

# Q2 2024 Review & Outlook

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# Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

The gauges reflect the degree of Clark Capital's positive (forward) or negative (reverse) outlook on the corresponding economic factors. 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.



# Executive Summary

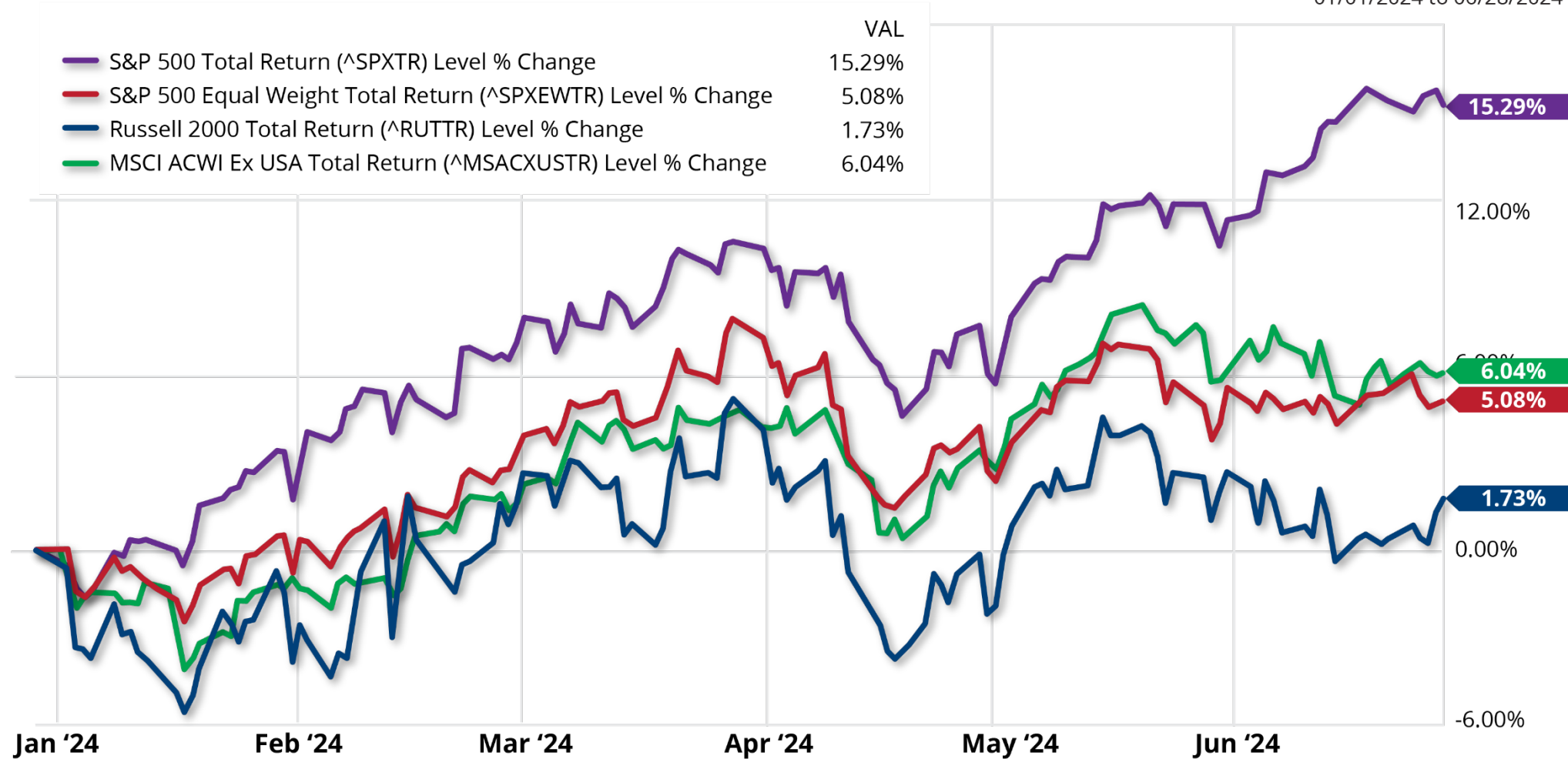
- Mixed quarter for stocks, modest gains for bonds
- Target raised to 5800 for S&P500 from 5300
- 10y 3.25%-4.5% range
- Economy showing some signs of slowing. Recession still not our base case
- Just a matter of time for Fed to start cutting
- We believe valuations remain "fair" for stocks
- Fear levels low, but still a lot of cash on the sidelines
- Intermediate and long-term rates moved slightly higher, but we believe they peaked in April



# Rally Still Driven by Large Companies

## Rally Still Driven by Large Companies

01/01/2024 to 06/28/2024



Source: YCharts

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



# Corrections Are Normal — Frequency of Declines

S&P 500 Declines	Occurrences Per Year	Frequency Average	Probability of Decline Moving to Next Stage	Mean Decline
-5% or more	3.4	Every 14 weeks	32%	-10.9%
-10% or more	1.1	Every Year	45%	-19.5%
-15% or more	0.5	Every 2 years	58%	-28.2%
-20% or more	0.3	Every 3 years	N/A	-35.7%



