

# Q3 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

- Stocks had 2<sup>nd</sup> 5%+ pullback of the year — we believe fundamentals are still good
- Middle East Crisis — many moving pieces
- Economy continues to be resilient
- Fed should be done or close
- We believe valuations are "fair" for stocks
- Fear resurfaced as stocks pulled back
- Yield curve less inverted, but long rates battling supply



# Corrections Are Normal — Frequency of Declines

S&P 500 Declines	Occurrences Per Year	Frequency Average	Probability of Decline Moving to Next Stage	Mean Decline
-5% or more	3.4	Every 14 weeks	32%	-10.9%
-10% or more	1.1	Every Year	45%	-19.5%
-15% or more	0.5	Every 2 years	58%	-28.2%
-20% or more	0.3	Every 3 years	N/A	-35.7%



# Crisis Events and Stocks

Event	Reaction Dates	Reaction Date % Gain/Loss	DJIA Percentage Gain Days After Reaction Dates			
			22	63	126	253
Exchange Closed WWI	07/22/1914 – 12/24/1914	-10.2	10.0	6.6	21.2	90.2
Germany Invades France	05/09/1940 – 06/22/1940	-17.1	-0.5	8.4	7.0	-5.2
Pearl Harbor	12/06/1941 – 12/10/1941	-6.5	3.8	-2.9	-9.6	5.4
Korean War	06/23/1950 – 07/13/1950	-12.0	9.1	15.3	19.2	26.3
Cuban Missile Crisis	10/19/1962 – 10/27/1962	1.1	12.1	17.1	24.2	30.4
U.S. Bombs Cambodia	04/29/1970 – 05/14/1970	-7.1	0.4	3.8	13.5	36.7
Iranian Hostage Crisis	11/02/1979 – 11/07/1979	-2.7	4.7	11.1	2.3	17.0
U.S.S.R. Invades Afghanistan	12/24/1979 – 01/03/1980	-2.2	6.7	-4.0	6.8	21.0
Falkland Islands War	04/01/1982 – 05/07/1982	4.3	-8.5	-9.8	20.8	41.8
Beirut Bombing	10/21/1983 – 10/23/1983	0.0	2.1	-0.5	-6.9	-2.9
U.S. Invades Grenada	10/24/1983 – 11/07/1983	-2.7	3.9	-2.8	-3.2	2.4
Iraq Invades Kuwait	08/02/1990 – 08/23/1990	-13.3	0.1	2.3	16.3	22.4
Gulf War	01/16/1991 – 01/17/1991	4.6	11.8	14.3	15.0	24.5
WTC & Pentagon Terrorist Attacks	09/10/2001 – 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
War in Afghanistan	10/05/2001 – 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
Iraq War	03/19/2003 – 05/01/2003	2.3	5.5	9.2	15.6	22.0
Russia Invades Georgia	08/08/2008 – 08/16/2008	-2.2	-4.0	-26.0	-34.2	-19.2
Israel Invades Gaza	12/27/2008 – 01/21/2009	-3.0	-13.5	-4.2	7.9	23.6
Russia Invades Crimea	03/07/2014 – 03/14/2014	-2.4	1.2	4.4	5.7	11.1
U.K. Votes to Leave E.U.	06/23/2016 – 06/27/2016	-4.8	7.7	5.6	16.3	25.2
COVID-19 Crash	03/04/2020 – 03/23/2020	-31.4	26.5	40.0	46.0	74.4
Russia Invades Ukraine	02/09/2022 – 03/08/2022	-8.8	6.0	1.7	-3.2	-2.2

## Averages

Reaction Date	-5.9%
1 Month	+4.7%
3 Months	+5.6%
6 Months	+9.9%
12 Months	+18.7%

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

Source: Ned Davis T-900.rpt



# Crisis Events and Treasuries

Date	Bloomberg U.S. Treasury	Crisis Event
12/31/1973	-0.10	Arab Oil Embargo
08/31/1974	0.06	Nixon Resigns
11/30/1979	2.99	Iranian Hostage Crisis
12/31/1979	0.72	USSR Invades Afghanistan
04/30/1982	2.44	Falkland Islands War
10/31/1983	0.26	Beirut Bombing/US Invades Grenada
04/30/1986	0.40	US Bombs Libya
10/31/1987	4.00	Financial Panic
12/31/1989	0.16	Invasion of Panama
08/31/1990	-1.44	Iraq Invades Kuwait
01/31/1991	1.07	Gulf War
08/31/1991	2.32	Gorbachev Coup
09/30/1992	1.46	ERM UK Currency Crisis
02/28/1993	2.01	World Trade Center Bombing
04/30/1995	1.31	Oklahoma City Bombing
10/31/1997	1.74	Asian Stock Market Crisis
08/31/1998	2.72	US Embassy Bombings Africa

Date	Bloomberg U.S. Treasury	Crisis Event
09/30/2001	1.59	WTC and Pentagon Terrorist Attacks
10/31/2001	2.77	War in Afghanistan
10/31/2002	-1.11	Bali Nightclub Bombing
03/31/2003	-0.42	Iraq War
03/31/2004	0.94	Madrid Terrorist Attacks
07/31/2005	-1.36	London Train Bombing
07/31/2006	1.24	India, Israel and Lebanon Bombings
03/31/2008	0.69	Bear Stearns Collapse
08/31/2008	1.25	Russian Invades Georgia
09/30/2008	0.61	Lehman Brothers Collapse
12/31/2008	3.39	Israel Invades Gaza
04/30/2013	0.89	Boston Marathon Bombing
03/31/2014	-0.29	Russia Invades Crimea
08/31/2015	0.04	Chinese Market Turmoil
06/30/2016	2.21	UK Votes to Leave EU
03/31/2020	2.89	COVID-19 Crash
<b>Average</b>	<b>1.13</b>	

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

Source: Bloomberg



# Why Did We Keep the Economic Gauge Neutral?



Economy

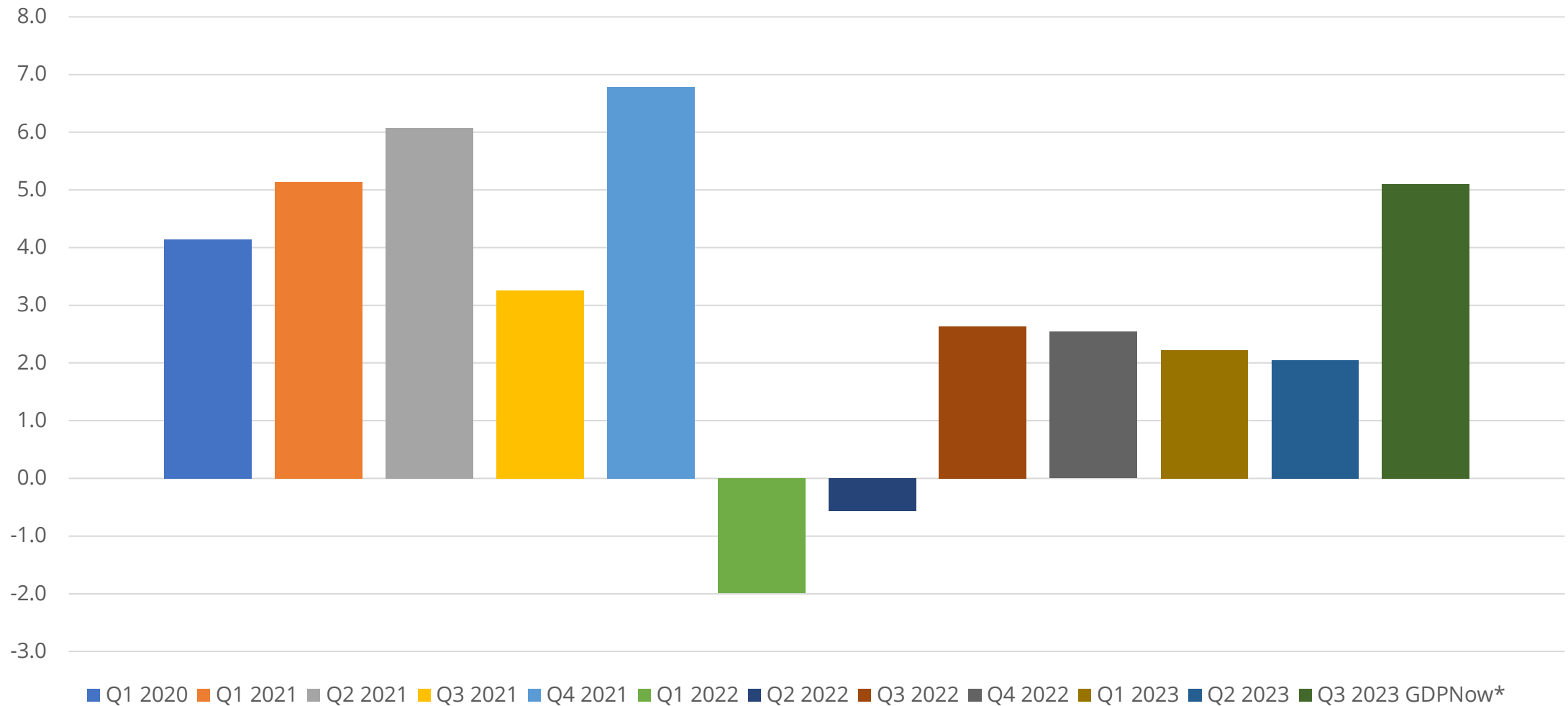
- Economy stubbornly strong
- Still expect economic slowdown
- Inflation down from peaks but still elevated
- Earnings continue to rebound
- Why does this matter? GDP helps drive earnings



# Economy Has Bounced Back

## US Annualized GDP Growth

As of 9/30/2023



\*Q3 2023 GDPNow is estimated. For illustrative purposes only. Past performance is not indicative of future results.

