ClarkCapital MANAGEMENT GROUP

Benchmark Review
& Monthly Recap

Highlights

Stock market weakness in April set the stage for a solid rebound in stocks in May. The major equity indices all achieved new all-time highs during the month, recovering much of the declines from April.

Bonds got a break as well as rates moved lower for the month. The 10-year U.S. Treasury yield closed April at 4.69% before falling in May to end the month at 4.51%. Although rates have risen so far in 2024, we believe the trend will be lower for rates as we move through the year.

The U.S. economy has shown mixed signals of late. First quarter GDP was revised lower to 1.3% annualized growth, but that was expected. The Atlanta Fed GDPNow estimate of current GDP growth (Q2 2024) is at 1.8% (as of June 3), although this is clearly subject to change. Generally, we are seeing an economy slowing, but still growing, which is largely in line with our 2024 expectations.

The FOMC meeting that started April 30 concluded on May 1 as expected with no change in rates. Market expectations have fallen dramatically on the number of rate cuts expected in 2024 and currently stand at 1 or 2 cuts in 2024. No change in rates is expected at the June FOMC meeting.

Stocks Rebound in May and Bonds Bounce as Rates Fall

Equity Markets

The five-month winning streak for stocks was broken in April, but a new streak began in May with stocks gaining once again. Market sentiment had become excessively bullish (a contrarian indicator) and was flashing a warning signal that some market volatility might be coming in the near term. Indeed, it came in April. The approximately -5% decline that stocks had during April seemed to let some pressure out of the market as investor sentiment became more balanced and set up a solid May recovery.

Even during that period in April, we still believed the fundamentals for the market were solid and believed the drop in stocks in April was just a normal market decline. The rebound in May was broad, with large-cap growth leading the way (sound familiar?) but broad progress was made across market caps and styles. See Table 1 for equity results for May 2024, year to date, and calendar year 2023.

Table 1.

Index	May 2024	YTD	2023
S&P 500	4.96%	11.30%	26.29%
S&P 500 Equal Weight	2.82%	5.55%	13.87%
DJIA	2.58%	3.52%	16.18%
Russell 3000	4.72%	10.15%	25.96%
NASDAQ Comp.	6.98%	11.82%	44.64%
Russell 2000	5.02%	2.68%	16.93%
MSCI ACWI ex U.S.	2.90%	5.79%	15.62%
MSCI Emerging Mkts Net	0.56%	3.41%	9.83%

Source: Bloomberg. For illustrative purposes only. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index. Past performance is not indicative of future results.

The NASDAQ more than doubled its returns for the year in May alone. This has become a similar pattern with some broadening of the market developing (improved breadth), only to have large-cap growth snap back to a leadership position. Small-caps had some of the best results in May and the gains of the Russell 2000 were only surpassed by the NASDAQ for the month.

However, large-cap stocks still show much stronger progress year to date. The disparity between large and small-caps can also be seen when comparing the S&P 500 market cap versus equal-weighted indices. The headline, market-cap-weighted S&P 500 Index enjoyed more than twice the gains of the equal-weighted index through May. This reflects that large-caps are driving performance, while the "average" stock (a way to think of the equal-weighted index) has done less than half as well as the market-cap weighted index indicates. International stocks are still underperforming, but gains were made in both developed and emerging markets in May.

Fixed Income

The ongoing delay in Fed rate cuts and somewhat disappointing inflation data has pushed rates higher so far in 2024. However, there was a reprieve from rising rates in May as inflation data was more or less in-line with expectations and the economy showed some signs of slowing. This took the pressure off rates, and they declined during the month, which set up a solid month of gains for bonds. Recall, the 10-year U.S. Treasury closed last year at 3.88% and it ended April at 4.69%. May saw the yield drop to 4.51%. See Table 2 for fixed income index returns for May 2024, year to date, and calendar year 2023.

Table 2.

Index	April 2024	YTD	2023
Bloomberg U.S. Agg	1.70%	-1.64%	5.53%
Bloomberg U.S. Credit	1.82%	-1.12%	8.18%
Bloomberg U.S. High Yld	1.10%	1.63%	13.44%
Bloomberg Muni	-0.29%	-1.91%	6.40%
Bloomberg 30-year U.S. TSY	2.81%	-7.95%	1.93%
Bloomberg U.S. TSY	1.46%	-1.85%	4.05%

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Outside of munis, bonds enjoyed strong gains during the month of May. However, the year to date data continues to reflect a challenging period for bonds in what has been a rising rate environment. High yield bonds often follow stocks, which can explain their outperformance compared to other areas of the bond market in 2024.