# Why Did We Keep the Economic Gauge Neutral?



Economy

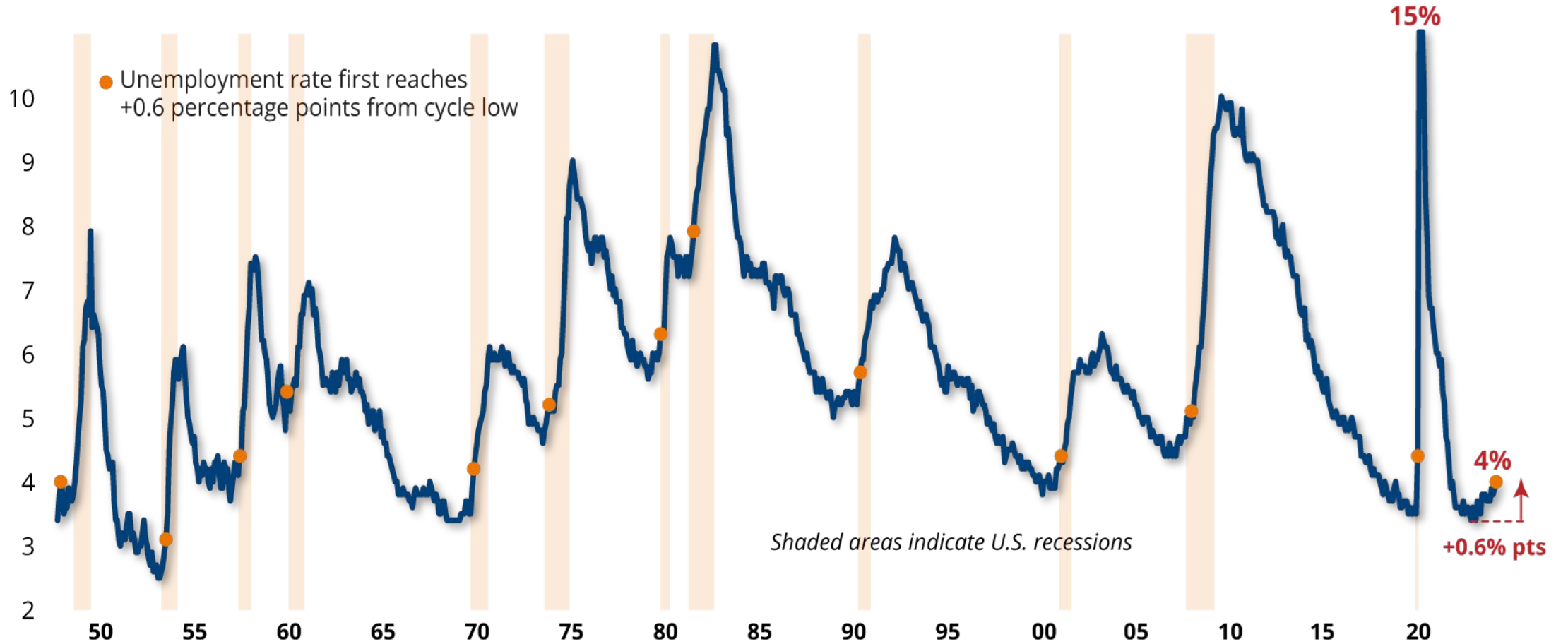
- Labor market normalizing
- Economy slowing, but should avoid recession
- Inflation is trending down
- Earnings at record highs
- Why does this matter? GDP helps drive earnings



# Labor Market is Normalizing

## Unemployment Rate

01/01/1948 to 5/31/2024



Source: InvestTech Research, Bureau of Labor Statistics



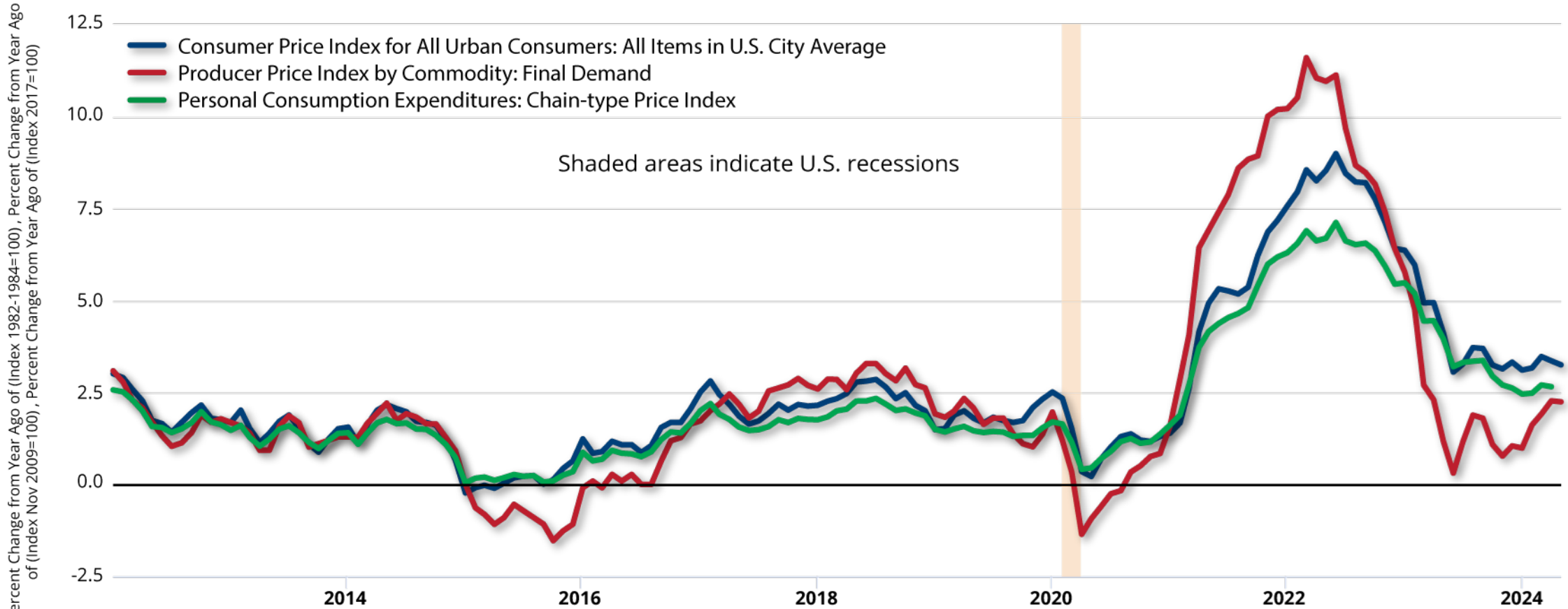
For illustrative purposes only.