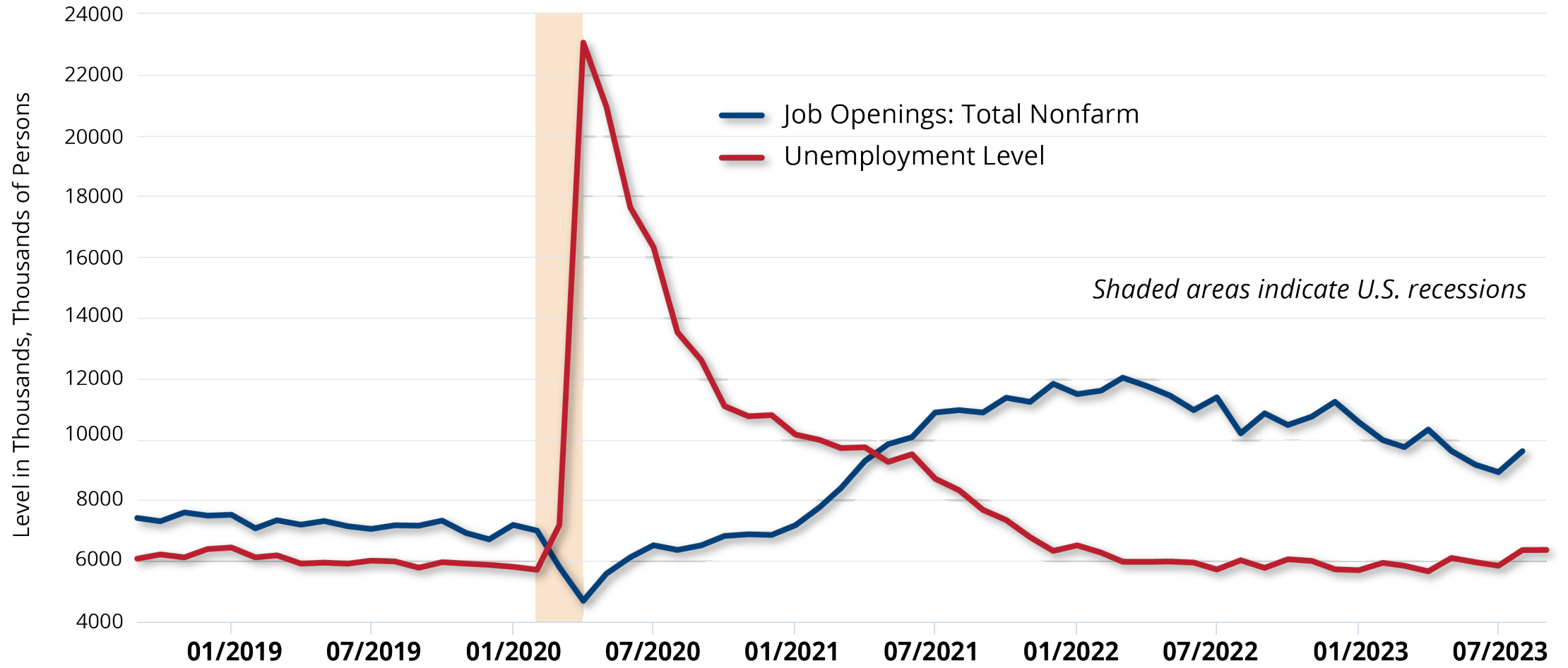




# Jobs Market Continues to be Solid

## Job Openings: Total Nonfarm vs Unemployment Level

09/01/2018 to 09/01/2023



*Shaded areas indicate U.S. recessions*

Source: U.S. Bureau of Labor Statistics



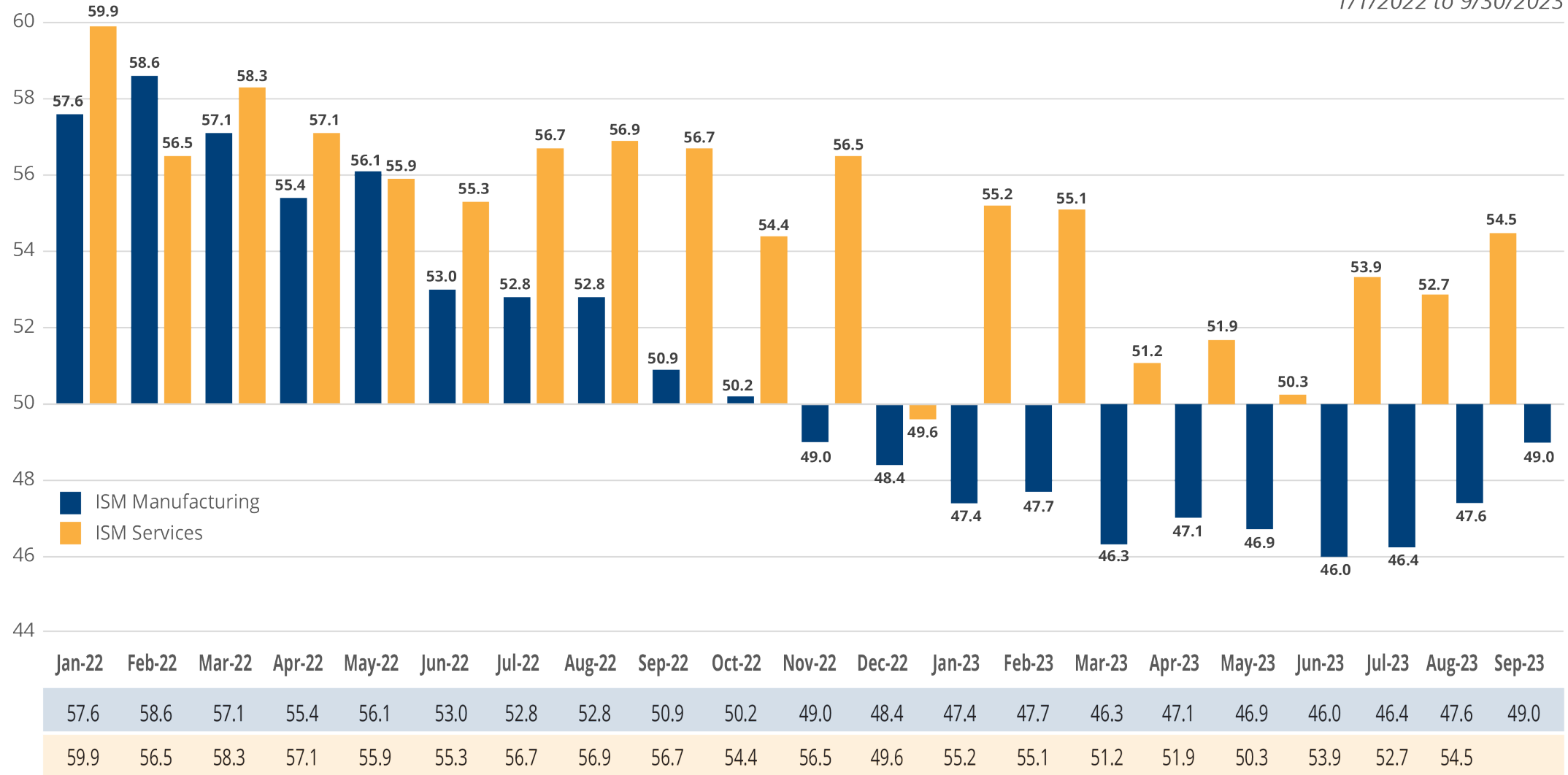
For illustrative purposes only.

Source: fred.stlouisfed.org

# Service Sector Solid, Manufacturing Less Bad

## ISM Manufacturing and Services PMI

1/1/2022 to 9/30/2023



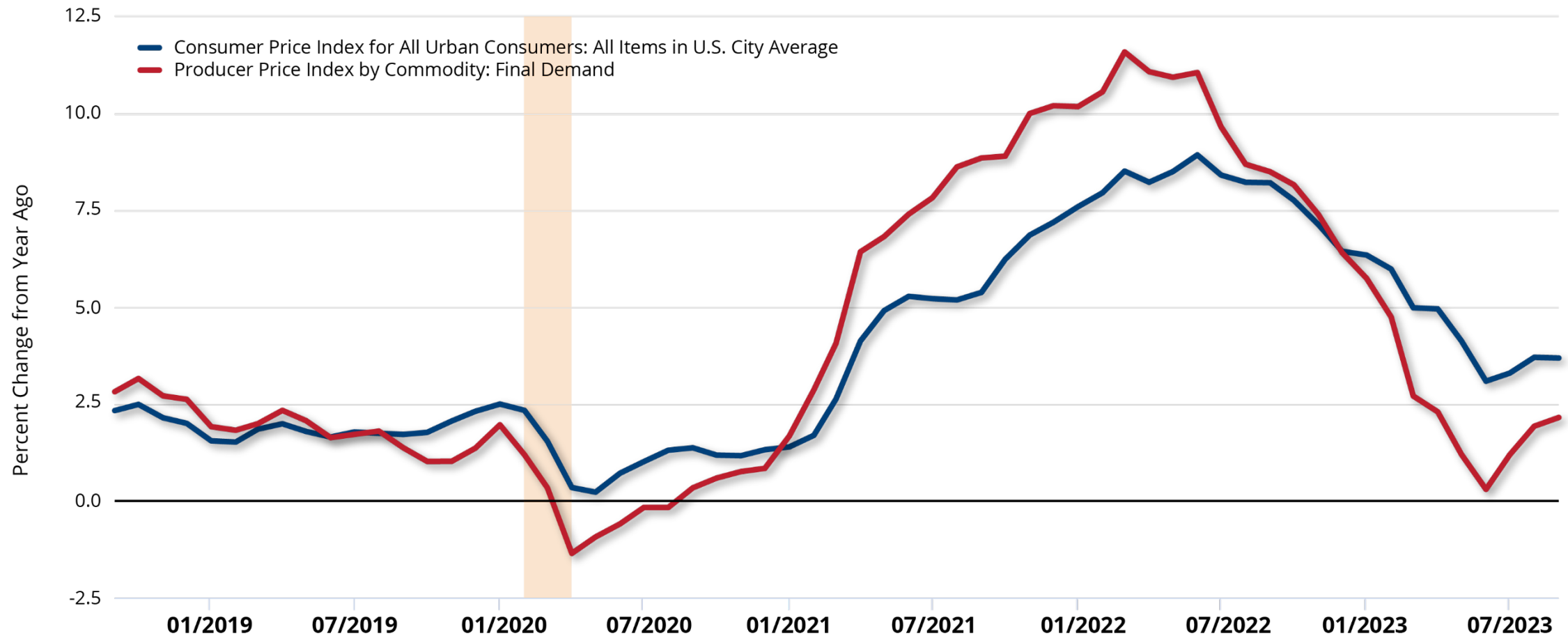
For illustrative purposes only. Past performance is not indicative of future results.

