



## Portfolio Commentary

# Navigator® MultiStrategy

### Portfolio Manager



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## Tech Triumphs Amid Market Imbalances

### Market Review

Equity markets have enjoyed a strong, if quite unevenly distributed, start to 2024. The ever-growing integration of technology into all aspects of our lives and businesses has driven more focus towards technology, software, and now AI-related stocks. They have become the disproportionate winners, and the second quarter revealed a level of concentration that we have not seen in many years. While the S&P 500 is up 15.3% year to date, only 25% of its stocks are outperforming the index, which is the lowest level seen since 1973.

Each time when the S&P 500 made highs in late March, mid-May, and mid-June, a smaller and smaller percentage of the index's stocks were above their 50-day moving averages. Meanwhile, the fixed income markets have not offered much competition versus equities. In the first half of 2024, the S&P 500 is 16.0% ahead of the Aggregate Bond Index, which is the sixth largest gap on record.

While more than a few market commentators have warned that extreme valuations in mega-cap technology stocks will lead to an imminent market disaster, we find little evidence to merit panic. Credit markets are stable, and most companies are able to achieve financing without much stress. While growth exceeded expectations in the first half of the year, the data so far suggests that it could well slow enough for the Fed to potentially normalize interest rates. In addition, if the Fed does end up cutting rates by the end of 2024, the majority of global central banks will have an easing bias.

While the lack of breadth in markets and during the first half of 2024 is a concern that we are watching, we would like to remind our investors that imbalances like these often resolve themselves bullishly over time. But that story – the one in which investors profit amid a quiet recovery – never garners headlines, does it?

### Second Quarter Portfolio Highlights

- Large-cap growth (SPYG) was up an impressive 9.7% on the quarter – yet it was the lone style box to manage positive returns. Large-cap value (SPYV) declined 2.2%, while small-cap value (IJS) was down 4.9% and small-cap growth (IJT) declined by 1.5%. The claim that large-cap growth was the only winner, while true, is deceptive, as the winners and drivers of performance were much more narrowly defined within large-cap growth. The Russell Top 200 (the top 200 stocks in the Russell 1000) outperformed both the Russell Mid Cap (bottom 800 stocks in the Russell 1000) and the Russell 2000 by over 9%. Only the Technology and Telecommunications Services sectors (home to most of the mega-caps driving markets) were able to outperform the S&P 500.
- Growth and quality factors were the leaders during the quarter, in which the S&P 500 produced a 4.3% gain. The NASDAQ 100 (QQQM) was up 8.1%, and the S&P 500 Momentum (SPMO) ETF also produced a 9.1% gain. The more diversified Quality Factor ETF (QUAL) gained 4.1% and barely trailed the S&P 500 – and that was an excellent result by comparison. Other factors such as minimum volatility (USMV – up 0.8%), buybacks (PKW – down 3.8%), and cash flow yield (COWZ – down 5.7%), lagged substantially or produced losses.

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- The portfolio came into the quarter focused on large-cap and mid-cap growth. Mid-cap growth (XMMO, XMHQ, and MDYG), in particular, had become 40% of the portfolio as May progressed; however, at the end of May, all mid-cap and small-cap stocks experienced a relative breakdown. Only large-cap and mega-cap growth names participated as leaders and all others were left in the dust. As a result, by mid-June, the portfolio moved largely into large-cap and mega-cap growth (IWY, SPMO, and SPYG). As we enter the second half of 2024, we are looking to perhaps increase our S&P 500 Index position (already 38%), as we wait for a new trend leader to emerge within our rankings.

## Positioning and Outlook

The MultiStrategy portfolio devotes two-thirds of its fixed income exposure to Tactical High Yield (NTBIX) and one-third to Tactical Investment Grade (NTIIX). Within high yield credit, the portfolio moved to favoring high yield in early November 2023 and since then, high yield has outperformed Treasuries and cash.

From November 6th through the end of the second quarter, high yield (HYG) was up 7.8%, while Treasuries (GOVT) gained 4.4% and short-term Treasuries (SHV) were up 3.4%. High yield also outperformed Treasuries in the second quarter, eking out 0.7% gain, while Treasuries were down 0.1%. However, both underperformed short-term Treasuries, which earned 1.3%.

