



Portfolio Commentary

Navigator® Taxable Fixed Income

Portfolio Manager

**Oliver Chambers**

*VP, Head of Fixed Income SMA,
Senior Portfolio Manager*

Whipsaw in Rates

Market Review

The Federal Reserve once again remained on pause during the second quarter, as market expectations for rate cuts continued to trend lower. The market is now pricing in fewer than two cuts this year. Inflation came in higher than expected to start the quarter, causing interest rates to rise in April, but then drifted lower towards the Fed's target (Core PCE now 2.6% and Core CPI 3.4%) as the quarter progressed.

This whipsaw in rates saw the 10-year Treasury move 50 basis points (bps) higher in April before grinding lower to close the quarter at 4.40%, only 20bps above the first quarter. The 2-year Treasury was slightly less volatile, moving 40bps higher before closing at 4.76%, 13bps higher. While the Treasury curve did steepen 8bps, the 2-year/10-year curve has now been inverted for two years and appears as though it will stay that way for a while.

The Bloomberg Intermediate US Corporate Bond Index saw option adjusted spreads (OAS) continue to move lower in the beginning of the quarter as rates moved higher, but then reversed course once rates started to fall and closed the quarter 3bps wider as yield buyers began to reduce their buying slightly. The lower Treasury rates overwhelmed this slight move wider in spreads, and the Index ended the quarter up 0.74%. This moved the year-to-date return to 1%, despite the yield of the benchmark being 40bps higher on the year.

Second Quarter Portfolio Highlights

- The duration of the portfolio stayed slightly below 4 years, which is in line with previous quarters. Overall, the yield to worst moved slightly higher to 5.36%, within 1bps of the Index.
- The best-performing sector on a total return basis was the Financials sector. Financials have continued to outperform all year as spreads continue to move back to levels before last year's mini regional banking crisis. The worst-performing sectors were Healthcare and Utilities. Healthcare lagged as the market continued to price expected M&A into the Pharmaceuticals portion of the sector. This, coupled with new bond issuance, reduced overall demand and moved spreads wider.
- The Financials sector also added the most value to the portfolio. While slightly underweight overall, the portfolio's overweight position in large U.S. banks added value to offset the overall slight underweight in the sector. Consumer Staples added the least value to the portfolio as Food and Beverage names were underweight throughout the quarter.

Past performance is not indicative of future results.

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



Positioning and Outlook

The main theme of the portfolio remained unchanged. The portfolio is overweight the front end of the yield curve (0-3 years) to take advantage of the continued inversion in rates. This is also where most of the credit risk has been taken as the overall economy is reflecting very little stress currently. Therefore, we believe risk remains muted.

The portfolio is slightly overweight on the other end of the yield curve as well (6-10 years to maturity). Anticipating a decrease in yields over the next year, we are gradually shifting our positioning towards longer maturities as bonds from the front end mature, while still benefiting from the higher yields currently available in extreme front end of the curve.

The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

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.

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).

The Bloomberg Barclays US Intermediate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity.

The Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy.

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 2 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 2 years. The 2 year treasury yield is included on the shorter end of the yield curve and is important when looking at the overall US economy.

The 10-Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 years.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request. CCM-508