Source: Investing.com

# Inflation Fight – Progress, but Not Over

Consumer Price Index for All Urban Consumers: All Items in U.S. City Average  
Producer Price Index by Commodity: Final Demand

09/01/2018 to 09/01/2023



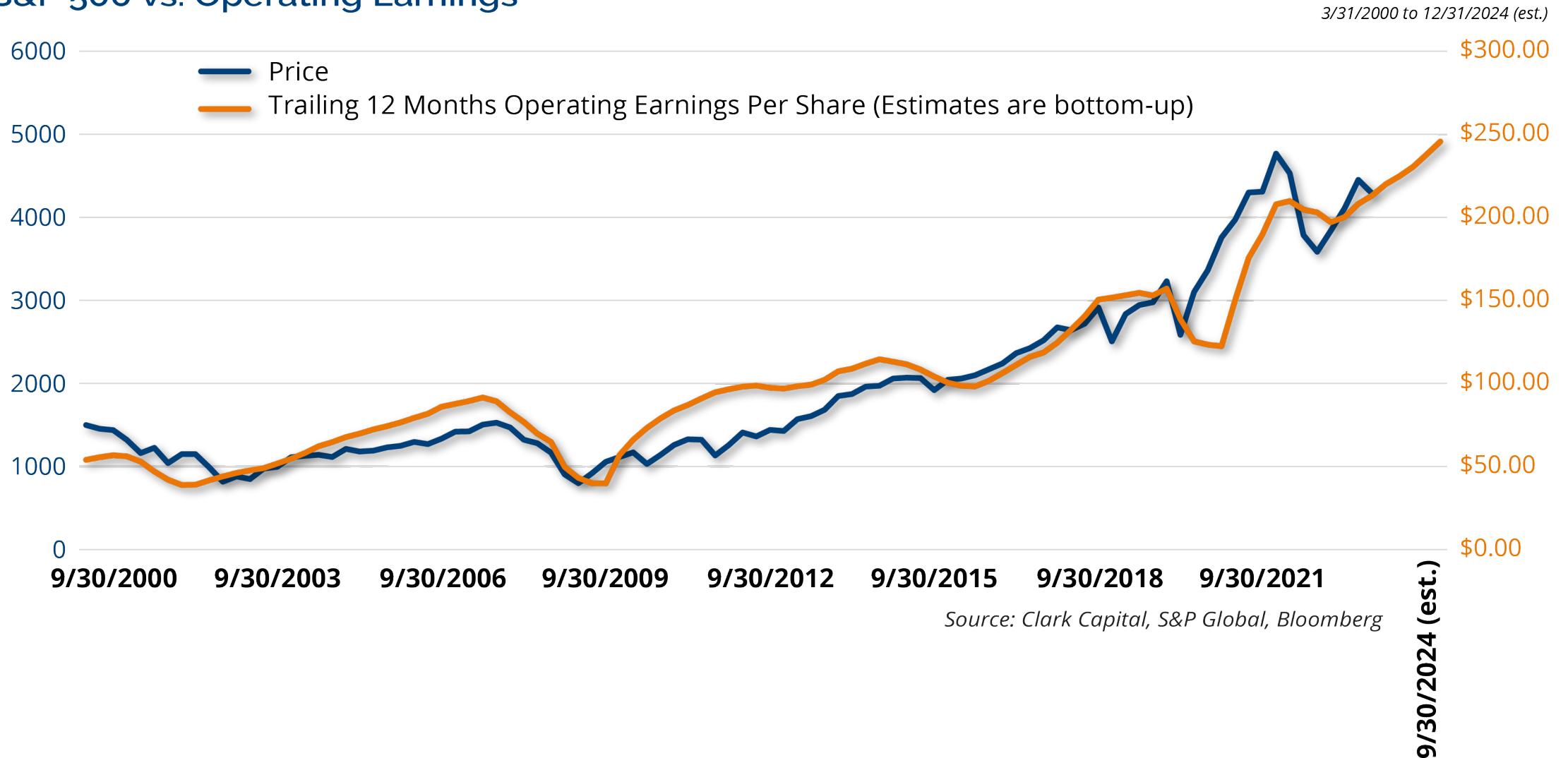
Source: Board of Governors of the Federal Reserve System (US)

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



# Earnings Drive Stock Prices

## S&P 500 vs. Operating Earnings



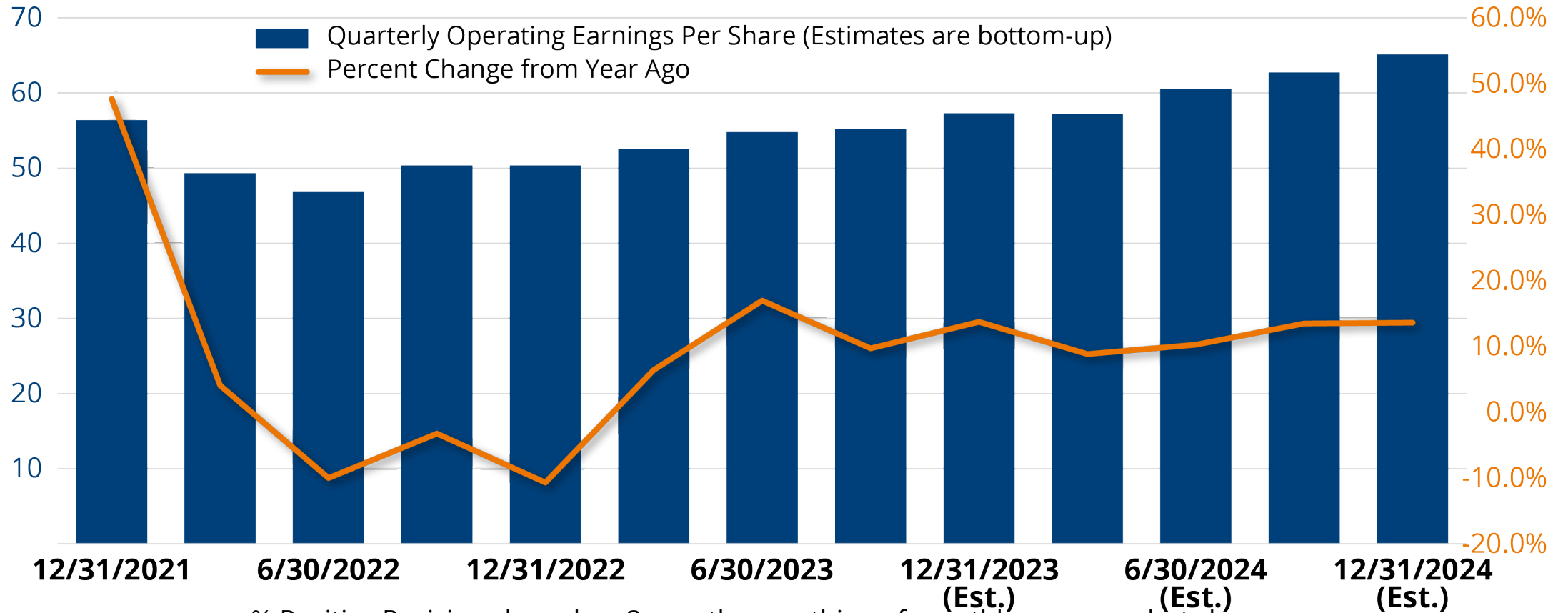
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# This is Crucial for Stocks

As of 9/30/2023

## S&P 500 Operating Earnings/Estimates

12/31/2021 to 12/31/2024 (est.)



% Positive Revisions based on 3-month smoothing of monthly mean analyst change

Source: Clark Capital, S&P Global, Bloomberg

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# Why Did We Keep the Monetary Gauge Slow Negative?