Source

# Inflation is Moderating

Consumer Price Index for All Urban Consumers: All Items in U.S. City Average  
Personal Consumption Expenditures: Chain-type Price Index  
Producer Price Index by Commodity: Final Demand

01/01/2012 to 05/01/2024



Source: Board of Governors of the Federal Reserve System (US)

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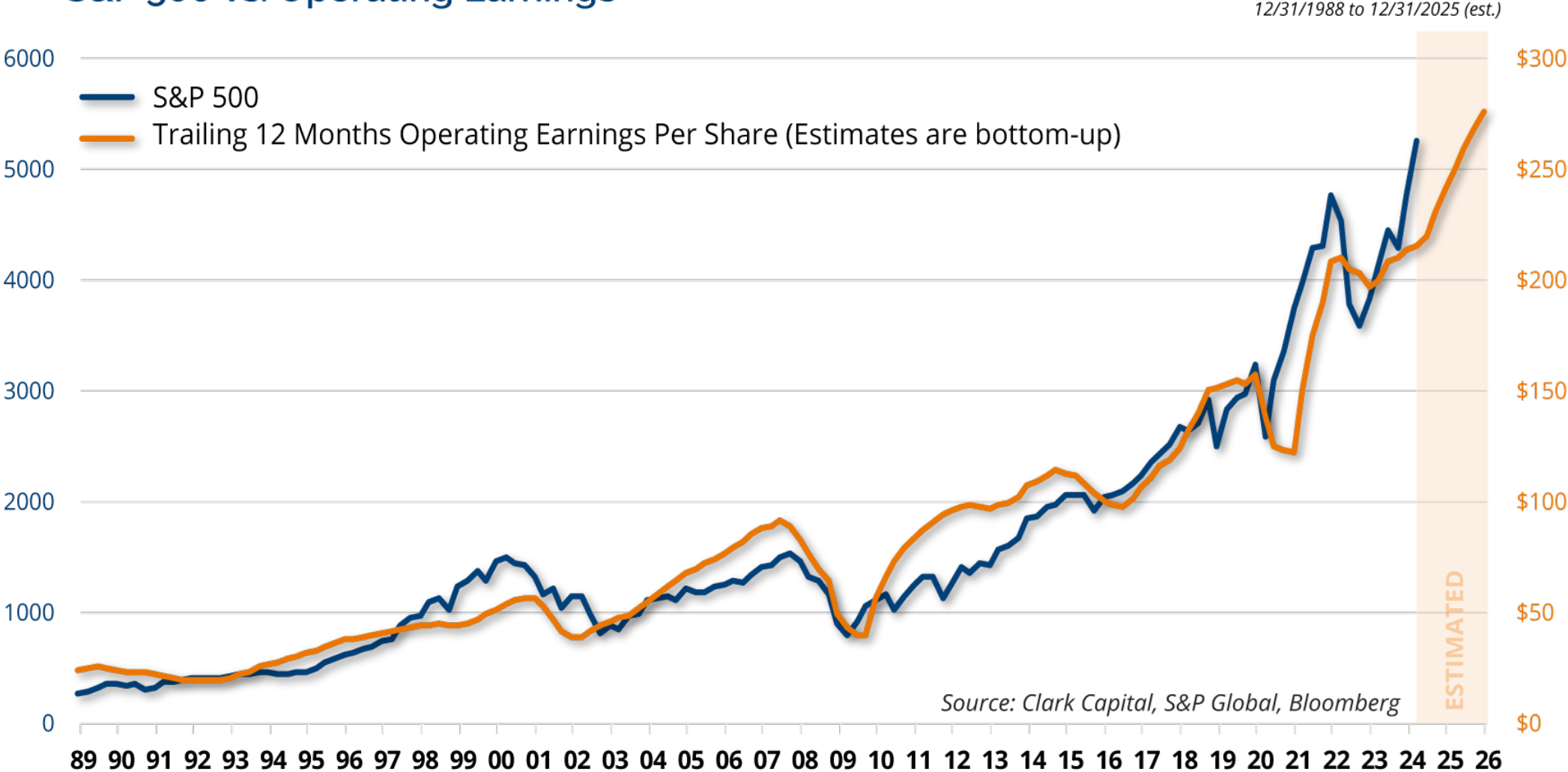
Source:





# Earnings Drive Stock Prices

## S&P 500 vs. Operating Earnings

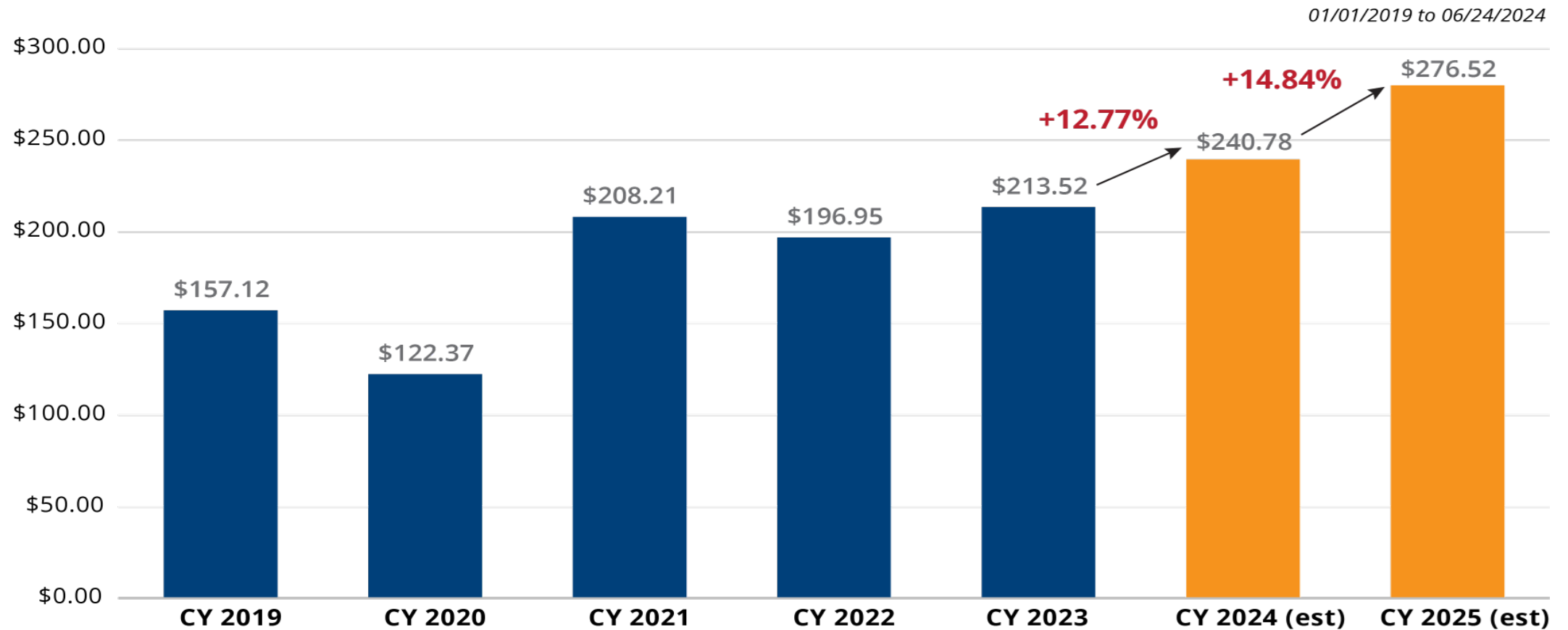


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# S&P 500 Operating Earnings are Expected to Grow

## S&P 500 Calendar Year Operating EPS Actuals & Estimates



Source: S&P Global

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# Why Did We Keep the Monetary Gauge Neutral?



Monetary Policy

- Fed on hold — next move likely lower
- Pace & Timing of cuts are the questions
- QT winding down
- Why does this matter?  
*Fed easing is a tailwind for stocks*



# Gradual Fed Cuts are Good

## S&P 500 Index Around First Fed Rate Cuts vs. Speed of Cuts

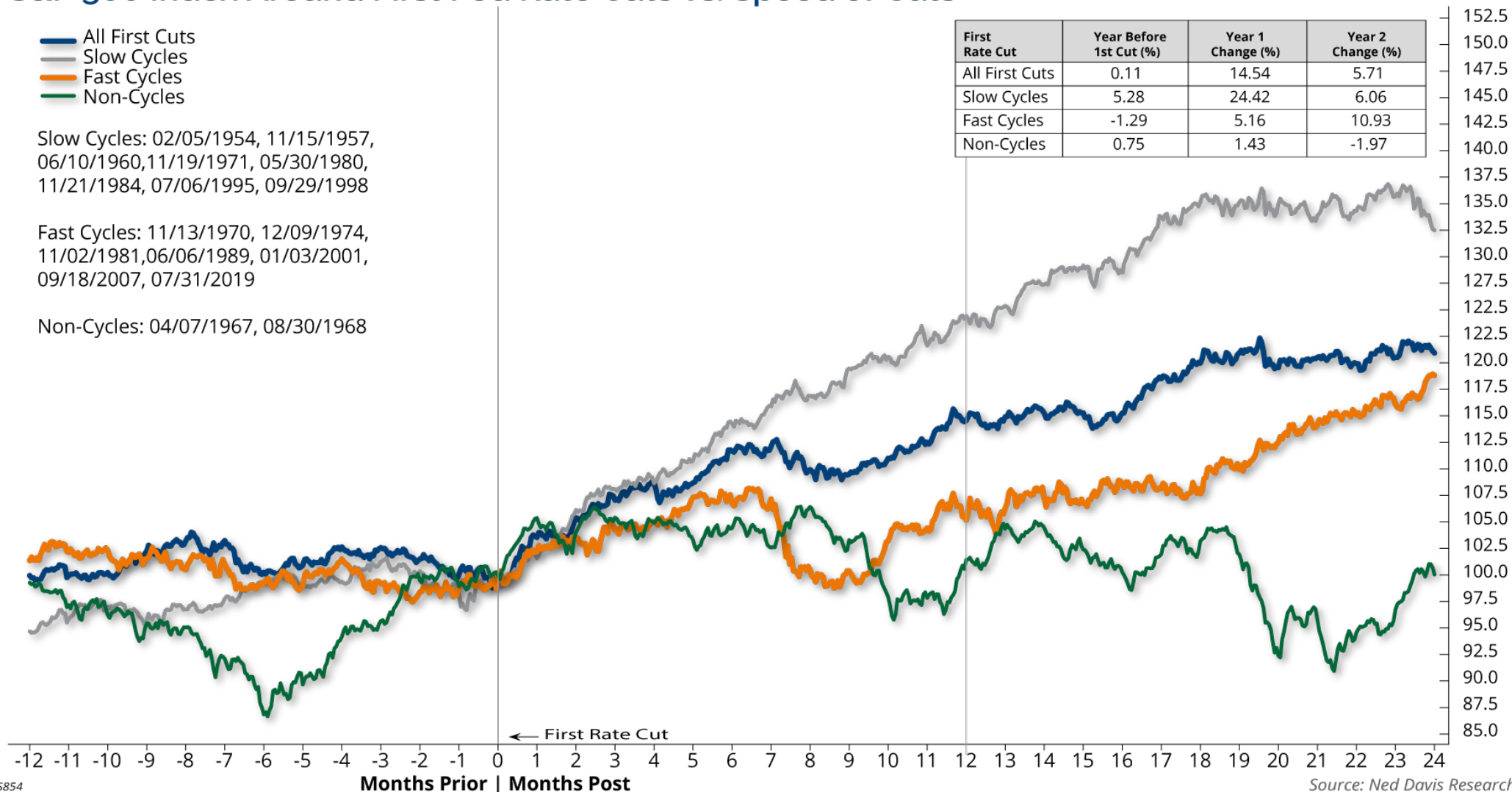
- All First Cuts
- Slow Cycles
- Fast Cycles
- Non-Cycles