The highly interest rate sensitive 30-year U.S. Treasury index has been most impacted by the move higher in rates so far in 2024 with the largest year-to-date declines, but it also benefited the most from the drop in rates in May with the best monthly results. We expect the 10-year U.S. Treasury yield will be in a range between 3.25% and 4.5% during the year (acknowledging that we got above that level in April), and we believe the trend will be lower as we continue to move through 2024. We also believe that rates at the front end of the yield curve, which have not moved too dramatically, will decline as the Fed begins to cut rates later in 2024. However, those initial rate cuts have been moved further out in the year based on market expectations and may not come until the fall.

We maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment and that has served us well so far in 2024. We also believe the role bonds play in a portfolio, to provide stable cash flow and to help offset the volatility of stocks in the long run, has not changed. Furthermore, we believe that bond yields remain attractive, and we are seeing some of the best bond yields in years. In our opinion, having an active bond management approach makes sense in these volatile times.

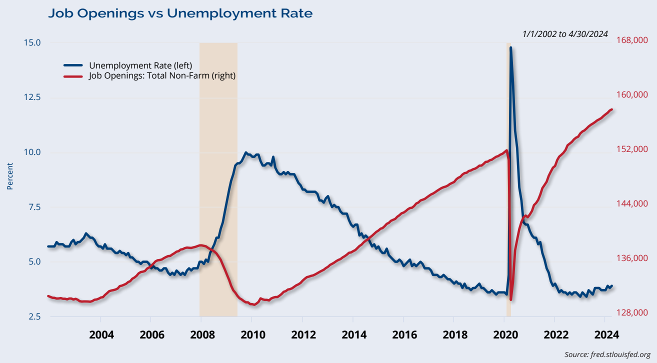
Economic Data Highlights and Outlook

Data released in May (largely covering April), pointed to a weakening period for the economy. The second reading of Q1 2024 GDP was in-line with estimates at a 1.3% annualized growth rate, but that was down from the initial estimate of 1.6%. Personal consumption was one area that was below expectations and lower than the initial estimate. With only one more revision to this GDP report, it looks more likely that the 6 straight quarters with GDP above 2% will be broken in Q1 2024. The Atlanta Fed GDPNow estimate for economic growth (as of June 3) shows the economy running at an estimated 1.8% growth rate for the second quarter of 2024. Our Clark Capital GDP growth expectation for 2024 is at 2.25%. We do expect growth to slow in 2024, but we also think the odds favor a soft landing and not a recession at this point.

One ongoing reason we continue to expect growth in the economy comes from gains in the job market. Non-farm payroll grew again in April, but at 175,000, well below expectations of 240,000 and this reading was accompanied by an unexpected move higher in the unemployment rate to 3.9% compared to expectations and the prior month of 3.8%. Average hourly earnings grew by 3.9% on an annual basis in April, which was slower than expectations of 4.0% and the prior month of 4.1%. (Good for inflation, but not as good for consumers.)

As a consumer-based economy, the strength in the job market has been a key driver of economic growth. Some moderation in the job market could allow the Fed to cut rates more comfortably sooner rather than later. Although the month of April proved to be a bit weaker on the job front, there were still significant job gains and the unemployment rate was still below 4.0%. We will watch to see if job market data continues to get softer in the months ahead. We are still in a situation with millions more job openings than unemployed people in the U.S. economy. The latest JOLTS reading of job openings for March declined to 8.488 million from 8.813 million the prior month, but that is still well above the number of people considered unemployed. Chart 1 shows the total non-farm employees in the U.S. is at a record high as the unemployment rate remains low.

Chart 1



For illustrative purposes only

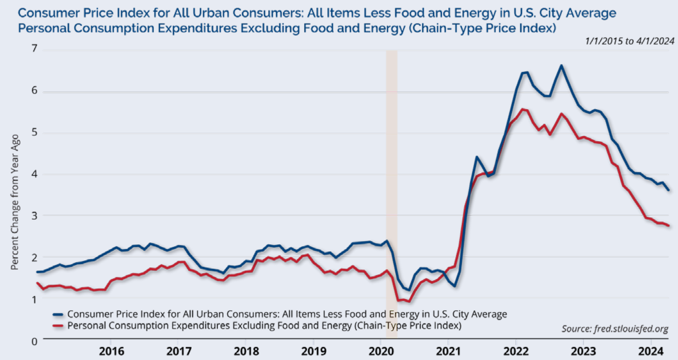
With the current strength in the job market, we maintain our opinion that it seems unlikely that the economy would slow too drastically. We continue to expect that the economy will slow from its pace in 2023, but that it will still grow in 2024 resulting in a “soft landing”. Even if a recession developed, we believe it would be mild due to the strength of the consumer. We believe opportunities exist in the stock and bond markets under either a slow growth or mild recession scenario, but we believe the odds favor a soft landing at this point.

