Portfolio Commentary

Navigator® MultiStrategy

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Surging Interest Rates Dominate Market Psychology

Market Review

After markets underwent a correction and a major bank collapsed in March, a robust 19.5% S&P 500 rally followed. It was no coincidence that the rally lost steam while the 10-year Treasury yield broke above 4.1% at the end of July, and the 10-year eventually soared above 4.6% by September. Since July 31st, the S&P 500 has undergone a 6.3% correction through September 30th, and surging interest rates have dominated investors and the media's minds with virtually a singular focus.

For the quarter, the S&P declined 3.2%, and the Aggregate Bond ETF equaled that 3.2% loss, marking one of the ten worst quarters for fixed income since 1976. Despite the declines, the winners and losers during the third quarter demonstrated that markets remain in a risk-on mode.

Within fixed income, the low credit quality and higher coupon of high yield bonds produced a 0.5% gain for the quarter, and equity market leadership came from Energy and Communications services. The worst performers were defensive sectors such as Consumer Staples, Utilities, and Real Estate – all of which are very interest rate sensitive. Meanwhile, long-term Treasuries were down 11.8%, marking their fourth worst quarter going all the way back to 1926.

While value stocks managed to slightly outperform growth, it was cyclical companies leveraged to the economy that held up. Higher interest rates for longer dominated market thinking, and while markets declined, cyclical risk-facing assets held up best, while traditionally defensive equities like Utilities and Consumer Staples, and U.S. Treasuries took on the most pain.

Third Quarter Portfolio Highlights

- After massive outperformance during the first half of 2023, growth stocks were roughly equivalent with value stocks during a weak 3rd quarter. Large-cap value declined 4.0%, while the S&P 500 declined by 3.2%. Large-cap growth fell 2.6%, and the NASDAQ 100 was down 2.9%. Buybacks were the only factor ETF to post gains, up a mere 0.8%. Quality, momentum, and minimum volatility also outperformed. Year to date through September 30th, growth remains dominant, as the S&P 500 Growth is up 18.1%, while the S&P 500 Value is up 7.6% and the S&P 500 is up 13.1%. While the outperformance by growth is impressive, broader indexes understate the magnitude and levels of concentration markets are experiencing. The tech heavy NASDAQ 100 focuses on the mega-cap growth names that have driven markets higher; that index has gained 35.3% this year.
- Among fundamental stock selection factors, companies that generated strong cash flow (generally considered more of a value factor) fared well. With the Energy sector leading the way, companies leveraged to commodities and strong CPI growth also outperformed. Persistently rising interest rates and inflation helped make dividend yield one of the weakest factors, as dividend payments lost their relative attractiveness when interest rates rose.

- Throughout the quarter, the relative relationship between style and factor ETFs experienced few trend changes. Large-caps continuing to outpace small-caps remained the dominant trend. With few new trend movements, our methodology sticks with prior leadership – and thus large-cap growth, the NASDAQ 100, and the S&P 500 remain substantial holdings. We did add companies making large buybacks to the portfolio, and that ETF also has an aggressive and cyclical orientation.

Positioning and Outlook

The Navigator® MultiStrategy portfolio devotes two-thirds of its fixed income exposure to the Navigator® Tactical High Yield Fund (NTBIX) and one-third toward the Navigator® Tactical Investment Grade Fund (NTIIX). Within high yield credit, the portfolio has owned high yield bonds since mid-April.

2023 has produced stronger-than-expected economic growth; in particular, a strong job market has forced high yield spreads down and interest rates up. While the returns in high yield have been modest in absolute terms, we have managed to avoid losses in Treasuries.

Between April 13th and September 30th, the Bloomberg High Yield Corporate Bond Index was up 1.3%, while in contrast the Bloomberg U.S. Treasury Index has fallen 4.7%. T-Bills outperformed both, up 2.4% over the nearly six-month period. While high yield spreads remain relatively tame, rising interest rates and price losses in high yield have driven our models closer towards becoming cautious. T-Bills and cash equivalents would be our defensive vehicle of choice, as T-Bills' 5.4% yield still handily outpaces the 10-year Treasury yield at 4.6%.

Within our Tactical Investment Grade Fund, we have favored cash since May 19th. Over that time, and particularly during the 3rd quarter, surging interest rates drove investment grade corporates and Treasuries lower. From May 19th through September 30th, investment grade corporate bonds declined 1.9% and U.S. Treasuries declined by 3.4%, while the 3-Month T-Bill Index was up 2.0%. During this time, corporate spreads over Treasuries have been largely unchanged, indicating a solid fundamental backdrop.