Monetary Policy

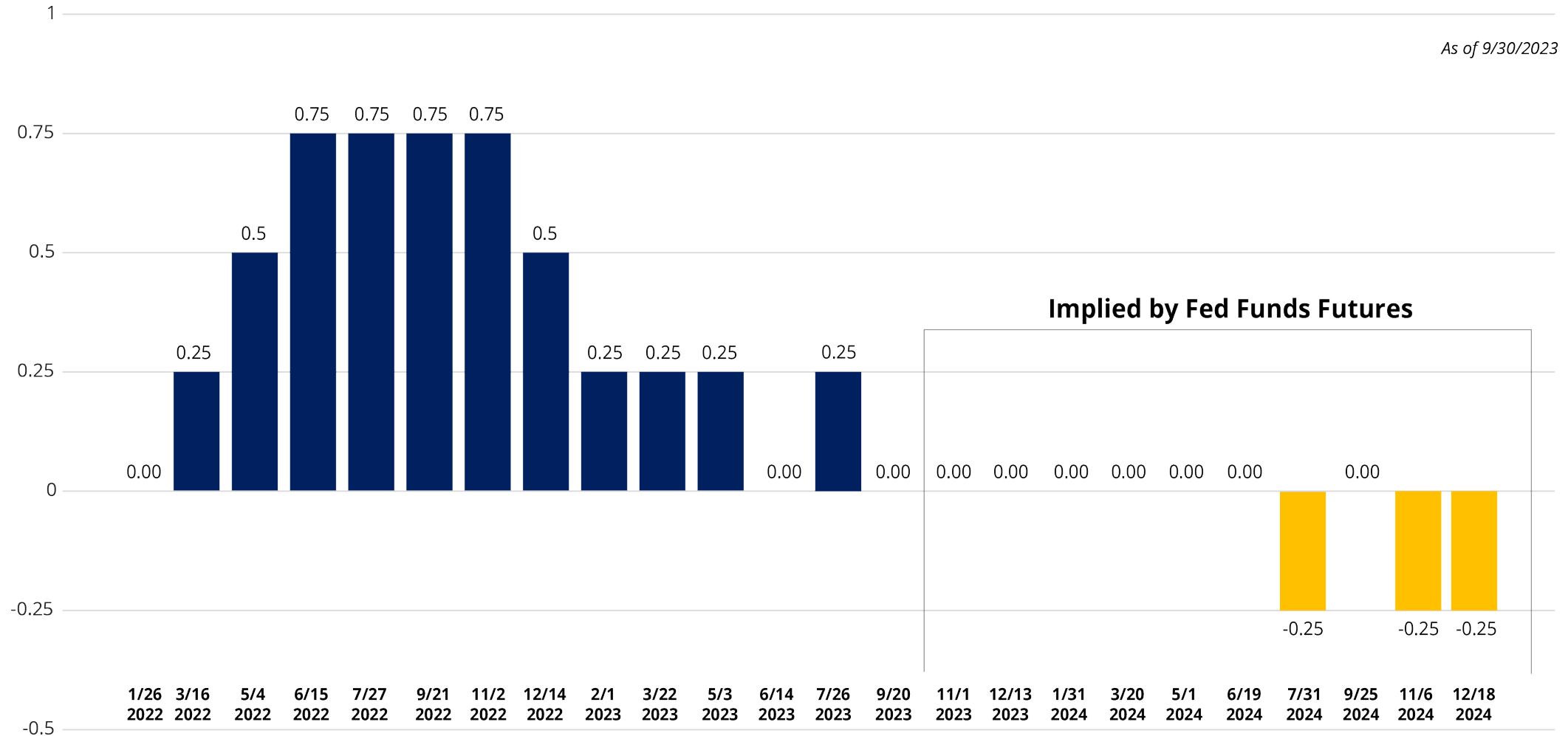
- Market expects no more hikes. Fed signals one more
- Fed will be in higher for longer mode
- Fed balance sheet below \$8 Trillion.
- Why does this matter?

*Fed tightening is a headwind for stocks*



# Fed on Hold?

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



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

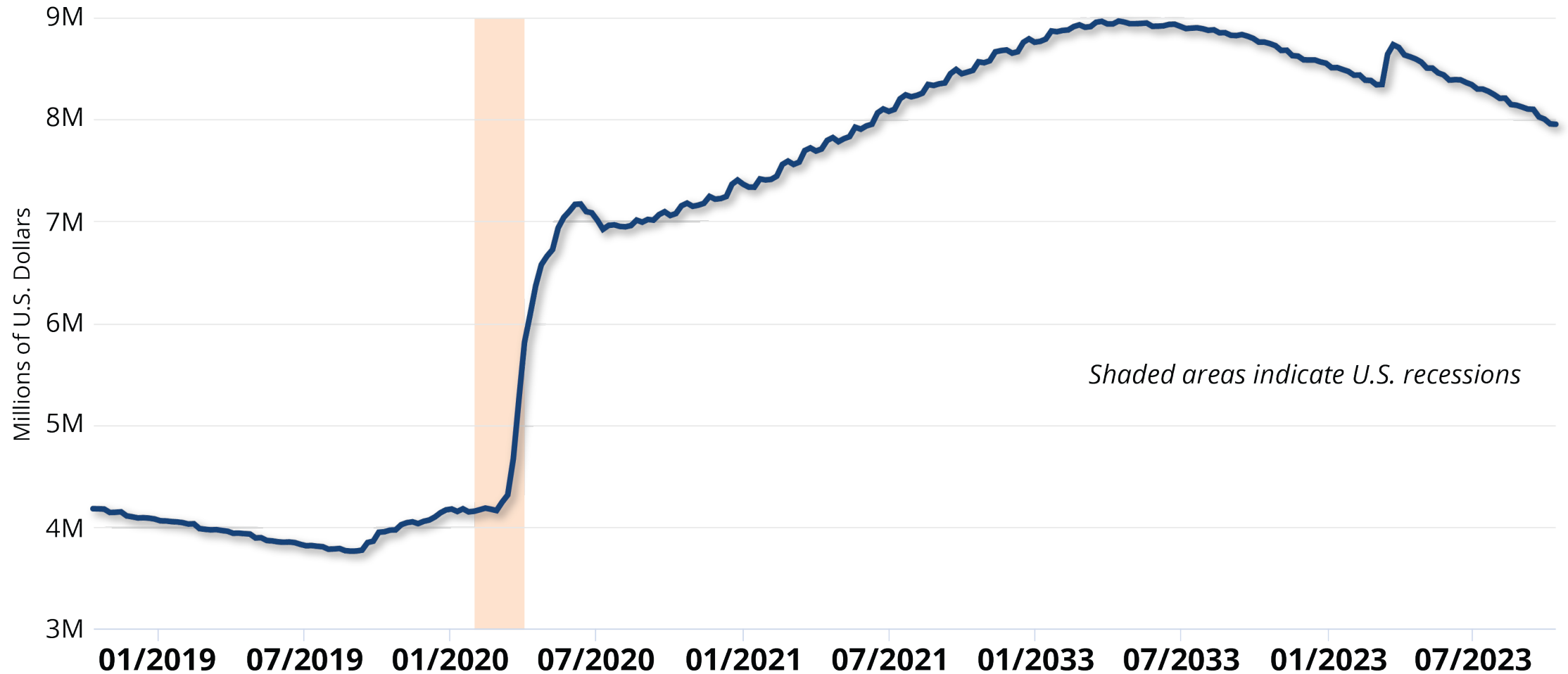
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# Fed Balance Sheet Down by \$1 Trillion

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

10/11/2018 to 10/11/2023



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



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

Source: fred.stlouisfed.org



# What Has Historically Happened When the Fed is Done?

Date of Last Hike	Date of 1st Cut	3 Months After Last Hike			6 Months After Last Hike			12 Months After Last Hike			Last Hike to First Cut		
		3 Month Bill	Agg	S&P	3 Month Bill	Agg	S&P	3 Month Bill	Agg	S&P	3 Month Bill	Agg	S&P
12/19/1989	7/13/1990	1.9%	-0.9%	-0.3%	3.9%	1.4%	4.9%	7.8%	8.3%	-3.6%	4.4%	2.7%	7.3%
2/1/1995	7/6/1995	1.4%	4.8%	9.5%	2.8%	9.3%	18.8%	5.6%	16.9%	35.2%	2.4%	10.5%	17.8%
5/16/2000	1/3/2001	1.5%	5.0%	2.0%	3.1%	7.5%	-6.7%	5.6%	13.8%	-12.1%	3.8%	11.0%	-8.1%
6/29/2006	9/18/2007	1.2%	4.1%	4.9%	2.5%	5.4%	11.4%	5.0%	6.5%	18.1%	6.0%	9.6%	19.4%
12/20/2018	8/1/2019	0.6%	2.6%	15.7%	1.2%	6.1%	19.6%	2.1%	9.0%	30.6%	1.4%	7.5%	19.9%
	Average	1.3%	3.1%	6.4%	2.7%	6.0%	9.6%	5.2%	10.9%	13.6%	3.6%	8.3%	11.2%

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

Source: FactSet, Clark Capital

## Why Did We Keep Valuation Gauge Neutral?



Valuations

- Forward P/Es near long-term averages
- Mid/Small cheaper than large; International cheaper than U.S.
- Earnings estimates have been increasing

■ Why does this matter?

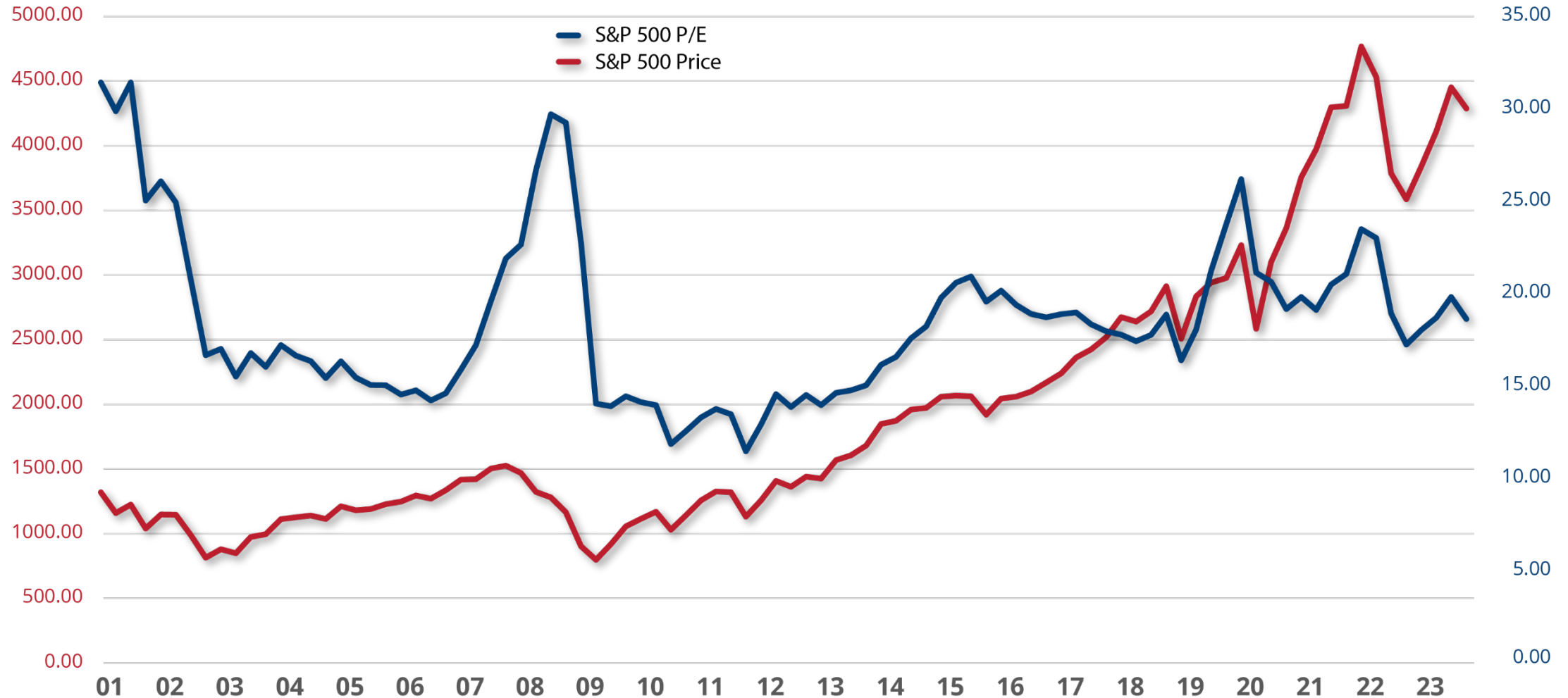
*We believe stocks still have appreciation potential*