Inflation data for April was more or less in-line with expectations. Higher-than-expected inflation readings so far this year have been the primary driver in the delay in the Fed cutting interest rates, but the data was more neutral in April. The headline Consumer Price Index (CPI) showed an annual increase of 3.4% in April, which matched expectations and was a modest improvement from 3.5% the prior month. The core CPI showed an annual gain of 3.6%, again matching expectations and improved from 3.8% in March.

The headline Producer Price Index (PPI) rose by 2.2% on an annual basis in April, in-line with estimates, but higher than the revised lower level of 1.8% from March. The core PPI had an annual increase of 2.4%, higher than expectations of 2.3% and above the prior month’s revised lower 2.1%. We do not expect this sort of data to decline in a straight line and some periods of volatility should be expected. We would argue that the trend is still showing improvements made regarding inflation and we believe that the next move by the Fed will be a rate cut – it will just be later than most expected at the beginning of the year.

Focusing on the preferred inflation measure of the Fed, the Personal Consumption Expenditures (PCE) Index for April matched expectations. The headline PCE Index had an annual increase of 2.7% in April and the core PCE reading (the reading the Fed targets) was 2.8% - both matched estimates and remained unchanged from the prior month. Chart 2 shows the core PCE Price Index and core CPI, which have both been trending lower since their rapid rise following the pandemic period, but the pace of decline has slowed.

Chart 2



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

We believe progress has been made on inflation. The Fed has indicated that it believes the rate hike cycle is over and rate cuts will occur in 2024. Five months into the year, market expectations, according to the CME FedWatch Tool, have dropped to show 1 or 2 expected cuts in 2024 (currently slightly favoring 2) with additional cuts coming in 2025. That is a far cry from where the year began when the market was anticipating too many cuts (6 or 7) compared to what the Fed was indicating through its “dot plot” projections of about three.

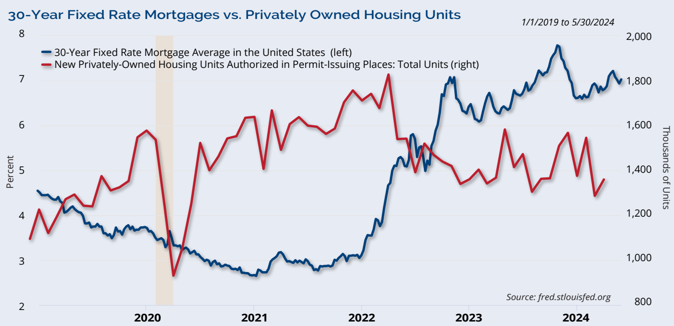
The June FOMC meeting will have updated economic projections from Fed officials, and we will see where their rate cut expectations stand. Considering the significant change in rate cut expectations from the beginning of the year, the stock market has been strong with gains in four of the first five months of 2024. However, the opposite has been true for bonds as rates have moved higher with fewer expected cuts creating a headwind to bond returns so far in 2024.

The housing market seems to be fighting against higher mortgage rates and housing data continued to be weaker in April. Building permits, housing starts, existing home sales and new home sales all missed expectations in April and, outside of housing starts, all were lower than their corresponding levels in March. Housing starts came in at 1.36 million in April compared to expectations of 1.421 million and although this reading beat the prior month’s level of 1.287 million, it was a significant revision lower from the prior reading of 1.321 million. The March reading was the slowest annual pace of housing starts since recovering from the pandemic period.

The S&P CoreLogic 20-City Index of home prices rose by 7.38% on an annual basis in March, ahead of expectations of 7.30% and the prior month’s annual increase of 7.33%.

Interest rates moving higher in April likely hurt housing market activity and it will be important to see if the move lower in rates in May helped spur some improvement. Graph 3 shows mortgage rates have moved higher this year and housing starts have been in a weakening trend, recently hitting their lowest level since recovering from the pandemic lows.

Chart 3



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ISM economic data disappointed in April as well. The ISM Manufacturing Index for March broke the streak of 16 straight months of manufacturing declines when it posted a reading of 50.3. Unfortunately, the reading for April slipped below the 50 mark once again to 49.2 when it was expected to be right at 50. Furthermore, the reading for May, released in early June, saw a further decline to 48.7 compared to expectations of 49.5, so the March number looks more like a one-off positive number at this point. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, slipped below 50 unexpectedly in April to 49.4. This compares to estimates of 52.0 and the prior month of 51.4 and marked the first reading below 50 for this index since December 2022.