Slow Cycles: 02/05/1954, 11/15/1957, 06/10/1960, 11/19/1971, 05/30/1980, 11/21/1984, 07/06/1995, 09/29/1998

Fast Cycles: 11/13/1970, 12/09/1974, 11/02/1981, 06/06/1989, 01/03/2001, 09/18/2007, 07/31/2019

Non-Cycles: 04/07/1967, 08/30/1968

First Rate Cut	Year Before 1st Cut (%)	Year 1 Change (%)	Year 2 Change (%)
All First Cuts	0.11	14.54	5.71
Slow Cycles	5.28	24.42	6.06
Fast Cycles	-1.29	5.16	10.93
Non-Cycles	0.75	1.43	-1.97



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Source: Ned Davis Research

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# Why Did We Keep Valuation Gauge Neutral?



Valuations

- Forward P/Es in normal range
- Style Matters
- Mega Cap 8 — Success isn't cheap
- Earnings are hitting all-time highs
- Why does this matter?

*We believe stocks still have appreciation potential*



# Forward P/E Ratios of S&P With & Without Megacap-8\*\* (weekly)

1/1/2013 to 6/25/2024



\*Price divided by consensus forward earnings forecast

\*\* MegaCap-8 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Netflix, NVIDIA, and Tesla. Both classes of Alphabet are included.

www.yardeni.com

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



# Valuations by Style Boxes

As of 5/31/2024

	<b>VALUE</b>	<b>CORE</b>	<b>GROWTH</b>
LARGE	16.34	21.10	27.48
MID	13.85	16.10	19.00
SMALL	14.50	15.62	16.81

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



# Why Did We Improve Investor Sentiment One Notch?

- Bullishness elevated, but off peak
- Very sensitive gauge — can change quickly
- Still a lot of cash on the sidelines
- Why does this matter?

