



GUIDE TO THE GAUGES

Quarterly Economic and
Capital Market Review

First Quarter 2024



Guide to the Gauges

Our Latest Assessment of Key Economic Indicators

We believe that over the long term, stock prices are driven by two things: earnings, and what people are willing to pay for those earnings. These five gauges reflect our outlook for the factors that we believe drive stock prices.

Each gauge is comprised of a number of individual indicators, which the Investment Team evaluates on an ongoing basis to determine if the gauge is neutral, positive, or negative.

First Quarter Summary

The economy has defied the naysayers and remained very strong in the face of recession calls. While GDP growth remains above trend, there is a possibility of a slowdown in the upcoming quarters. While we cannot completely rule out a recession in 2024, the strength of the job market suggests that any potential recession in the year ahead would be short and shallow.

While the Fed has signaled an end to rate hikes, Fed Chair Powel has emphasized that should inflation return, rates may have to stay higher for longer. Fed fund futures are currently pricing in three rate cuts by December, which is aligned with the Fed's "Dot Plot."

We continue to hold the Valuations gauge in a neutral position as we believe stocks remain "fairly valued" at the index level. Investor sentiment, which is a contrarian indicator, has become increasingly bullish since the end of last year. As a result, we moved the Investor Sentiment gauge one notch backwards to the half reverse position.

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.



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates



No Change in Position

Economy

This quarter, we held the Economy gauge in neutral to reflect the recent above-trend GDP growth, while acknowledging the possibility of a slowdown in the upcoming quarters. March marked the end of a sixteen-month streak of consecutive declines in manufacturing activity in the U.S. The Federal Reserve appears to be achieving the elusive soft landing, although we cannot completely rule out a recession in 2024. However, considering the strength of the job market, we believe any potential recession would be short and shallow.

Key Takeaways

GDP

The final estimate for Q4 2023 GDP was 3.4%. The Atlanta Fed's GDPNow is forecasting a slight slowdown for Q1 GDP to 2.8%. The U.S. economy continues to defy skeptics, although an eventual slowdown would not be unexpected.

Labor Market

The unemployment rate increased to 3.9% in March and job openings were little changed at 8.76 million. The ratio of job openings to unemployed people is roughly 1:4.

Inflation

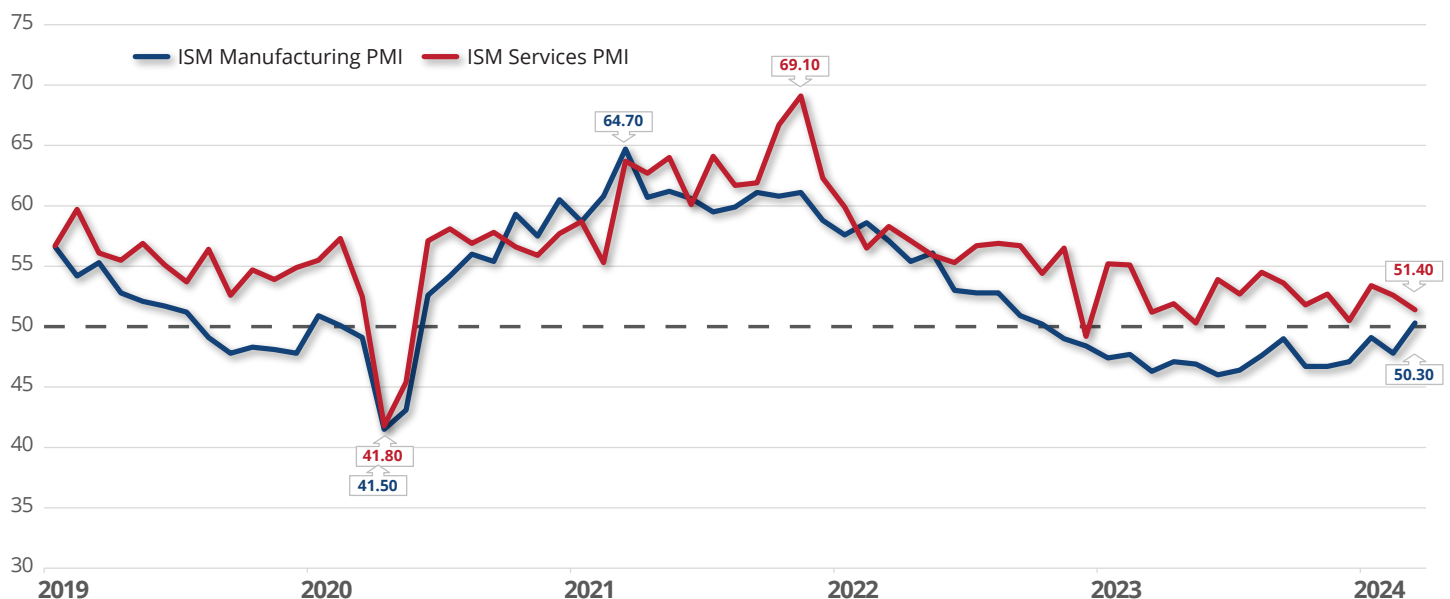
The Consumer Price Index (CPI) and Producer Price Index (PPI) for Feb. were 3.2% and 1.6%, respectively. They were above expectations and an increase from Jan. The Fed's preferred measure of inflation, Core PCE, declined slightly to 2.8%, but remains above their target of 2%.