Credit spreads remained relatively narrow during the quarter, experiencing only a modest reaction to April's 5% equity market correction, which to us, indicated a bullish credit backdrop. Spreads are hovering just above 3% as the quarter ends, and this puts spreads in the bottom 10% of their historical range. However, we know that they can remain at these low levels for a long time before reversing in the long run. Our model comparing high yield to Treasuries is now near a new high, and high yield versus cash remains strong, although we would note that cash's over 5% yield makes it tougher to substantially outperform.

Within our Tactical Investment Grade fund, we had been defensive since February and content to hold an attractive yield in cash. However, in early June, Treasuries broke through an uptrend line that had defined their 2024 direction. Our models responded and recommended a return to a 100% risk-on position in Investment Grade Corporate Bonds.

So far, that position has not produced many gains, as interest rates remain range bound. Investment Grade spreads have risen slightly from very low levels, but their low overall level means that a large opportunity to experience spread compression is simply not available. As a result, we will have to be content to collect a higher yield and wait. With Treasury yields stabilizing and, in our estimation, likely to head lower in the second half, a defensive move into a 100% Treasury position remains a distinct possibility, as our models have turned more bullish on Treasuries in recent weeks. Nevertheless, credit fundamentals and metrics are strong by our measures, and our position in Investment Grade Corporates should be stable over the intermediate term.

Looking forward to the rest of 2024, markets have rallied based on strong mega-cap growth earnings and expectations of a forthcoming Fed rate cut. Our base case is that growth will moderate, and we are already seeing such signs in jobs markets, inflation, and consumer indicators. While data suggests early signs the economy is moderating, it does not follow that the threat of recession is on the horizon, particularly as measured by very little stresses within credit markets.

Nevertheless, there are considerable reasons to expect volatility in the third and fourth quarters, particularly surrounding the election. Recent presidential election years have featured considerable fear-based declines heading into Election Day, followed by impressive rallies once the result and new leadership regime become clear. Moreover, conditions are potentially ripe for disappointment in the big growth stock names. Analysts expect 20% earnings growth for the S&P 500 in both the third and fourth quarters – numbers that will quite likely need to be revised downward.

September, historically the weakest month for markets, is often a time when management lowers guidance for the fourth quarter and the next year looking forward. Given the lofty valuations among growth stocks, they are potentially vulnerable to a more sizeable drawdown. While we own and overweight these names in the MultiStrategy portfolio, we are aware of these potential risks.

However, while we might expect weakness during the fall, we would like to emphasize that we believe any weakness would be seasonally and sentiment-driven, and more tactical in nature rather than driven by fundamental economic weakness. We believe any equity market weakness, particularly leading up to a highly contested and uncertain election, should be viewed as a strategic buying opportunity to add risk.

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## MultiStrategy 25-75 Top Contributors as of June 30, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	48.55	0.44
Invesco S&P 500 Momentum ETF	4.35	0.41
SPDR Portfolio S&P 500 Growth ETF	3.49	0.40

## MultiStrategy 25-75 Top Detractors as of June 30, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Pacer US Cash Cows 100 ETF	0.94	-0.13
Invesco S&P MidCap Quality ETF	1.56	-0.09
Invesco S&P MidCap Momentum ETF	2.80	-0.09

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 June 30, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Invesco S&P 500 Momentum ETF	8.41	0.81
SPDR Portfolio S&P 500 Growth ETF	6.52	0.75
iShares Core S&P 500 ETF	16.79	0.56

## MultiStrategy 50-50 Top Detractors as of June 30, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Pacer US Cash Cows 100 ETF	1.89	-0.27
Invesco S&P MidCap Quality ETF	2.82	-0.16
Invesco S&P MidCap Momentum ETF	5.22	-0.16

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 June 30, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Invesco S&P 500 Momentum ETF	12.89	1.25
SPDR Portfolio S&P 500 Growth ETF	10.00	1.15
iShares Core S&P 500 ETF	22.55	0.73

## MultiStrategy 75-25 Top Detractors as of June 30, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Pacer US Cash Cows 100 ETF	2.86	-0.41
Invesco S&P MidCap Momentum ETF	8.52	-0.27
Invesco S&P MidCap Quality ETF	4.40	-0.25

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.

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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.

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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 SmallCap 600 Index is a stock market index established by S&P Global Ratings. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index.

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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 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 Russell 2000 index is a market index comprised of 2,000 small-cap companies.

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

The S&P GSCI is a composite index of commodities that measures the performance of the commodities market. The index often serves as a benchmark for commodities investments.

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

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 SPDJL.

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