# The S&P 500 is trading in fair value range

## S&P 500 Price vs S&P 500 P/E Ratios

3/31/2000 to 9/30/2023



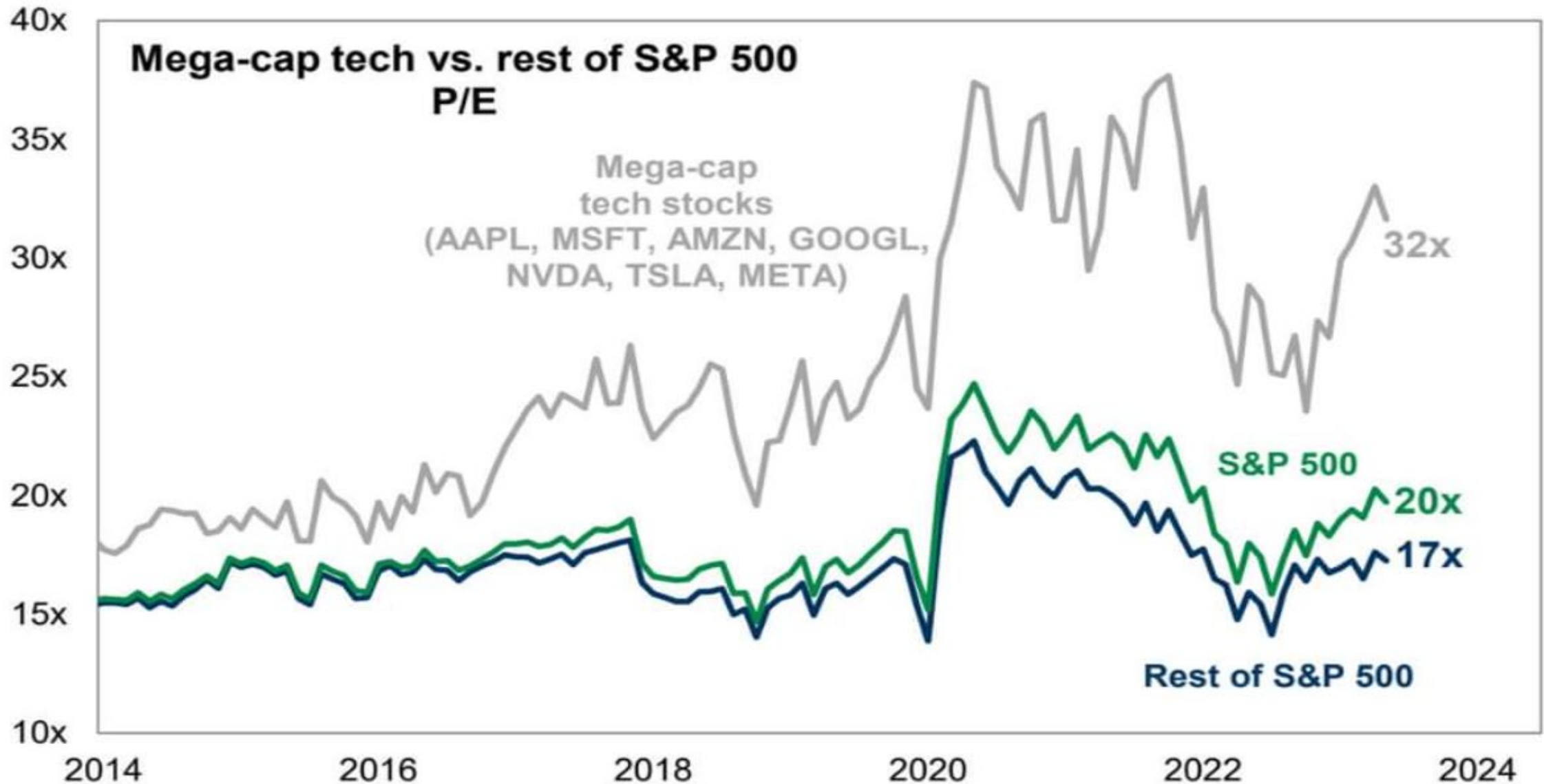
Source: S&P Global

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Source: S&P Global



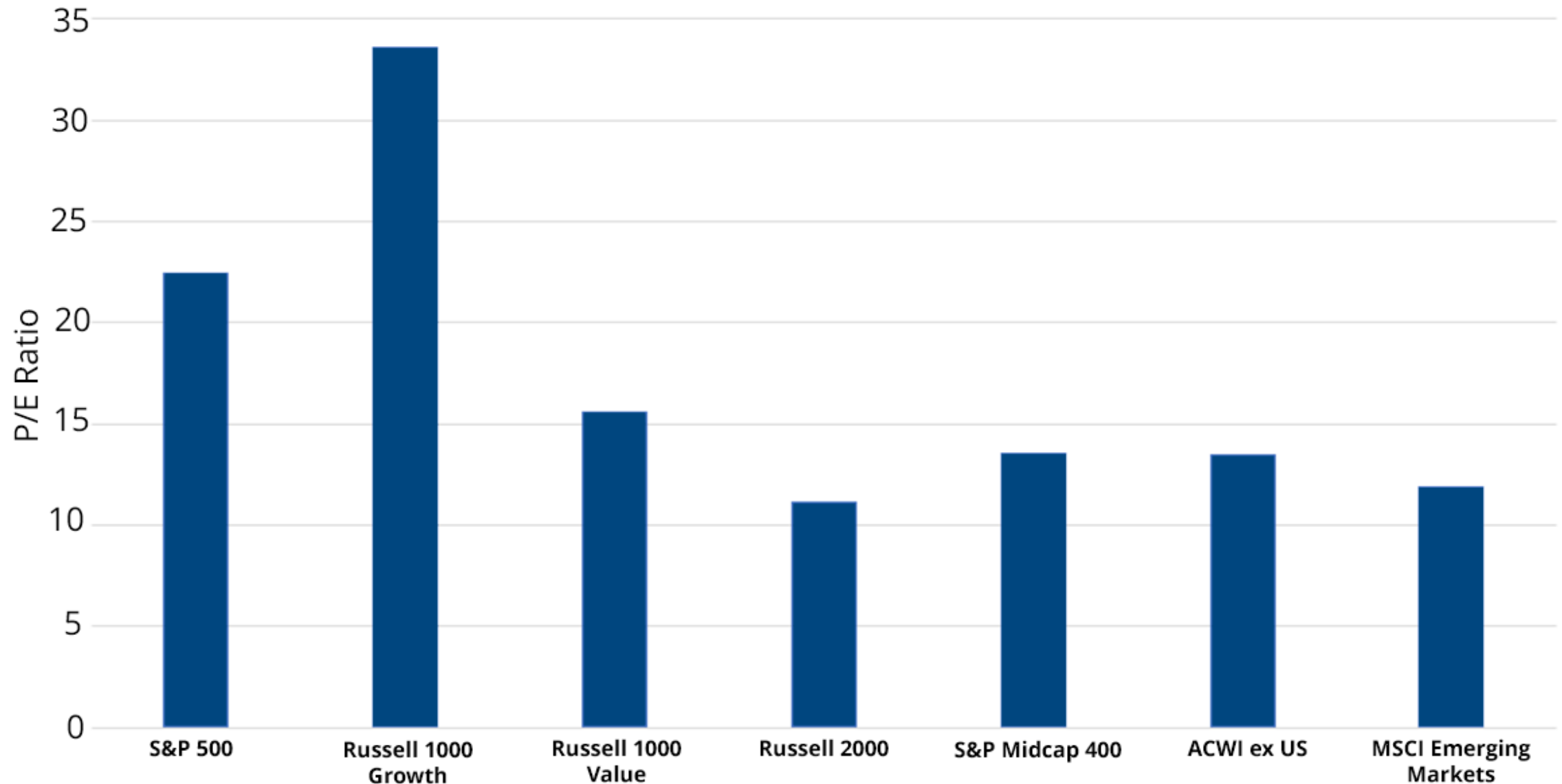
# “Magnificent Seven” skewing valuations



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Source: Compustat, Goldman Sachs Global Investment Research

# Large Value, SMID, and International look cheaper



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# Why Did We Move the Investor Sentiment Gauge Forward Two Notches into Positive Territory?



Investor Sentiment

- Fear has crept back into the market
- Very sensitive gauge — can change quickly
- Lots of bearish bets
- Why does this matter?