ISM Manufacturing and Services PMI

The ISM Manufacturing PMI unexpectedly rose to 50.3 in March, ending sixteen straight months below 50. The ISM Services PMI was 51.4 in March and has been above 50 for 45 out of the last 46 months.

ISM Manufacturing vs. Non-Manufacturing

1/31/2019 to 03/31/2024



Source: YCharts

Source: fred.stlouis.org

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



Monetary Policy

This quarter, we held the Monetary Policy gauge in neutral to reflect that the Federal Reserve is likely done raising rates. During the March FOMC presser, Fed Chair Powell stated that rates are likely at peak levels and some rate cuts may be appropriate later this year. He made sure to balance those statements by emphasizing that should inflation return, rates may have to stay higher for longer.

No Change in Position

Key Takeaways

Rate Hikes

March marked the 5th consecutive meeting where the Federal Reserve held rates steady in a range of 5.25%-5.5%.

Fed Fund Futures

Fed fund futures are currently pricing in three rate cuts by December of this year, aligning with the Fed's "Dot Plot." Additional rate cuts are also being priced in for 2025.

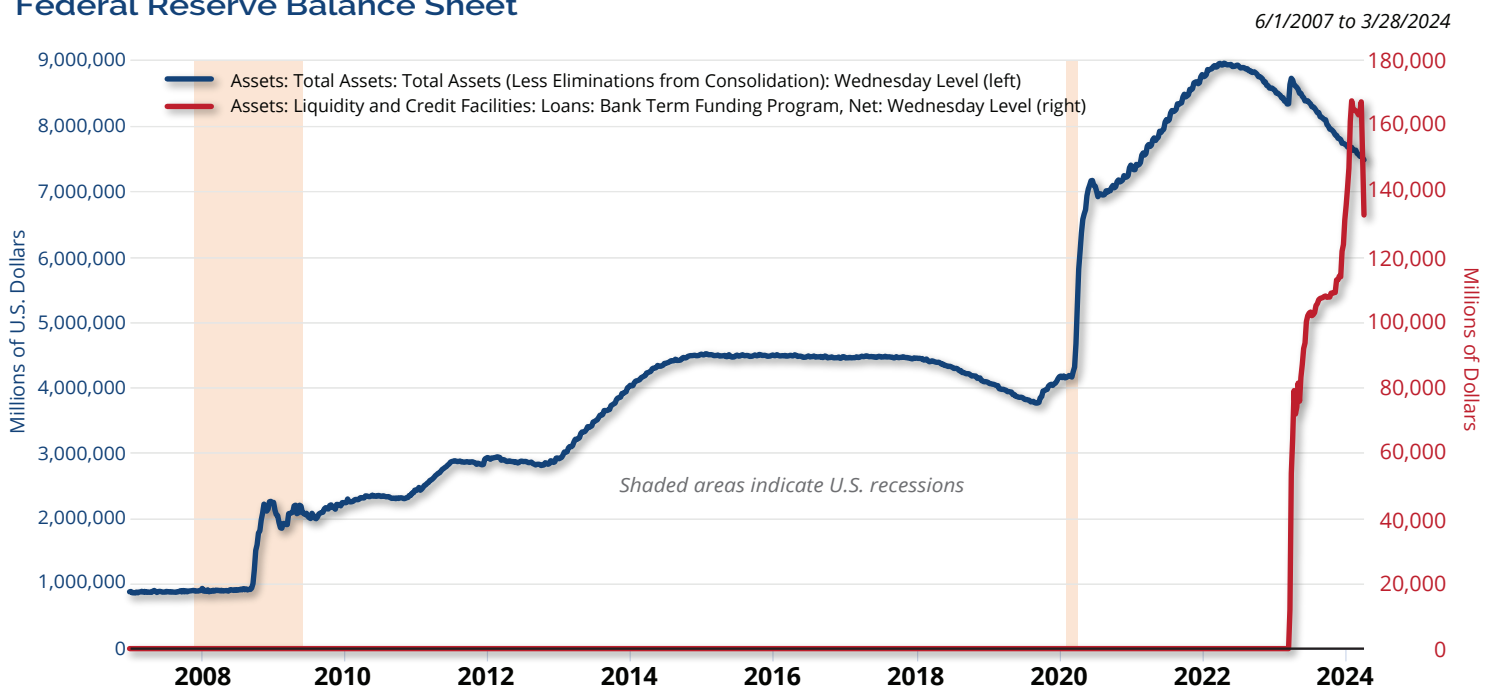
Balance Sheet

Quantitative Tightening (QT) has continued as previously outlined by the Fed with the Fed's balance sheet now below \$7.5 trillion. At the March FOMC meeting, the Fed discussed potentially slowing the pace of QT.

The Fed's Balance Sheet

In March, the Federal Reserve reduced their balance sheet to below \$7.5 trillion and ended the Bank Term Funding Program (BTFP).

Federal Reserve Balance Sheet



Source: www.stlouisfed.com. For illustrative purposes only. Past performance is not indicative of future results.



Valuations

This quarter, we held the Valuations gauge in neutral to reflect that P/E multiples remain in “fair value” range for S&P 500 companies.

No Change in Position

Key Takeaways

P/E Multiples

The S&P 500 staged an impressive rally in 2023 and advanced further in Q1 but remains in “fair value” range. Earnings growth has kept valuations near average levels over the last few decades.