*Bottoms are formed when fear levels are high*

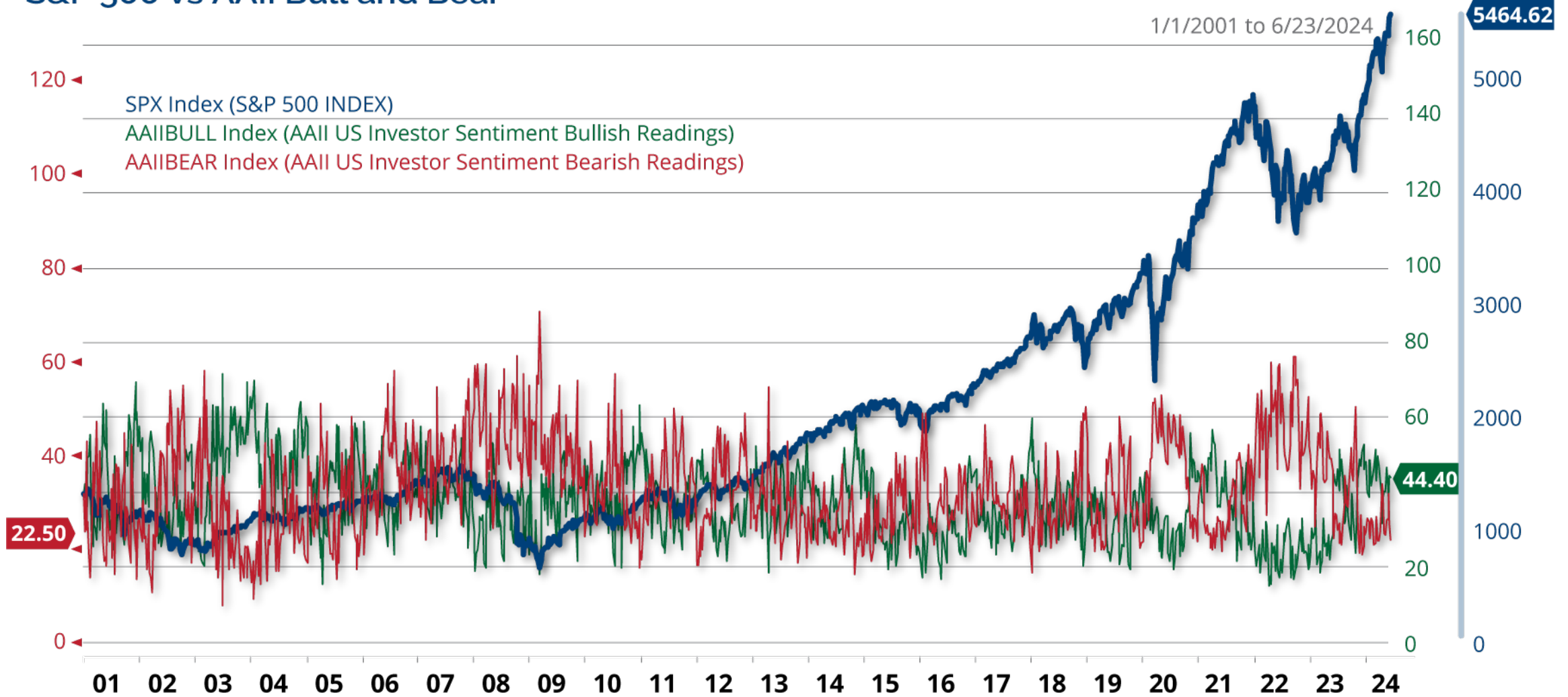


Investor Sentiment





# S&P 500 vs AII Bull and Bear



Source: Bloomberg

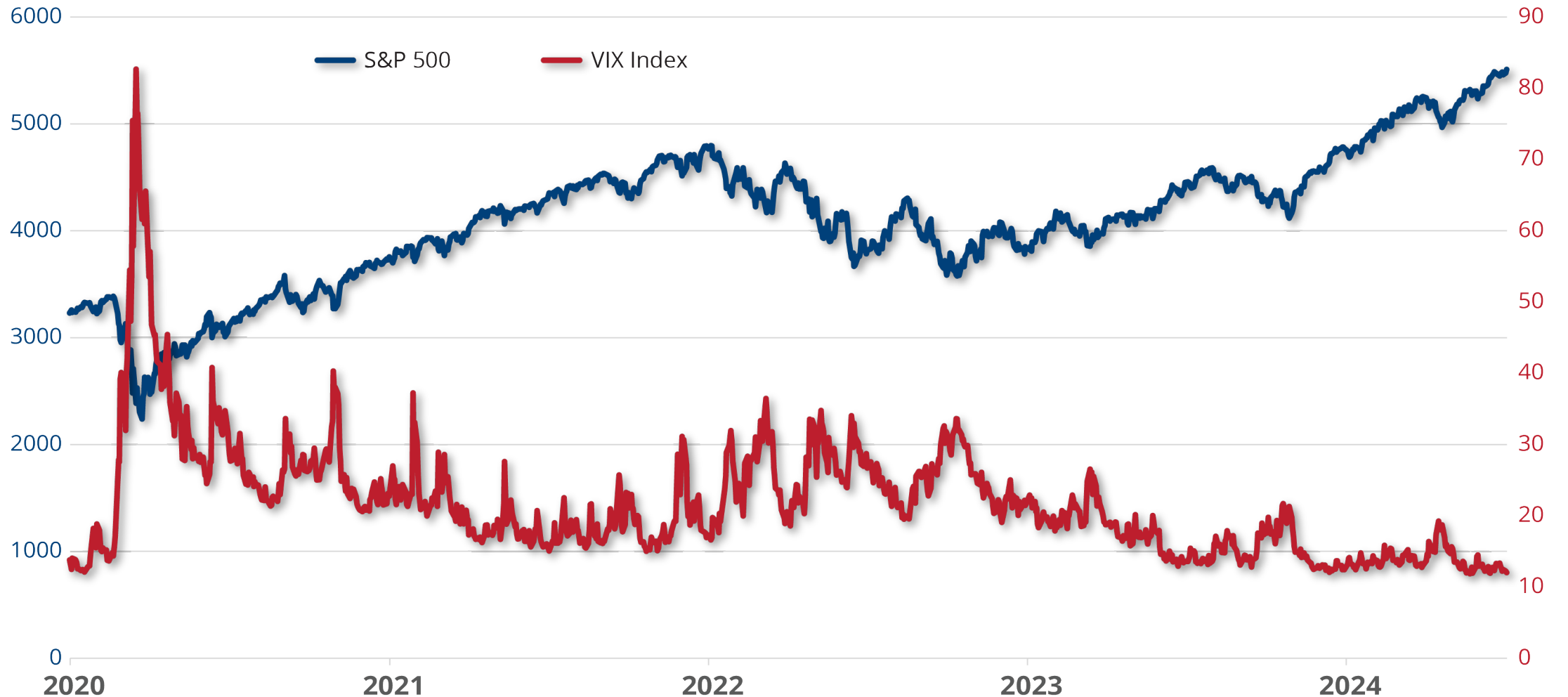
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# Volatility Has Declined and is Showing Some Complacency

S&P 500 & VIX Index

12/31/2019 to 07/02/2024



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

Source: CBOE, YCharts



# Why Did We Keep the Interest Rate Gauge Neutral?



Interest Rates

- The Fed should start to cut rates this year
- Long rates should continue to move lower
- Yield curve should normalize
- Why does this matter?