*Bottoms are formed when fear levels are high*

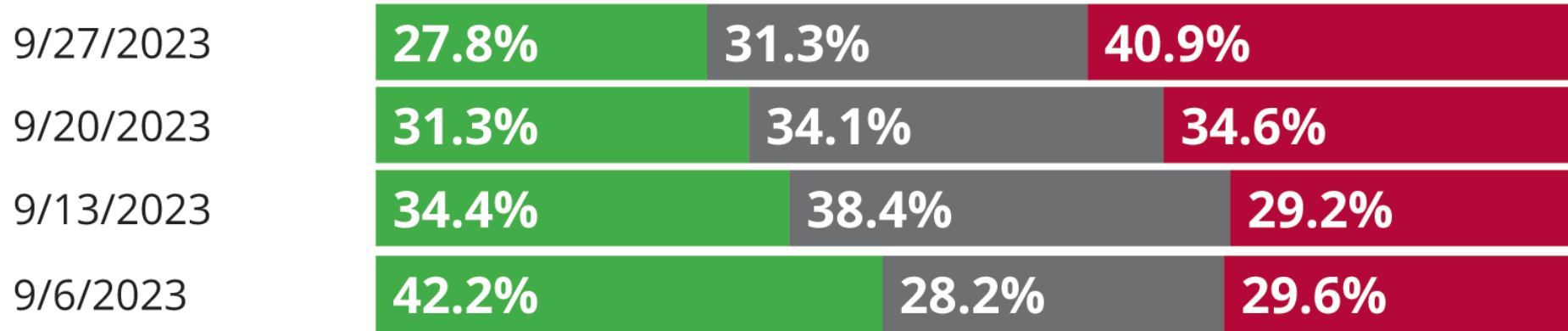


# Bullishness Suggests a Headwind for the Market

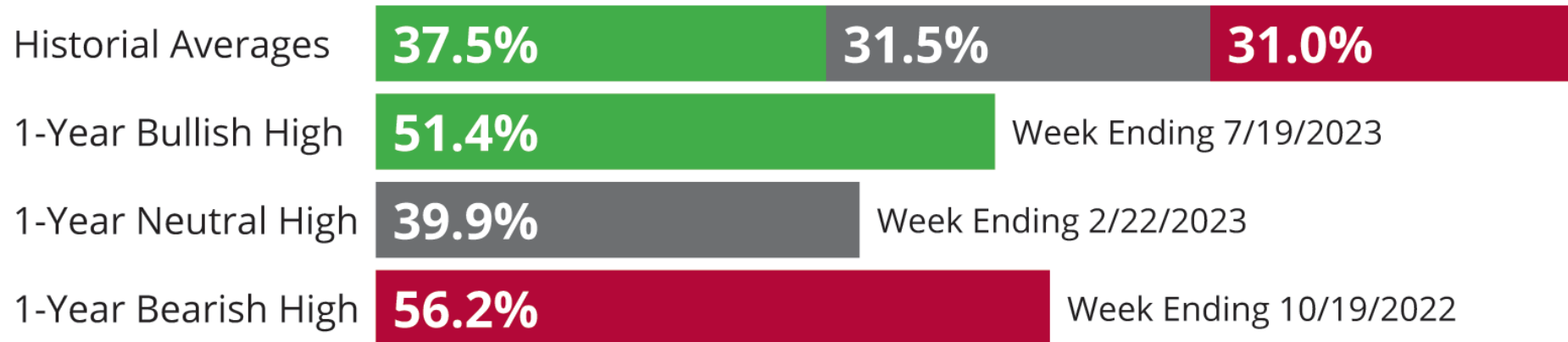
## Sentiment Votes

### Week Ending

■ Bullish ■ Neutral ■ Bearish



## Historial View



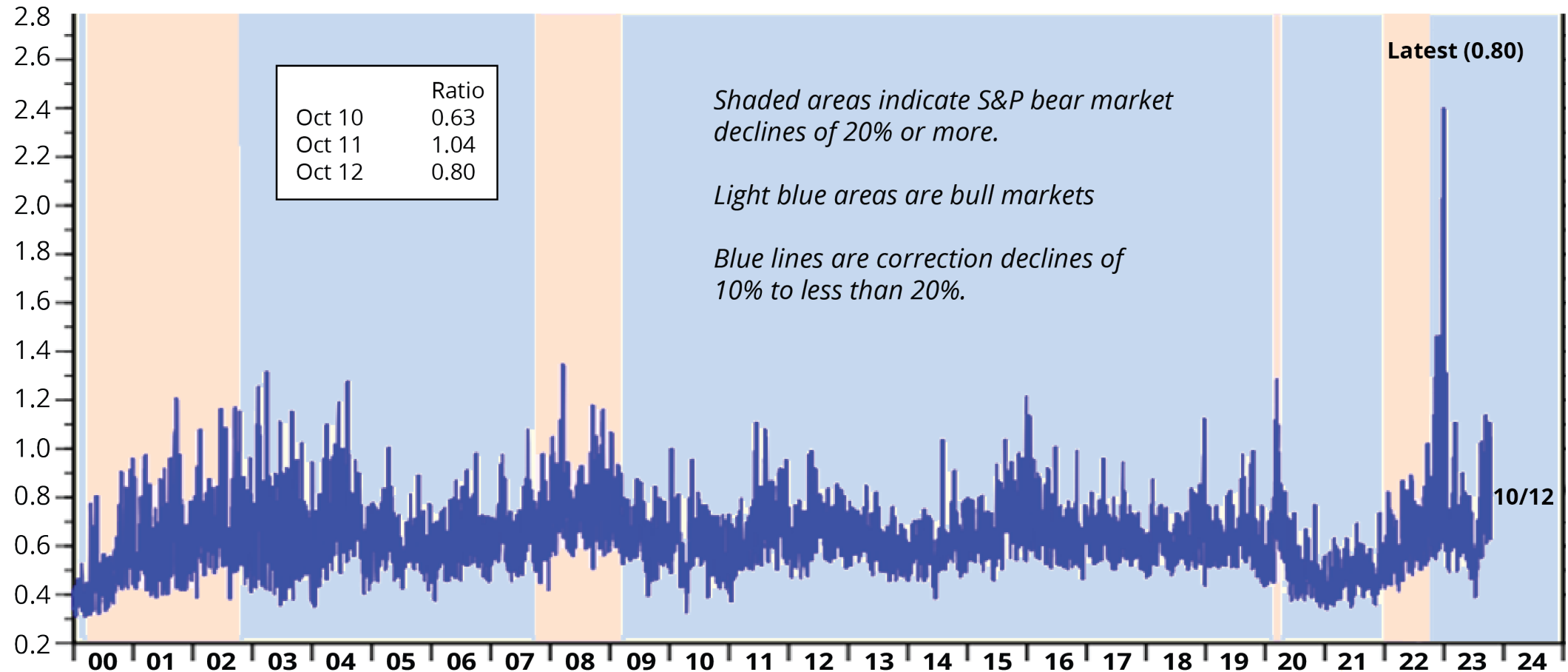
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# Lots of Negative Bets

## Equity Put/Call Ratio (Daily)

01/01/2000 to 01/01/2024 (est.)



Source: Yardeni.com, Chicago Board Options Exchange

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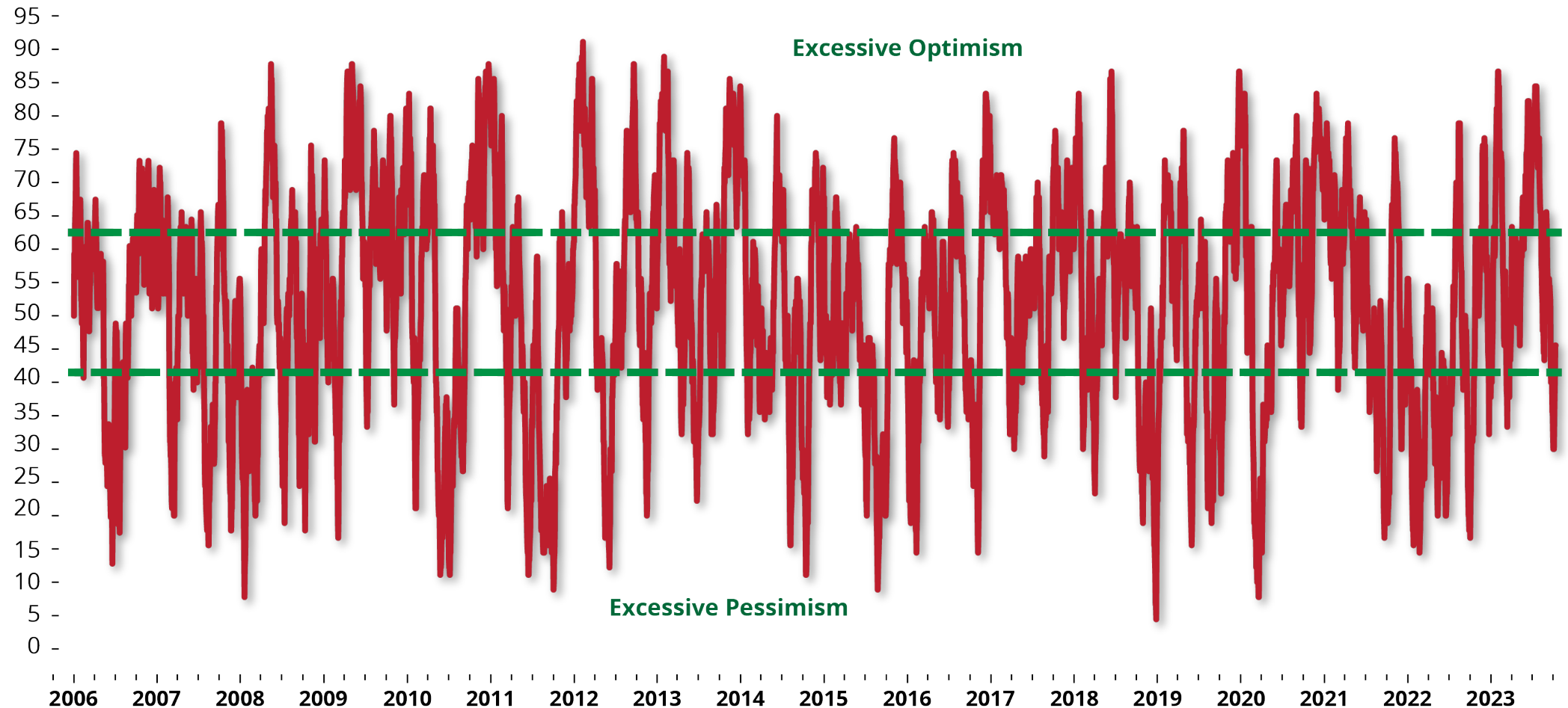




# Trading Sentiment Has Moved to Extreme Pessimism

## S&P 500 vs NDR Daily Trading Sentiment Composite

01/03/2006 to 10/12/2023



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

Source: Ned Davis Research



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

- Yield curve less inverted but still inverted
- Long rates currently impacted by supply more than fundamentals
- Why does this matter?