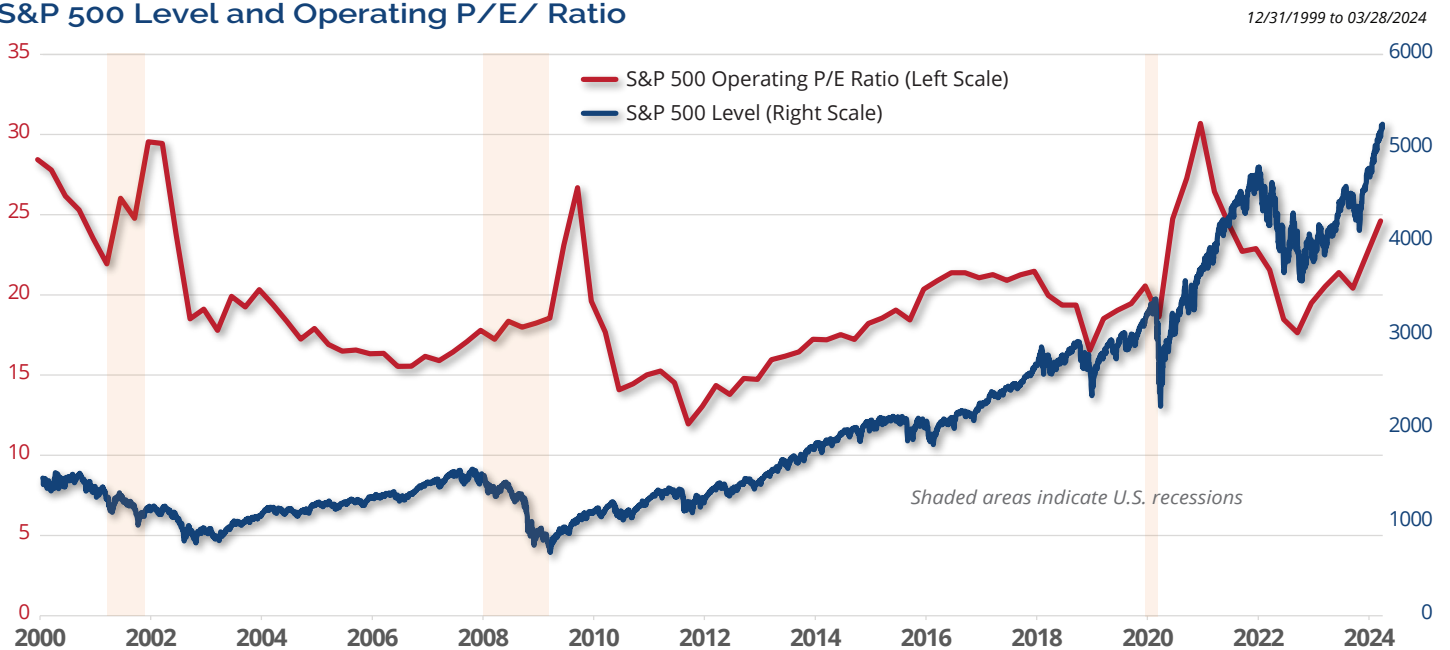
Earnings

Analysts are currently forecasting ~12.5% operating earnings growth in 2024 and ~13% growth in 2025. Both would represent record S&P operating earnings. We acknowledge that these estimates will likely be revised in the future.

S&P 500 Calendar Year Operating EPS Actuals & Estimates

The S&P 500 ended Q1 with an Operating P/E ratio of just under 25. Since 2000, the S&P 500 has had an average Operating P/E ratio of 19.55.

S&P 500 Level and Operating P/E/ Ratio



Source: S&P, YCharts. For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially



Moved one notch to the left

Investor Sentiment

This quarter, we moved the Investor Sentiment gauge from slow reverse to half reverse to reflect that investor sentiment has become increasingly bullish since the end of last year. We also observed that stock volatility, as measured by the VIX Index, has remained subdued. This is a contrarian indicator. The more fear and pessimism among investors, the more positive for stocks, and vice versa. This is a sensitive gauge and can change quickly.

Key Takeaways

AAll Survey

After reaching 50% bearish readings at the end of last October, the AAll Survey retreated to 22.4% bearish by the end of March as stocks staged a year-end rally and continued their advance in Q1. Bullish sentiment ended March at 50%, which is well above the historical average of 37.5%.