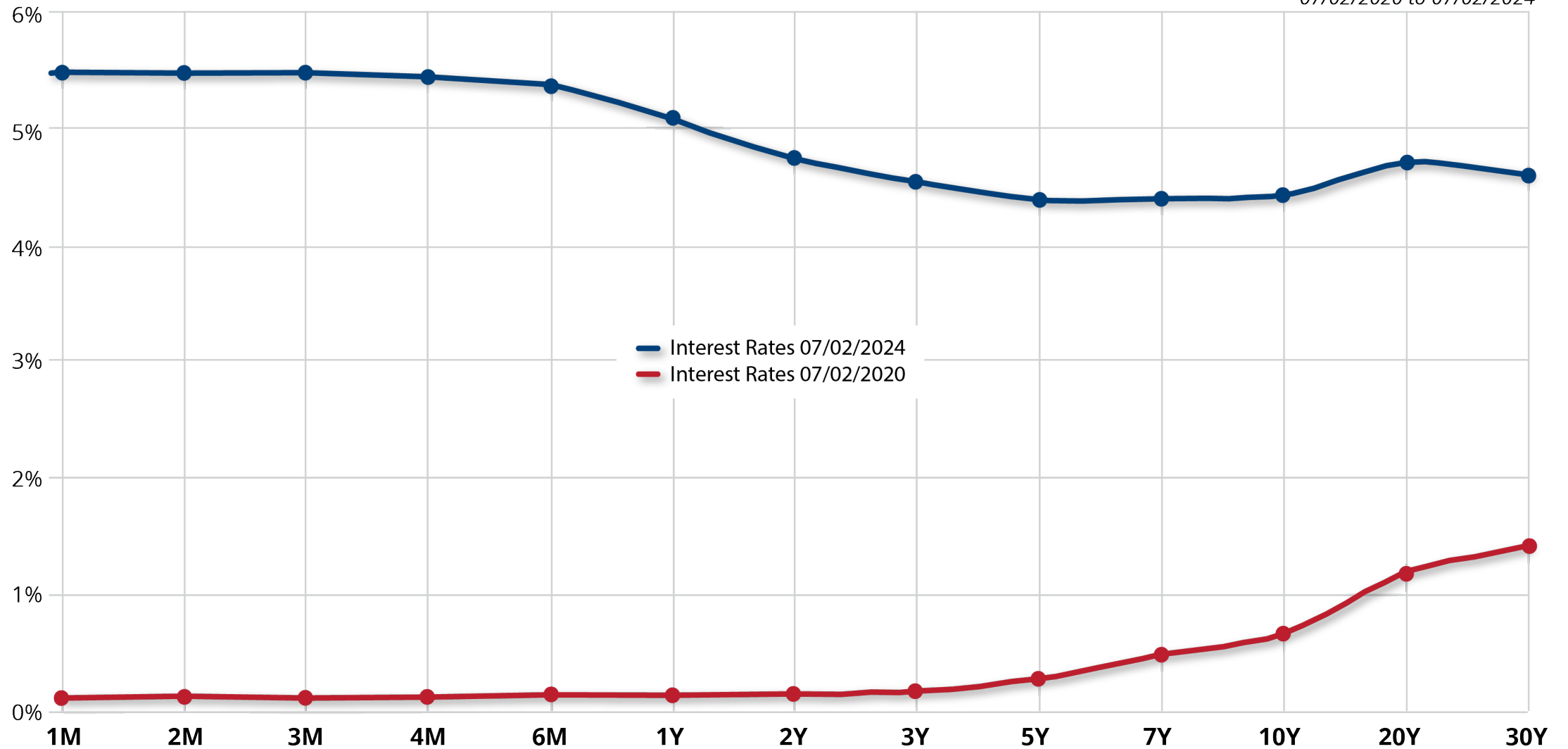
*Higher rates and flat/inverted yield curve have historically been a headwind for stocks*



