Portfolio Commentary

Navigator® Taxable Fixed Income

Portfolio Manager

Oliver Chambers
Senior Portfolio Manager

Pause, but Are More Hikes Coming?

Market Review

The Federal Reserve continued to hike during the second quarter, raising rates a quarter point (25 basis points) in May before pausing and leaving rates unchanged in June. The impact of these hikes continued to be evident as inflation continued to fall, closing the month with the Core Consumer Price Index (CPI) at 4%. However, they also signaled that this was just a pause, and the likelihood of hiking again was high. At the end of the quarter, the market expectation was that the Fed would resume hiking in July with a small possibility of another hike in September or November.

This reversal from the markets expecting a true pause or that the hiking cycle to be finished to believing that more hikes are coming, whipsawed the interest rate market during the quarter. The 10-year Treasury jumped from a low of 3.31% during the first week of the quarter to 3.84% as the quarter came to a close. This, coupled with the 2-year Treasury moving more than 110 basis points higher, resulted in the 2/10s Treasury curve once again inverting by more than 100 basis points, and closing June at -106 basis points. Despite these moves in the rates markets and expectations for more hikes in the future, the credit market showed no signs of stress.

Credit spread levels, as measured by the Bloomberg Barclays US Corporate Bond Index, rallied 25 basis points from the middle of May to the end of the quarter. This move in credit spreads, combined with the higher coupon and yields on bonds, helped to offset some of the move in interest rates. The Bloomberg Barclays US Corporate Bond Index posted a total return of -0.29% for the quarter, while Treasuries posted a return of -1.38% for the quarter. This brings the total return of the overall corporate credit market to 6.96% over the last 9 months while the intermediate corporate credit market has returned 5.12%.

Second Quarter Portfolio Highlights

- The duration of the portfolio remained around 4 years, which is consistent with the position that it has been in all year and is slightly underweight the Index.

- The best performing sector on a total return basis was Financials, followed closely by Materials. The Financials sector bounced back from the short-lived bank stress and underperformance in the market in the first quarter. While there was still concern over some of the smaller regional banks, the better managed, more capitalized banks bounced back as the market began to price out a lot of the risk in those entities. The worst performing sectors were Utilities and Industrials. These more defensive sectors reversed their performance from the first quarter and underperformed as the market rallied and higher risk sectors outperformed.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

- Energy and Telecommunications added the most value to the portfolio during the quarter. The Telecommunications sector benefited from the continued improving credit and upgrade cycle as some names were upgraded from high yield to investment grade. Industrials and Utilities were the largest detractors during the quarter. The longer duration nature of the Utilities sector added to the underperformance as interest rates rose.

Positioning and Outlook

The main theme of the portfolio remained the same during the quarter. The majority of the credit risk taken was in the very front end (0-3 years) of the portfolio in an attempt to take advantage of the higher yields and income that these bonds have. Overall, the credit risk in the market is low, and we believe these securities are priced too cheaply for the actual risk in the market over the next 6-12 months.

At the longer end of the portfolio, (7-10 year Treasuries duration bucket) we added to what we believe are higher quality, more stable credits as interest rates once again approached 4%. During the quarter, trades were executed in an effort to enhance this profile and increase the overall yield and income while maintaining or reducing duration and overall credit risk.

The portfolio is currently positioned to maximize yield and income in the front end of the portfolio while still owning what we believe are high quality names in the longer end to ensure that positive total return can be captured with any further rally in interest rates. The portfolio also aims to limit the impact on credit spreads from a weakening economy.

The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

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.

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 ecurity to increase).

The Bloomberg Barclays US Intermediate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity.

The Core Consumer Price Index (CPI) measures the changes in the price of goods and services, excluding food and energy. The CPI measures price change from the perspective of the consumer. It is a key way to measure changes in purchasing trends and inflation.

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 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 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 Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 years.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request. CCM-508