VIX Index

The VIX Index moved above 20 last October, its highest level since March of 2023, as stocks sold off. The VIX ended March at 13.01, which is a sign of complacency among investors.

What Does the AAll Survey Indicate About Bullish and Bearish Sentiment?

Since its inception in 1987, the AAll Survey has been a useful contrarian indicator. In the past when the survey reaches extreme levels of bullishness or bearishness, a change in direction for the market often follows.

Week Ending

■ Bullish ■ Neutral ■ Bearish

Week Ending	Bullish	Neutral	Bearish
3/27/2024	50.0%	27.6%	22.4%
3/20/2024	43.2%	29.6%	27.2%
3/13/2024	45.9%	32.2%	21.9%
3/6/2024	51.7%	26.5%	21.8%

Historial View

Historial Averages	37.5%	31.5%	31.0%
1-Year Bullish High	52.9%		Week Ending 12/20/2023
1-Year Neutral High	39.5%		Week Ending 4/12/2023
1-Year Bearish High	50.3%		Week Ending 11/1/2023

Source: American Association of Individual Investors. For illustrative purposes only. Past performance is not indicative of future results.



Interest Rates

This quarter, we held the Interest Rates gauge in the neutral position to reflect the likely end to the Fed's current interest rate hiking cycle and the potential for rate cuts later this year.