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



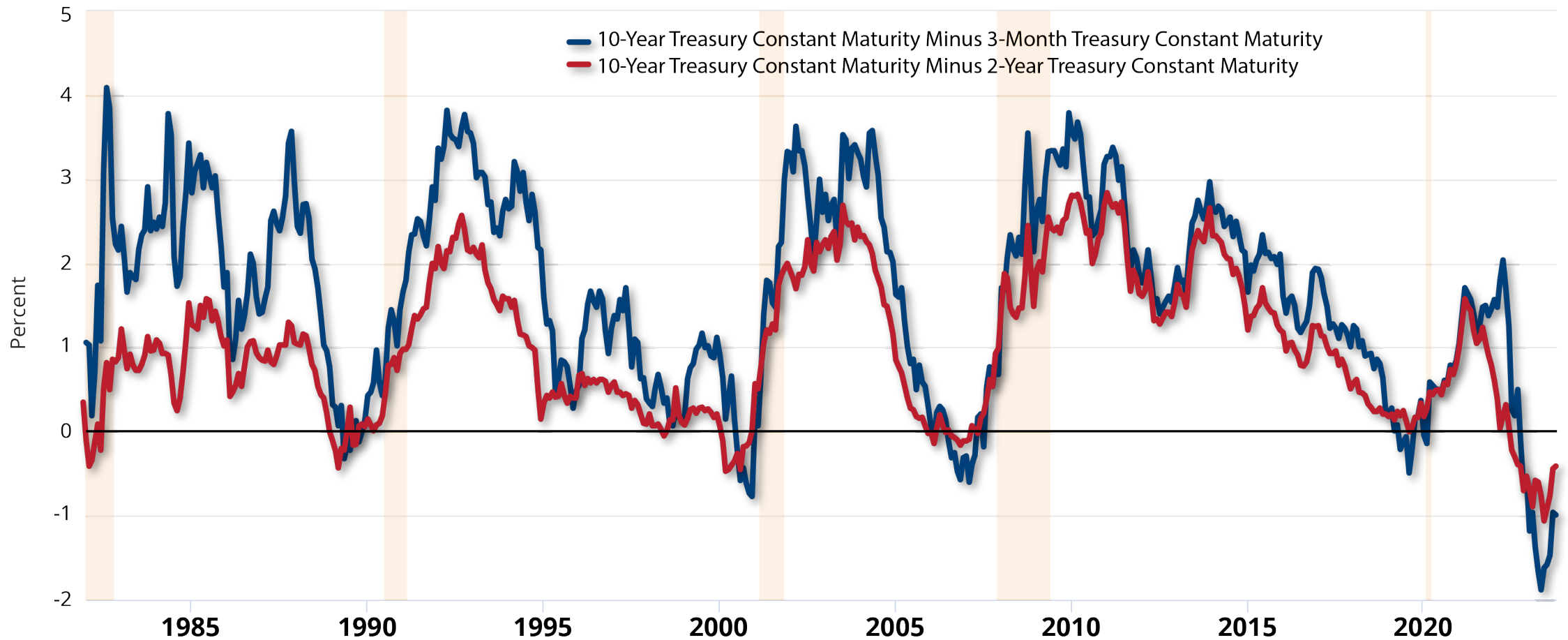
Interest Rates



# Yield Curve Inversion Less Severe but Still Concern

10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity  
10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity

01/01/1983 to 10/13/2023



Source: fred.stlouisfed.org

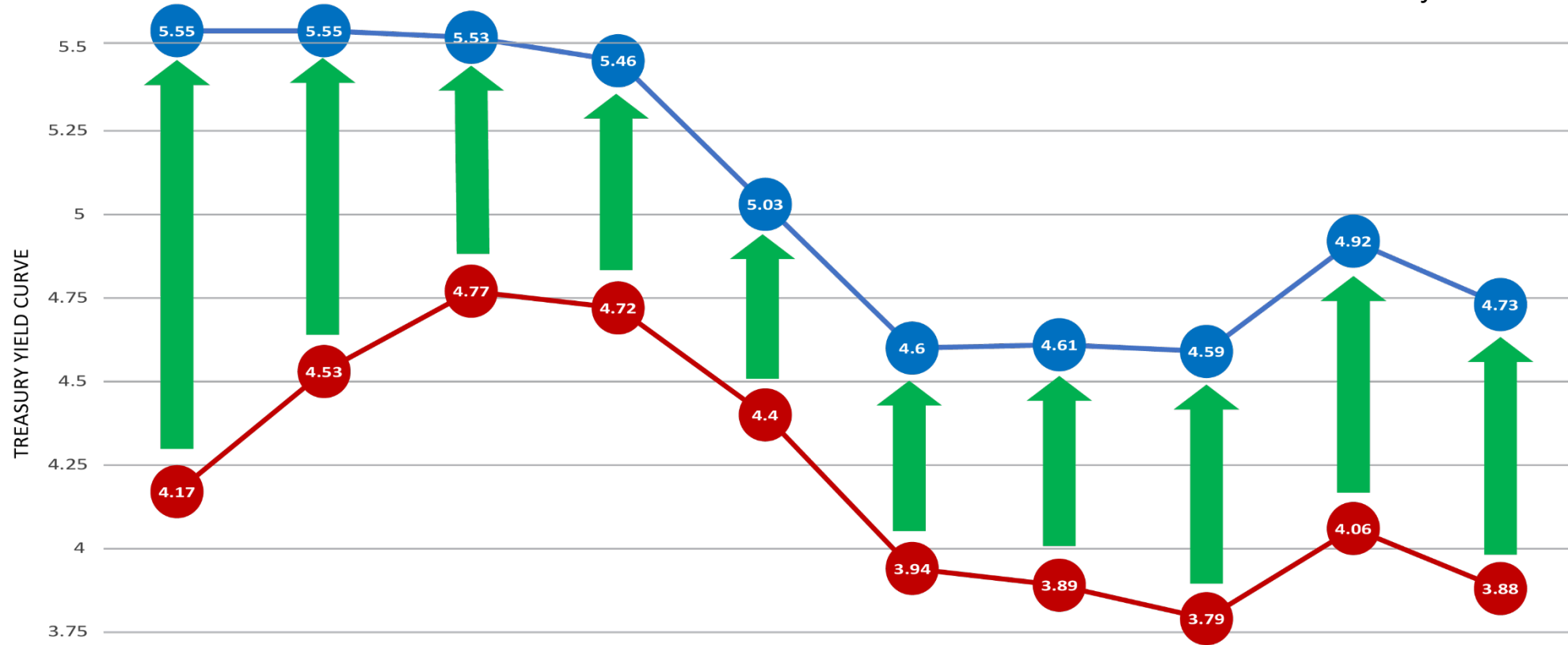
For illustrative purposes only. Past performance is not indicative of future results.



# Entire Yield Curve Has Shifted Up

## U.S. Treasuries Yield Curve

As of 9/30/2023



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

	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
1/3/2023	4.17	4.53	4.77	4.72	4.40	3.94	3.89	3.79	4.06	3.88
9/30/2023	5.55	5.55	5.53	5.46	5.03	4.60	4.61	4.59	4.92	4.73

