May 2024

ClarkCapital MANAGEMENT GROUP

Monthly Moves

Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Equities reversed last month's reversal! Large-cap growth stocks lead the way, up nearly 6%, or more than 2x the gain in the equally weighted S&P 500 Index. 2-year Treasury yields fell from their 2024 high yield on April 30th of 5% back to 4.87%, potentially signaling the beginning of a change in Fed policy towards easing.

The big inflation contributors, which have held broad measures stubbornly above 3%, are now showing signs of receding. Supply chain constraints have nearly disappeared, goods prices are contracting, and labor market tightness as displayed in lower quit rates and the Job Openings and Labor Turnover Survey (JOLTS) data corroborate slower average hourly earnings gains. Finally, rent inflation appears to have peaked.

Prior to the start of Federal Reserve rate cut cycles, quality and growth factors historically performed well. The bottom-up equity portfolios remain focused on both factors, while also being mindful that valuations for large-cap, high free cash flow companies are fairly valued-to-expensive versus defensives cyclical dividend growers.

Below are strategy updates from May:

Navigator® All Cap Core U.S. Equity

- Navigator® All Cap is positioned with 76% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at around 26%.
- During the month, to benefit from improving business fundamentals, the two most recent additions to the portfolio were a global financial services company and a sporting goods retail chain. The two most recent exits were a global independent investment banking advisory firm and an automotive parts and accessories retailer.

High Dividend Equity

- Navigator® High Dividend Equity is positioned with approximately 98% in developed countries with the remainder in cash. The United States is the largest country weight at 91%, followed by Britain at 3%, and Ireland at 2%.
- 91% of the portfolio is positioned in large-cap stocks, 7% is positioned in mid-cap, and the remainder is in cash.
- Financials are the largest sector weight at about 23%, which is slightly above the benchmark weight. The next three largest portfolio weights are Industrials, Healthcare, and Information Technology at 15%, 13%, and 10%, respectively.
- Positioning in Information Technology, Financials, and Utilities contributed to relative performance versus detractors Consumer Discretionary, Basic Materials, and Communications.
- During the month, there were three portfolio sales due to declining business momentum and weak earnings. These sales included a global coffee retail chain, a multinational medical devices and health care company, and a home improvement retail chain.

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

Monthly Moves

Charting Our Strategies

Navigator® International Equity ADR

- Navigator® International Equity/ADR is positioned with 16% in emerging markets with the balance in developed economies and cash. Britain, Canada, China, Ireland, Japan, and Switzerland are the strategy's largest country weights, all ranging between 6% and 21%.
- ADR's exposure to China is now around 6%, which is slightly below its weighting in the All-Country World less US benchmark.
- Financials, Healthcare, Industrials, and Information Technology are our largest sector weights.
- During the month, to benefit from improving business fundamentals, we added a manufacturer of industrial and automotive belts and hoses, a British-American global asset management group, and a Canadian bank. We exited our positions in a Japanese telecommunications holding company, a Canadian financial services company, and a Canadian multinational banking and financial services company.

Taxable Fixed Income

- Lower interest rates spurred higher issuance of new corporate bonds, with $140 billion hitting the market, 40% above expectations, bringing total new corporate bonds for the year to $795 billion, 27% higher than the previous year.
- Despite higher issuance, credit spreads measured by the Option Adjusted Spread (OAS) on the Bloomberg Barclays Investment Grade Corporate Index decreased by 2 basis points, nearing levels not seen since 2005-2006.
- Within the portfolio, our ongoing strategy remains focused on seizing opportunities presented by market dynamics. We continue to focus on purchasing bonds with maturities of 5 years or less to capture additional yield while accepting only minimal increases in credit risk. We believe this approach should continue to contribute positively to the portfolio's performance for the remainder of the year.

Tax-Free Fixed Income

- In May, municipal bond issuance exceeded $40 billion, marking only the second instance since 2009, as reported by Municipal Market Analytics. We attribute this surge to previously deferred winter and spring issuance finally reaching the market, along with issuers expediting deals in anticipation of the election. Year-to-date, total issuance stands at $189 billion, reflecting a 33% increase compared to the previous year (according to BAML data).
- We continue to utilize a butterfly trade in our investment approach. We focus on the front end to leverage persistent high yields, exploit the still-inverted state of the curve, and select intermediate-term securities for their benchmark characteristics.
- We favor bonds maturing in approximately 15 years. We believe these bonds have good call protection due to their attractive yield, relative value, and roll-down characteristics.