# What a Difference 4 Years Makes

## Interest Rates

07/02/2020 to 07/02/2024



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

Source: fred.stlouisfed.org

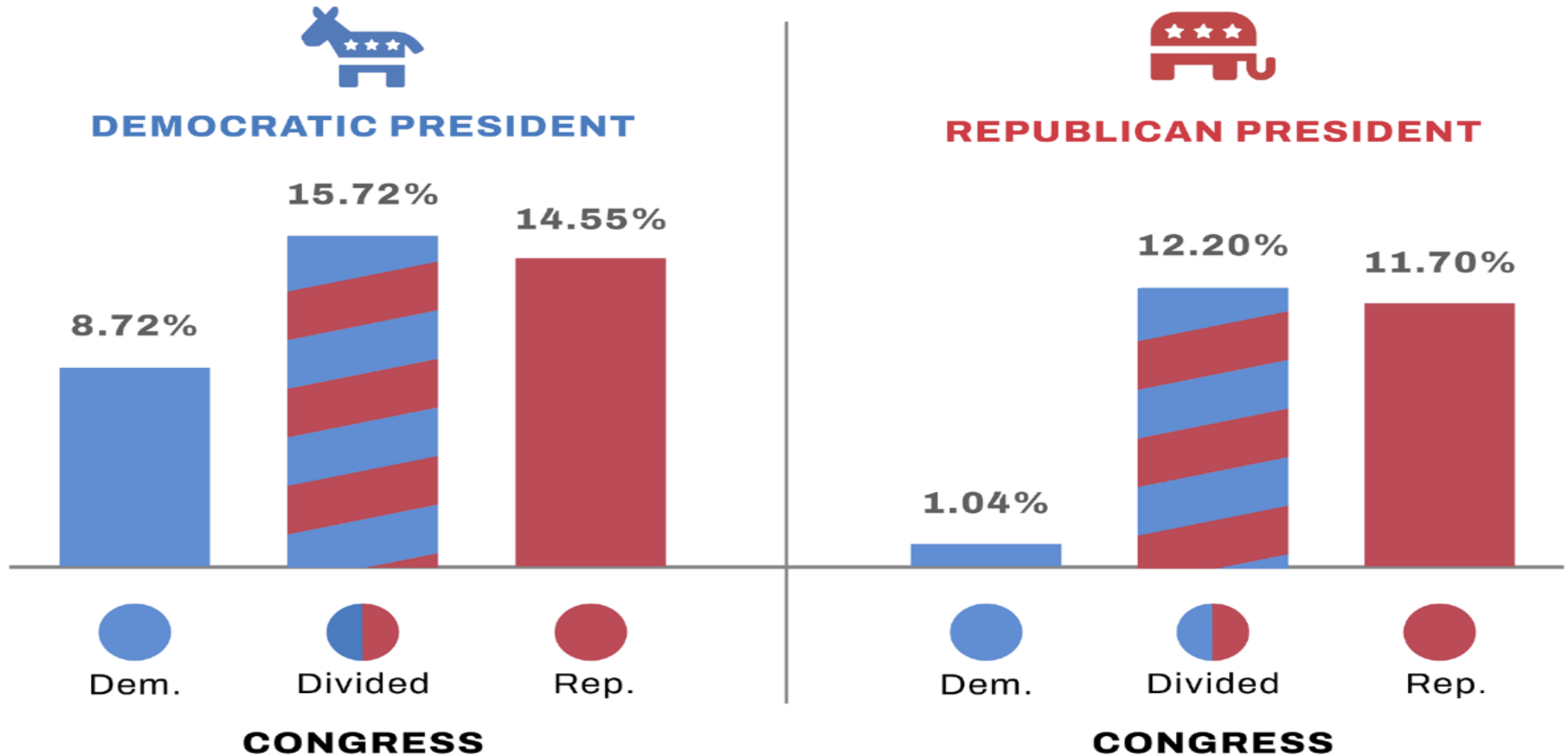


# Special Topics

- Election



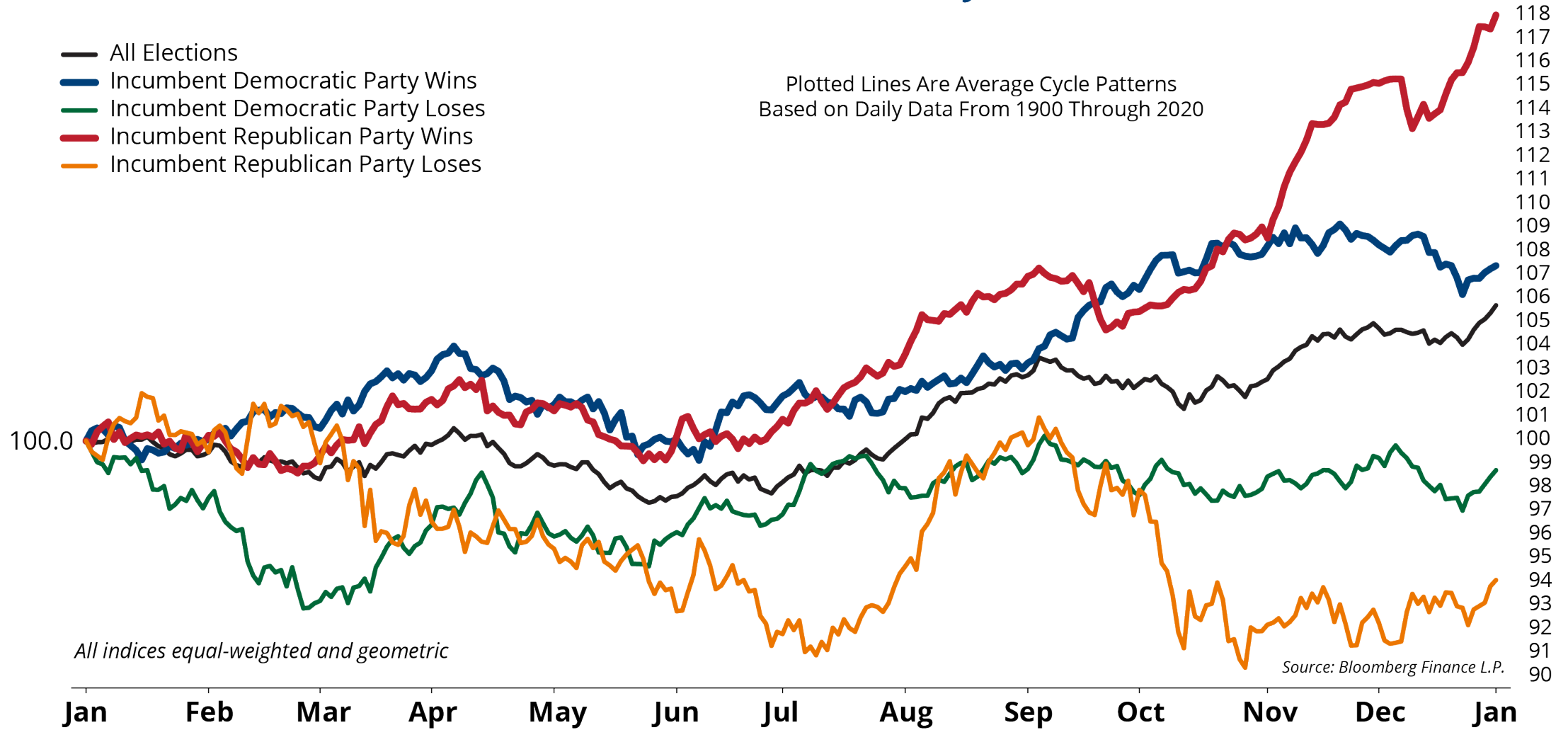
# Average Annualized S&P 500 Performance 1950-2023



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



# Dow Industrials — Presidential Election Year Cycle II



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Source: Ned Davis Research

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



# Final Thoughts

- Economy is slowing, but we think odds favor a soft landing
- Earnings growth is solid and should drive stocks higher
- Inflation should continue to ease
- The Fed should start to cut rates soon and that will be a tail wind for stocks and bonds
- Interest rates are still elevated which is a good opportunity to lock in cash flow for the long haul
- The election will provide uncertainty/volatility, but should not disrupt earnings growth which is really what matters





Q&A



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adverse market, economic, regulatory, political, or other developments affecting those sectors.

Fixed incomes 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), extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase), and inflation risk (rising prices will lower the purchasing power of the investment at maturity).

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# Benchmark Descriptions

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.

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 MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries, excluding the US, and 26 Emerging Markets countries covering approximately 85% of the global equity opportunity set outside the US.

The Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. It is used to predict the direction of global economic movements in future months. The index is composed of 10 economic components whose changes tend to precede changes in the overall economy.

Gross domestic product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

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.

The volatility (beta) of an account may be greater or less than its respective benchmark.

The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the “risk free” rate when valuing the markets or an individual security. GDPNow is a forecasting model that provides a “nowcast” of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis.

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.

The 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 nonfarm payroll measures the number of workers in the U.S. except those in farming, private households, proprietors, non-profit employees, and active military.

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

The benchmark is the S&P MidCap 400 Index. The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

The Core Consumer Price Index (CPI) measures the changes in the price of goods and services, excluding food and energy.

The 3-month Treasury yield is the effective annual interest rate paid by the U.S. government to a bondholder with a maturity of 3 months.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 10% of Russell 3000 total market capitalization.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

