Clark Capital Management Group

Portfolio Commentary

Navigator® MultiStrategy

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Economy And Markets Defy Inverted Yield Curve and Catch Bears Off Guard

Market Review

After two of the three largest U.S. bank failures in history in March, markets reached a major stress point. After all, bank failures and the potential for a real estate driven credit crunch drove conversation, the Leading Economic Indicators had been declining for over a year, and the yield curve reached its largest inversion in over 30 years.

While all these concerns are worth watching, and believe me, we watched them closely, investors missed the fact that the jobs markets remained robust, inflation was rolling over, and earnings expectations began to turn around. As a result, we have seen a rally since the March 13th regional bank failure-driven bottom.

The S&P 500 is up 16.0%, while the Tech heavy NASDAQ 100 soared 27.6%. Though trailing major indexes, value stocks eventually surged, particularly in June, with Russell 1000 Value Index large-cap value up 12.7% and the S&P Small Cap 600 up 7.0% since March 13th.

We believe watchful eyes on the credit market have helped us from becoming too bearish. Despite the regional banking failures, broad credit markets were stable and since have displayed more vigor than stress. High yield spreads have come in and now are at their lowest levels since May 2022. Market gains have been narrow and concentrated, leaving many sectors, and broadly diversified investors, trailing behind. The Technology, Consumer Discretionary, and Communications Services sectors are responsible for 6.9% of the S&P 500's 8.3% gain – over 80% of the index's increase. Strong performance by the Technology, Discretionary, and Industrials sectors confirms that markets have a cyclical bias, as Consumer Staples, Healthcare, and Utilities lagged.

Second Quarter Portfolio Highlights

- After soaring interest rates produced a drubbing in 2022, growth stocks have surged higher, and the NASDAQ 100 is up 39.2% year to date, its best first half of this century. The Russell Top 200 growth outperformed the Top 200 Value by 10.2%, and year to date, it has outperformed by over 27%. Russell 1000 Value Index large-cap value gained 6.6%, while the S&P 500 was up 8.7%. The S&P 500 and the NASDAQ's gains were both driven by the same mega-cap Tech, Semiconductor, and Telecomm stocks, but the NASDAQ simply has even more concentration among those names. Mid-caps and small-caps improved in June as breadth improved, but they were only able to produce 4.8% and 3.4% gains, respectively. Quality was again the only factor to outperform, while buybacks, momentum, and high dividend all trailed the S&P 500 by at least 3%.
- Among fundamental stock selection factors, positive earnings revisions, long-term earnings growth, and free cash flow yield were rewarded, which are largely strong growth factors. Cheaper valuations in and of themselves could not attract capital, even though the gap between growth and value stock valuations has again neared record levels.

- In a rare occurrence for the equity portion of the MultiStrategy portfolio, our ETF rankings were stable and unchanged throughout the quarter. As a result, the portfolio has held steady with the Russell Top 200 Growth)at 22% and the NASDAQ 100 at 20%, with the remaining 56% of the portfolio indexed to the S&P 500. While growth and mega-cap Tech have stalled at times, they went on a strong, AI-driven run from late April through late June. We have yet to see any trend reversals that would modify our positions.

Positioning and Outlook

MultiStrategy devotes two-thirds of its fixed income exposure to Navigator® Tactical High Yield Bond Fund (NTBIX) and one-third toward Navigator® Tactical Investment Grade Bond Fund (NTIIX). Within high yield credit, the portfolio had owned Treasuries as the quarter began, but an improvement in credit spreads drove us into high yield bonds before mid-April, despite Treasuries having strong performance at the time.

We have remained in high yield since, and it has produced modest gains. Meanwhile, cash equivalents and their 5.25% yield are cruising along and outperformed both high yield and Treasuries. Within our Tactical Investment Grade Bond Fund, we favored investment grade bonds coming into the quarter, but as the economy and job markets surprised to the upside, and drove rates higher, our models recommended maximum defense. As a result, we moved into cash equivalents in mid-May, where the portfolio remains.