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Monthly Moves

Charting Our Strategies

Clark Capital's Top-Down, Quantitative Strategies

After modest weakness in April, the market snapped back with good gains in May. The S&P 500, Russell 3000, Nasdaq Composite, and Nasdaq 100 indices all reached new record highs during the month. Gains were strong across the board in both equities and fixed income. The S&P 500 gained 4.96%, the Russell 2000 added 5.01%, and the MSCI ACWI ex-US 2.90%. Rates inched lower with the 10-year Treasury yield closing the month at 4.51%, down 18 basis points. High yield bonds rose 1.10%, investment grade corporate bonds rose 1.41%, and 7 to 10-year Treasuries added 1.81%.

The market remains hyper-focused on inflation statistics, with recent data showing continued moderating pricing pressures. Fed rate cut expectations have fallen to between 1-2 cuts this year. The economy has remained strong and in general corporate earnings have beaten expectations, providing a supportive backdrop for the markets.

Below are strategy updates from May:

Alternative

- Within the mutual fund core, options-based and managed futures (and their ability to short rates) have led the way, while long-short real estate lagged.
- In May, we added to deeply sold equities that appear to be bottoming, including Chinese technology companies, biotech, and clean energy.
- Gold, silver, and copper (and their mining stocks) enjoyed strong performance as inflation continues to linger.

Fixed Income Total Return (MultiStrategy Fixed Income)

- We believe that the weakness in fixed income markets has been entirely due to rising interest rates.
- High yield and investment grade spreads have not risen, and spreads remain near the lower end of historical ranges.
- Despite rising interest rates and modest fixed income losses across the board, our models indicate that the backdrop for credit risk persists and appears healthy.

Global Risk Management

- Credit spreads remain very tight, as high yield spreads have hovered just below 3% despite rising interest rates.
- We see virtually zero credit distress, as all the damage being done in fixed income markets has been due to duration effects.
- Technology alone will not be enough to drive markets higher, and our credit models indicate that improving inflation could spur a resurgence in market breadth.

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Charting Our Strategies

Global Tactical

- Our credit-based models indicate a healthy backdrop for risk assets, and we are encouraged by broader market participation that includes value stocks and small-caps slightly more than the first quarter.
- Our position in risk-on equities looks to be stable over the intermediate term. It appears that U.S. stocks are losing relative performance vs. international equities, which we would view as a positive and overdue development.

Sector Opportunity

- May's rising interest rate backdrop has left very few industries and ETFs able to outpace the S&P 500. Only broad large-cap growth, the NASDAQ 100, and broad Technology can be described as trending well.
- Prior winners including Software, Industrials, and Homebuilders have begun to fade, but Utilities are faring well in defiance of rising interest rates. However, other defensive areas continue to flail, so we do not perceive signs of broader weakness.

Style Opportunity (MultiStrategy Equity)

- As markets have narrowed during May, the Style portfolio has reacted by adding to large-cap growth while reducing its exposure to mid-cap growth. The portfolio is also avoiding value, particularly mid-cap and small-cap, which have historically been interest rate sensitive.

U.S. Strategic Beta

- During May, the portfolio reduced its exposure to minimum volatility and added to growth, effectively neutralizing the portfolio's growth vs. value positioning.
- We maintain an overweight to mid-caps and small-caps based on what we believe is a substantial valuation gap.
- If we see the Fed move towards easing, that could well provide a catalyst to aid mid-caps and small-caps, which historically have been interest rate sensitive.

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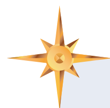

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value of an investment), credit, payment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries.

The "Economic 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. For educational use only.

The Nasdaq-100 is a stock market index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange

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.

Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations. Looked at another way, the Treasury yield is the effective interest rate that the U.S. government pays to borrow money for different lengths of time.

The MSCI All Country World Index (ACWI) ex US is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 22 of 23 developed countries and 24 emerging markets.

The Bloomberg Barclays US Treasury: 7-10 Year Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index.

The Russell 2000 index measures the performance of the 2,000 smaller companies that are included in the Russell 3000 Index, which itself is made up of nearly all U.S. stocks. The Russell 2000 is widely regarded as a bellwether of the U.S. economy because of its focus on smaller companies that focus on the U.S. market

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 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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