No Change in Position

Key Takeaways

Change in Yields

Portions of the yield curve rose during the quarter as the Fed communicated that potential rate cuts may take longer than the market expects. Additionally, inflation came in slightly higher than expected in recent reports.

Yield Curve

The spread between 3-month and 10-year Treasuries remains inverted. This signal has preceded prior recessions, although it does not indicate the depth or duration of a potential recession.

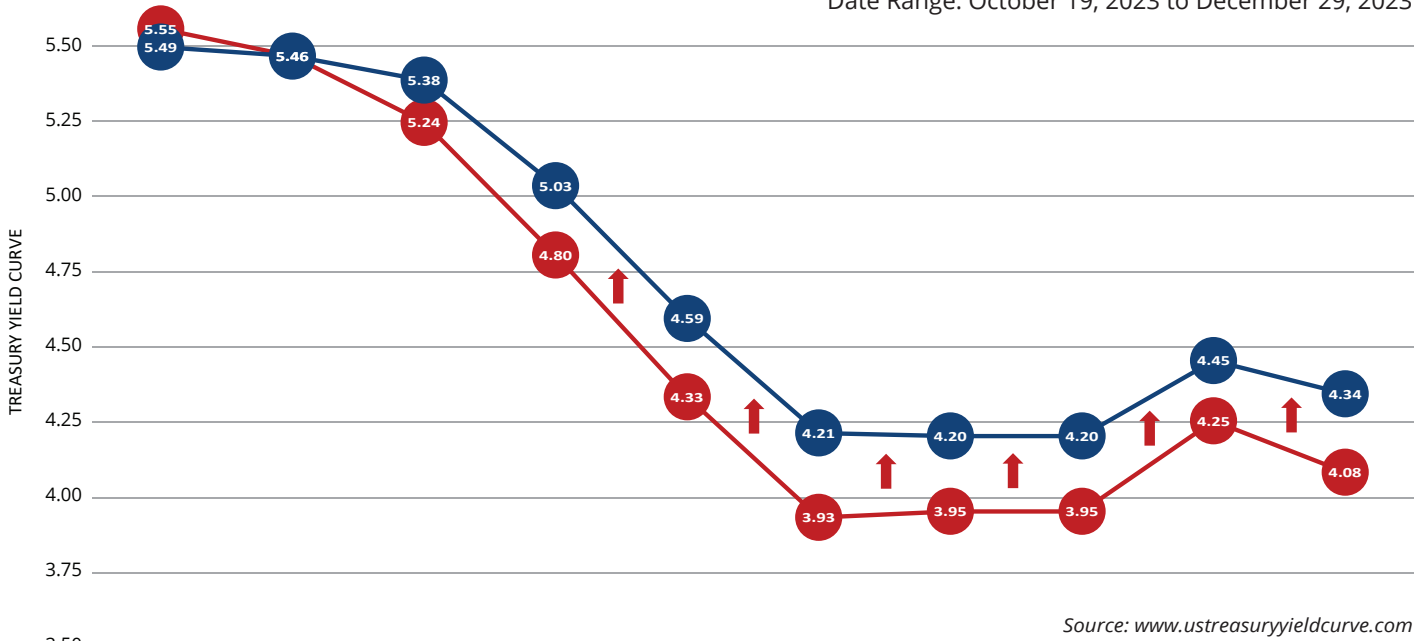
Interest Rate Volatility

Interest rate volatility, as measured by the BofA MOVE Index, ended March at 86.38, which is its lowest level since February 2022.

U.S. Treasuries Yield Curve

Yields rose along portions of the yield curve during the quarter, but remain below the peak on October 19th, 2023.

Date Range: October 19, 2023 to December 29, 2023



Source: www.ustreasuryyieldcurve.com

	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2024	5.55	5.46	5.24	4.80	4.33	3.93	3.95	3.95	4.25	4.08
03/28/2024	5.49	5.46	5.38	5.03	4.59	4.21	4.20	4.20	4.45	4.34

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The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

The 3 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 3 months.

The 10 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 10 months.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

The ISM Services PMI provides significant information about factors affecting total output, growth, and inflation.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share.

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.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

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