The service industries had consistently shown growth, but the pace of growth had slowed in recent months culminating in this reading reflecting contraction. As we acknowledged at the time with the positive manufacturing reading in March, one month is not a trend, and we would echo that sentiment for the services industries after this surprise reading below 50 in April. Recall, the dividing line between expansion and contraction for the ISM indices is 50.

Retail sales (ex. auto and gas) fell by -0.1% in April, missing expectations of a 0.2% gain. The preliminary University of Michigan Sentiment reading for May fell sharply lower to 67.4 from the prior month reading of 77.2 and expectations of 76.2. A weak stock market and slower job growth might help explain part of this decline in confidence. After breaking a two-year streak of declines in February, the Conference Board's Leading Index fell in March and it declined again in April when it fell by -0.6%, twice the expected drop of -0.3%.

We have seen some of the "bad" economic news be "good" news for the market of late as it might lead to the Fed cutting rates sooner this year. We don't want that to be the key driver of the market over the long run. We believe the economy will grow in 2024, but at a more muted pace than last year. Over the long run, we believe a strong and growing economy is what ultimately drives business earnings higher, and we think that is paramount for long-term stock market progress. As always, we believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

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.

Clark Capital's Bottom-Up, Fundamental Strategies

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 mindful that valuations for large-cap, high free cash flow companies are fairly valued-to-expensive versus defensives cyclical dividend growers.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Apr	50.0	49.2	50.3	—
ISM Services Index	Apr	52.0	49.4	51.4	—
Change in Nonfarm Payrolls	Apr	240k	175k	303k	315k
Unemployment Rate	Apr	3.8%	3.9%	3.8%	—
Average Hourly Earnings YoY	Apr	4.0%	3.9%	4.1%	—
JOLTS Job Openings	Mar	8680k	8488k	8756k	8813k
PPI Final Demand MoM	Apr	0.3%	0.5%	0.2%	-0.1%
PPI Final Demand YoY	Apr	2.2%	2.2%	2.1%	1.8%
PPI Ex Food and Energy MoM	Apr	0.2%	0.5%	0.2%	-0.1%
PPI Ex Food and Energy YoY	Apr	2.3%	2.4%	2.4%	2.1%
CPI MoM	Apr	0.4%	0.3%	0.4%	—
CPI YoY	Apr	3.4%	3.4%	3.5%	—
CPI Ex Food and Energy MoM	Apr	0.3%	0.3%	0.4%	—
CPI Ex Food and Energy YoY	Apr	3.6%	3.6%	3.8%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	Apr	0.2%	-0.1%	1.0%	0.7%
Industrial Production MoM	Apr	0.1%	0.0%	0.4%	0.1%
Building Permits	Apr	1480k	1440k	1458k	1485k
Housing Starts	Apr	1421k	1360k	1321k	1287k
New Home Sales	Apr	678k	634k	693k	665k
Existing Home Sales	Apr	4.23m	4.14m	4.19m	4.22m
Leading Index	Apr	-0.3%	-0.6%	-0.3%	—
Durable Goods Orders	Apr P	-0.8%	0.7%	2.6%	0.8%
GDP Annualized QoQ	1Q S	1.3%	1.3%	1.6%	—
U. of Mich. Sentiment	May P	76.2	67.4	77.2	—
Personal Income	Apr	0.3%	0.3%	0.5%	—
Personal Spending	Apr	0.3%	0.2%	0.8%	0.7%
S&P CoreLogic CS 20-City YoY NSA	Mar	7.30%	7.38%	7.29%	7.33%

Source: Bloomberg: P=Preliminary; S=Second Reading

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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).

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 value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

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.

JOLTS is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment.

The Core Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services

The Core 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 PCE price index, released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States.

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 Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

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.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight or 0.2% of the index total at each quarterly rebalance.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Nonfarm payrolls (NFPs) are the measure of the number of workers in the United States excluding farm workers and workers in a handful of other job classifications.

A municipal bond, commonly known as a muni, is a bond issued by state or local governments, or entities they create such as authorities and special districts.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Bloomberg US Trsy Bellwethers 30Y is a U.S. Treasury debt obligation that has a maturity of 30 years.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries*. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas. The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

In the United States, the Core Personal Consumption Expenditure Price (CPE) Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

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