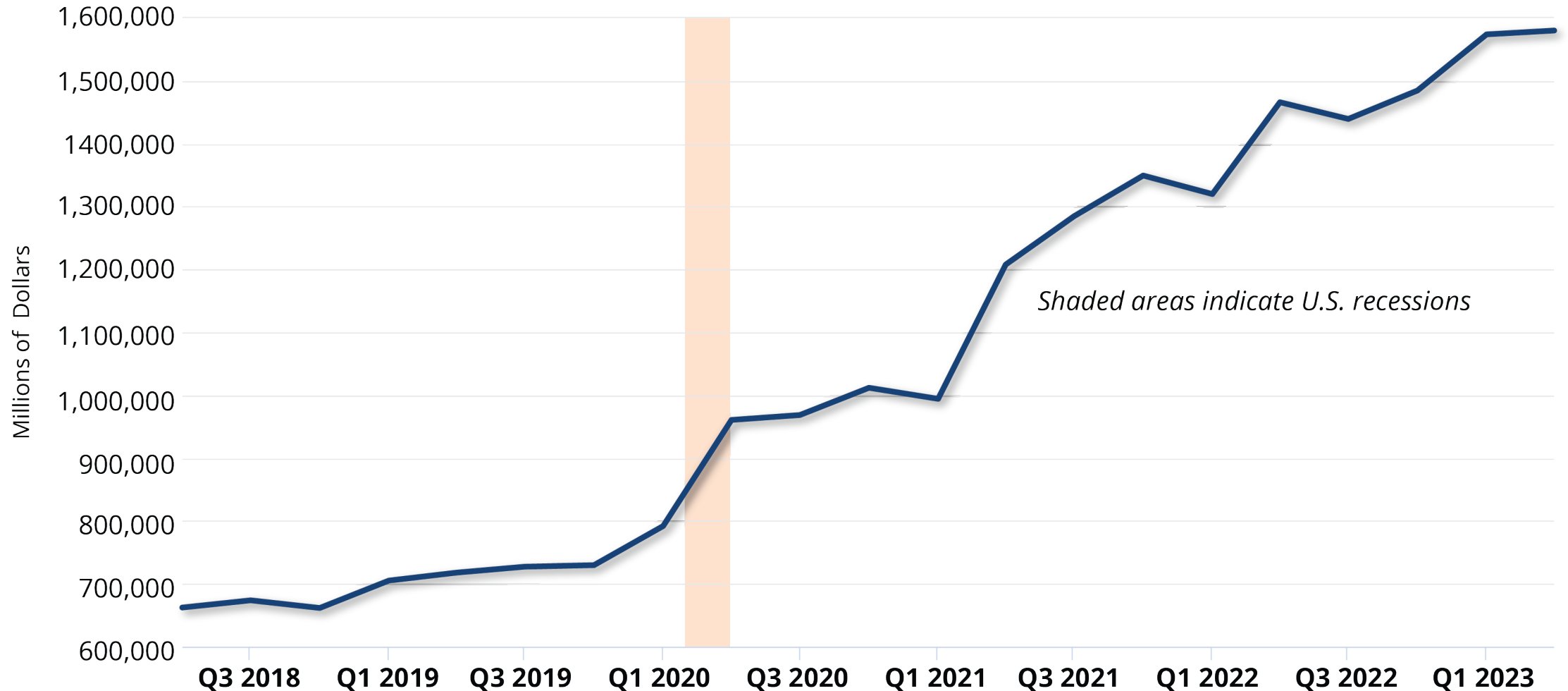
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# Government Issuance of Debt Pushing Rates Higher

General Government; Debt Securities Issued by Government  
Excluding Non-Marketable Treasury Securities; Asset (FWTW), Level

04/01/2018 to 04/01/2023



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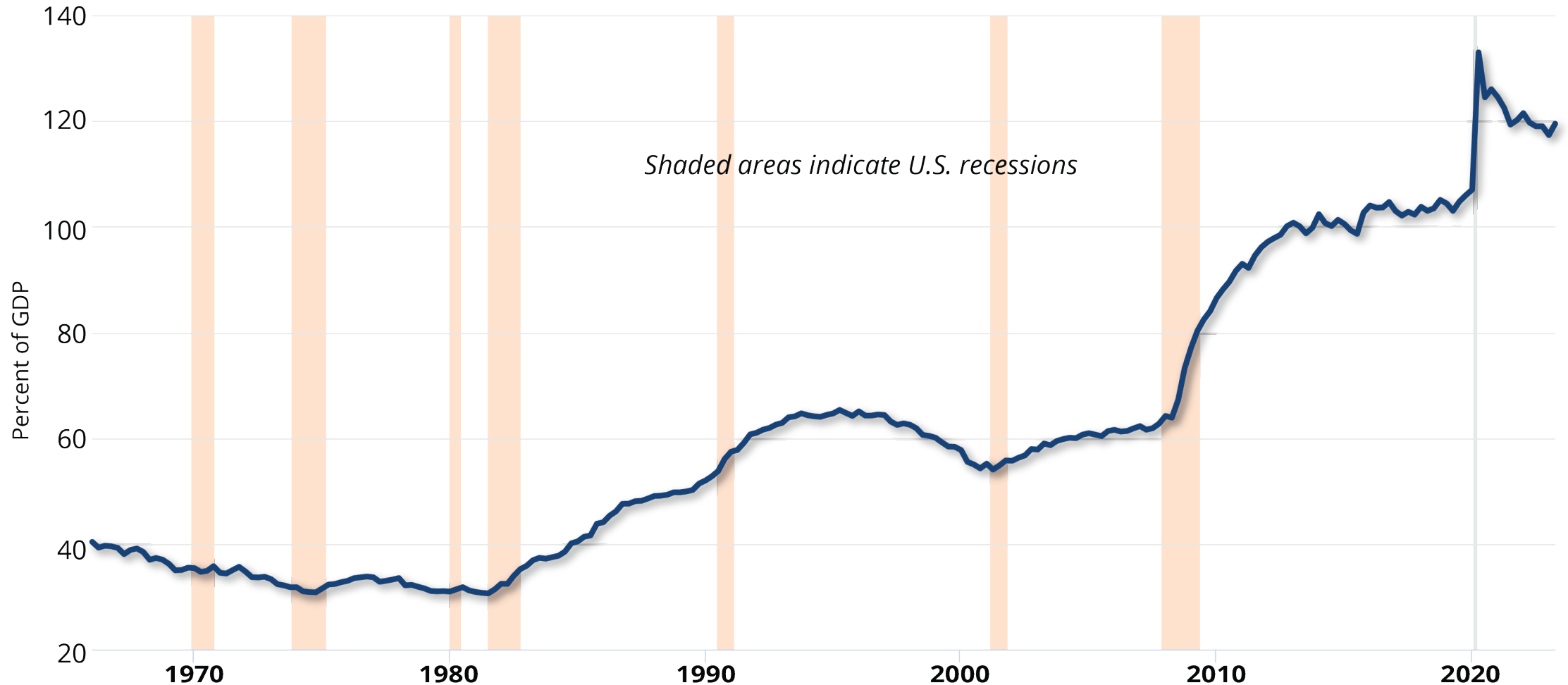
Source: Board of Governors of the Federal Reserve System (US)



# Economy Growing Faster Than Government Debt

## Federal Debt: Total Public Debt as Percent of Gross Domestic Product

01/01/1966 to 04/01/2023



Shaded areas indicate U.S. recessions

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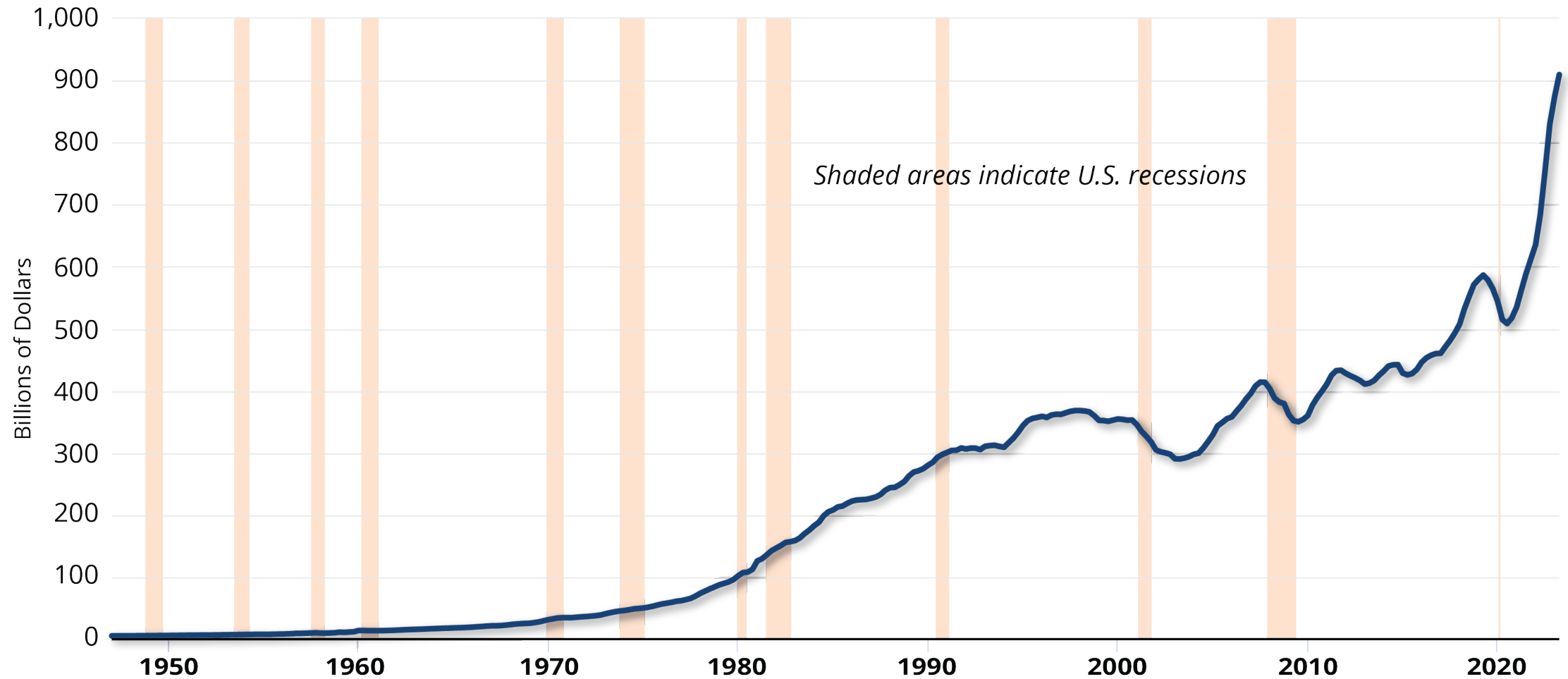
Source: Board of Governors of the Federal Reserve System (US)



# Can't Go On Forever

## Federal government current expenditures: Interest payments

01/01/1947 to 04/01/2023



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

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



# 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).

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 economic 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.

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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 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.

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.

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 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 nonfarm payroll measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active military.

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

The benchmark is the S&P MidCap 400 Index. The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

The Core Consumer Price Index (CPI) measures the changes in the price of goods and services, excluding food and energy.

The 3-month Treasury yield is the effective annual interest rate paid by the U.S. government to a bondholder with a maturity of 3 months.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 10% of Russell 3000 total market capitalization.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