However, that has not mattered, as the effect of rising interest rates has overridden strong economic fundamentals. We are encouraged that the substantially higher interest rates we are seeing today will provide a nice defensive opportunity for gains whenever the next credit crunch comes, but despite the attractiveness of cash versus investment grade corporates, a genuine credit crunch and spread blowout is not on the immediate horizon.

2023 has delivered generally strong results for investors as economic growth and the job market have outperformed expectations. During the first half of the year, investors priced interest rate cuts into their late 2023 and 2024 outlook. As the economy exceeded expectations for growth and the job markets remain quite robust, the expected 2023 and 2024 interest rate cuts have been priced back out of markets, producing further bond losses.

Now that growth expectations have improved and a "higher for longer" Fed narrative has taken hold, earnings and job markets are faced with having to deliver results. We have seen little economic news that would indicate that growth or employment has slowed. While inflation has slowed from its 2022 peaks, we wonder if it will slow to below 2%, given the strong jobs market and upward salary pressures. Indeed, though the economy and job markets are strong, many reports indicate that consumers are retracting spending, as higher prices across the board claw into budgets.

All things being equal, we expect slower growth into 2024 as the long and variable lags of the Fed's rate hikes continue to filter through the economy. Our particular focus is always on credit markets. In the credit sphere, the excess lending has not occurred in the high yield or investment grade space, but in private credit markets (often associated with venture capital investing). Any defaults or restructuring in these areas would eventually filter through into riskier credit broadly.

While 2022 was a difficult period for growth stocks, they have dominated again in 2023. Narrowness and concentration of gains has proven to be the dominant feature of this era. Over the last five years, the S&P 500 Growth ETF is up 10.4% per year, while the S&P 500 Value ETF gained 8.4%. However, this understates growth stocks' dominance, as the mega-cap and tech heavy NASDAQ 100 gained an incredible 14.8% per year. Concentration has paid off while overdiversification has been punished.

We recently added the NASDAQ 100 to the MultiStrategy universe, and it has been helpful in 2023, as we have been able to become more easily concentrated in mega-caps. Valuations and persistent underperformance for years now continue to make a fundamental case for small-caps, the minimum volatility factor, and high dividend stocks. While we agree that seems like a distinct possibility in the future, our models will continue to favor large-caps and growth, and will stick with what has been working.

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

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Investment Grade Bond Fund - Class I	23.77	0.25
iShares Russell Top 200 Growth ETF	2.99	0.02
Navigator Tactical Fixed Income Fund Class I	48.91	-0.01

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

Company Name	Average Weight (%)	Contribution to Return (%)
Invesco Buyback Achievers ETF	3.39	-0.24
iShares Core S&P 500 ETF	10.96	-0.21
Invesco NASDAQ 100 ETF	5.10	-0.14

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 September 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Investment Grade Bond Fund - Class I	15.78	0.17
iShares Russell Top 200 Growth ETF	5.91	0.05
Navigator Tactical Fixed Income Fund Class I	31.81	-0.00

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

Company Name	Average Weight (%)	Contribution to Return (%)
Invesco Buyback Achievers ETF	6.72	-0.49
iShares Core S&P 500 ETF	21.85	-0.44
SPDR Portfolio S&P 500 Growth ETF	3.50	-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 75-25 Top Contributors as of September 30, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Investment Grade Bond Fund - Class I	7.37	0.08
iShares Russell Top 200 Growth ETF	7.78	0.08
Navigator Tactical Fixed Income Fund Class I	15.35	-0.00

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

Company Name	Average Weight (%)	Contribution to Return (%)
Invesco Buyback Achievers ETF	10.16	-0.73
iShares Core S&P 500 ETF	32.50	-0.60
Invesco NASDAQ 100 ETF	16.17	-0.45

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.

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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 S&P 500 Growth Index is a market capitalization-weighted index is made up of specific securities is determined based on their share of the total market capitalization of the S&P 500.

The S&P 500 Pure Value Index is an index comprised of the strongest value stocks on the S&P 500

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.

The Consumer Price Index (CPI) consists of a family of indexes that measure price change experienced by urban consumers.

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 Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

The Invesco BuyBack Achievers™ ETF (Fund) is based on the Nasdaq US BuyBack Achievers™ Index (Index). The Fund will normally invest at least 90% of its total assets in common stocks that comprise the Index.

The SPDR® Portfolio S&P 500® Growth ETF seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P® 500 Growth Index (the "Index")

The iShares BB Rated Corporate Bond ETF seeks to track the investment results of an index composed of BB (or its equivalent) fixed rate U.S. dollar-denominated bonds issued by U.S. and non-U.S. corporate issuers.

The iShares Core S&P 500 ETF index measures the performance of the large-capitalization sector of the U.S. equity market, as determined by SPDJI.

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.

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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