As rates have increased in June, we believe the defensive cash has done its job, limiting volatility and capital losses. As the third quarter begins, the two-year and ten-year Treasury yields have reached their highest levels since before the March regional banking crisis. At this point, should yields move higher or remain at these levels, we believe the likelihood grows that equity and credit markets will begin to take on water.

Looking forward into the second half of 2023 and into 2024, we know that if the stock market is up over 10% in the first half, 75% of the time it produces further gains in the second half with a 9.7% median gain. So, we believe there are reasons for optimism, and we would expect the market to broaden and include the average stock much more.

For over a year now, investors have been flummoxed by important leading indicators of a recession. The Index of Leading Economic Indicators (LEI) is down 7.9% year over year, and it has been declining for two full years. While 2022 was a tough year for stocks, the economy never entered recession, and while the LEI is always considered to require a lag time to take effect, its recession warnings have been sounding for so long that its credibility has come into question.

The inverted yield curve as a warning has proven equally vexing. We ended the quarter with the most inverted yield curve in recent memory, and we know that every recession has been preceded by an inverted yield curve. However, not every inverted yield curve has inevitably led to a recession as the bears have learned in 2023.

Thus, two prominent and important warning indicators have been signaling that “a recession is coming soon” and yet, coincident and real-time indicators have exhibited no signs. U.S. unemployment is at 3.7%, which is a bit higher than its low of 3.4% in January, but still indicative of a robust jobs market. Consumer sentiment and spending remain strong, and S&P 500 earnings expectations have recovered and turned up.

We continue to use credit markets as our ballast and guide. Lending remains robust, and spreads continue to be under control. High yield markets have increased in quality, with a relatively smaller weight in riskier CCC bonds. Historically, after a Fed pause, this riskier CCC area of the market lags broader high yield. We will be closely watching CCC credit and the bank loan space for cracks and stresses.

Given the warnings from leading economic indicators and the Fed’s own expectations of a modest recession in late 2023 or early 2024, risk management will be at the front of our consciousness for the foreseeable future. Real-time indicators simply do not display sustained weakness, though we believe markets will be confronted with economic turbulence within the next 24 months. We will be listening to our quantitative models and are prepared to promptly take a defensive stance in an attempt to preserve capital.

MultiStrategy 25-75 Top Contributors as of June 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	48.14	1.30
iShares Core S&P 500 ETF	14.66	1.27

MultiStrategy 25-75 Top Detractors as of June 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
Invesco NASDAQ 100 ETF	5.42	0.81
Navigator Tactical Investment Grade Bond Fund - Class I	23.33	-0.29

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 and the last 12 months, contact: PortfolioAnalytics@ccmg.com.

MultiStrategy 50-50 Top Contributors as of June 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	28.73	2.49
iShares Russell Top 200 Growth ETF	12.68	1.78

MultiStrategy 50-50 Top Detractors as of June 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	30.80	0.84
Navigator Tactical Investment Grade Bond Fund - Class I	15.24	-0.19

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 and the last 12 months, contact: PortfolioAnalytics@ccmg.com.

MultiStrategy 75-25 Top Contributors as of June 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	43.25	3.75
Invesco NASDAQ 100 ETF	16.66	2.53

MultiStrategy 75-25 Top Detractors as of June 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	14.63	0.40
Navigator Tactical Investment Grade Bond Fund - Class I	7.05	-0.09

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 and the last 12 months, contact: PortfolioAnalytics@ccmg.com.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

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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 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 exchange. It is a modified capitalization-weighted index.

Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability.

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 Value ETF (IWX) seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit value characteristics.

The S&P SmallCap 600 Index is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index.

A CCC bond rating is considered to be speculative or junk grade, indicating that the issuer has a high risk of defaulting on its debt obligations. CCC credit ratings are often given to companies that are experiencing financial difficulties or have a high level of debt.

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.

A leading economic indicator (LEI) is economic data that may correspond with a future movement or change in the economy. Leading economic indicators can help to predict an occurrence or forecast the timing of events and trends in business, markets, and the economy.

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.

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