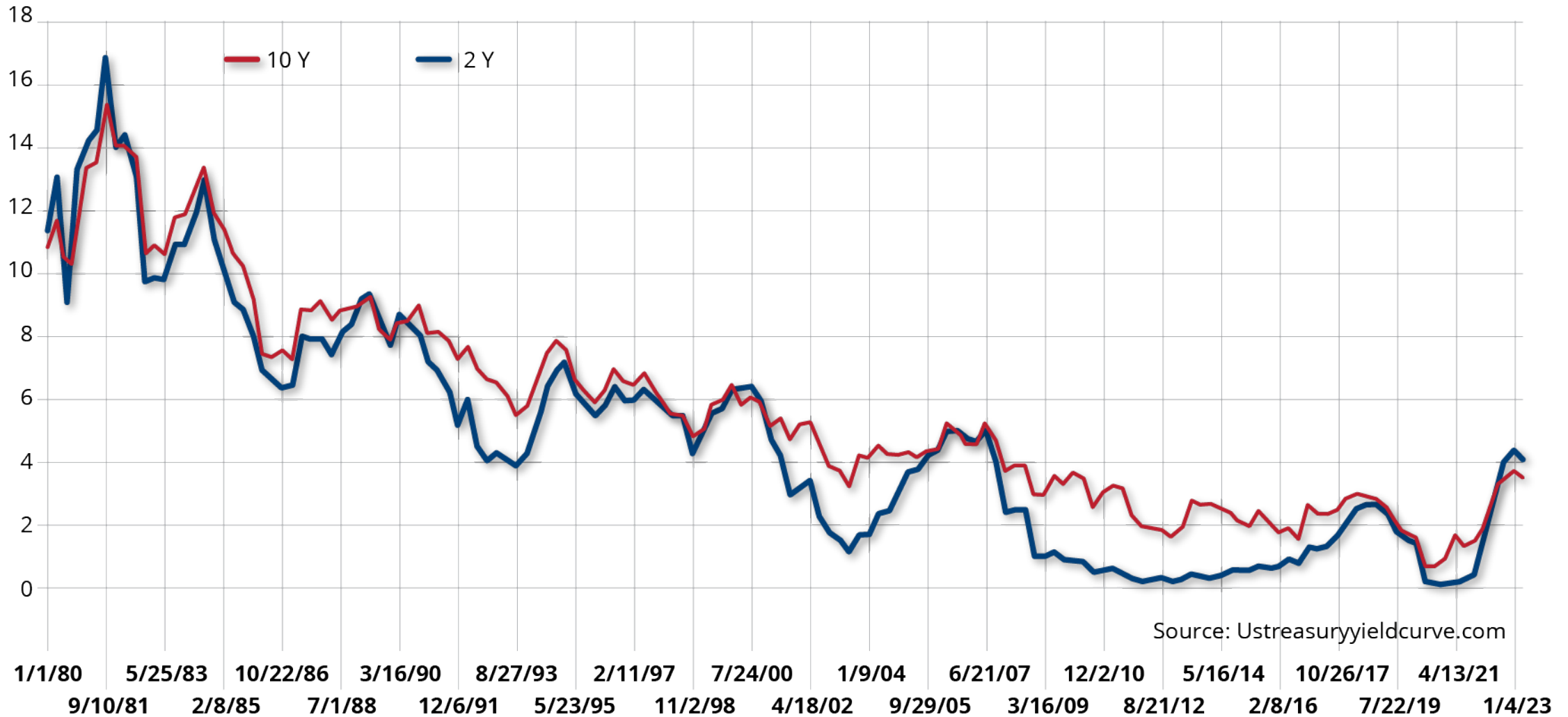
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Should I Just Buy a 2-Year Treasury?

- We feel 2-year Treasury yields have likely peaked
- Reinvestment risk
- Opportunity cost



Why Not Just Buy a 2-Year Treasury?



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Q&A



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Investing involves risk, including loss of principal.

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).

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.

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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 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. Indexes are available for the U.S. and various geographic areas.

The 10-year Treasury yield is closely watched as an indicator of broader investor confidence. Because Treasury bills, notes, and bonds carry the full backing of the U.S. government, they are viewed as one of the safest investments.

A leading indicator is a measurable set of data that may help to forecast future economic activity. Leading economic indicators can be used to predict changes in the economy before the economy begins to shift in a particular direction. They have the potential to be useful for businesses, investors, and policy makers.

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 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.

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.

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.

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 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.

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