July 2024

Clark Capital Management Group

Monthly Moves

Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Weakness in the large-cap Technology and Communication sectors combined with expectations of the first FOMC rate cut since March 2020 prompted a significant rotation into stocks sensitive to monetary policy. Undervalued small-caps and mid-caps outperformed and most factor-based S&P indices posted gains led by dividend and value strategies away from growth and momentum stocks which have led the market since late 2022.

To date, 315 S&P 500 companies (58% market cap) have reported 2Q results. Reported sales growth is +4.8% and earnings growth is +12.9%, surpassing expectations by +1.0% and +4.4%, respectively. This puts overall sales growth on track for +5.2% and earnings growth for +10.7% (based on reported figures and consensus). While the earnings recovery seems to be broadening, overvalued large-cap companies that have missed expectations have been punished.

Treasury yields have come in sharply as expectations of rate cuts have accelerated. As of this writing, the market is now expecting the equivalent of four rate cuts by year end and the 10-year Treasury note yield is testing the December lows near 3.8%.

Below are strategy updates from July:

Navigator® All Cap Core U.S. Equity

- Navigator® All Cap is positioned with approximately 74% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, the two most recent additions to the portfolio were a banking company and a large healthcare services provider. The most recent exit was an energy services company.

High Dividend Equity

- Navigator® High Dividend Equity is positioned with approximately 97.8% in developed countries with the remainder in cash. The United States is the largest country weight at 91.4%, followed by Britain at 3.1% and Ireland at 1.7%. Large-cap represents 90.9% of the portfolio, 6.9% of the portfolio is mid-cap, and the remainder is in cash.
- Financials remain the largest sector weight at 23.8% and above the benchmark weight. The next three largest portfolio weights are Healthcare, Industrials, and Information Technology at 14.3%, 14.0%, and 8.5%, respectively.
- We continue to increase our exposure to the Healthcare sector due to improving business fundamentals. To this end, we added an American health insurance provider. We sold our position in a German multinational technology conglomerate.

Navigator® International Equity ADR

- Navigator® International Equity/ADR is positioned with ~14% 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 19%.
- ADR's exposure to China is now ~6%, which is roughly in line with its weighting in the All-Country World less US benchmark.
- Financials, Industrials, and Information Technology are our largest sector weights.

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

- During the month, to benefit from improving business fundamentals, we added a British-American global asset management firm, a Swiss pharmaceutical company and UK-based insurance and risk management company. We exited our position in a Mexican financial services company and a U.S.-based industrial technology company.

Taxable Fixed Income

- Within the portfolio, the focus remained on adding bonds in the 5 to 7-year portion of the curve. This was the cheapest part of the credit curve from a spread perspective and allowed the portfolio to take advantage of the move lower in rates by adding duration.
- Bank bonds continued to be traded in the portfolio, including selling a 5-year bond and purchasing a 10-year bond, which added 20 basis points of yield, reduced the price by 6 points, and added total return potential. At the same time, new issue bonds were added while lower duration, lower yielding energy names were sold. This added almost 50 basis points of yield along with the potential for increased total returns going forward.
- On the other end of the yield curve, bonds with 1-year duration and less continued to be added as the yield curve remained inverted and the highest yields are reflected here. We believe this combination provides the highest yield while still maintaining the highest potential total return.

Tax-Free Fixed Income

- The Bloomberg Municipal 5-year index continued to rebound and closed the month up 1.03% (Bloomberg data), which moved the year to date return positive at 0.22%.
- Overall, yield to worst dropped 0.22% during the month from 3.42% to 3.20%, down from a year to date peak of 3.63% at the end of May, largely mirroring the substantial move lower in taxable yields.
- Muni/Treasury ratios were modestly higher alongside the move lower in rates. The 5-year point ended the month at 71%, up from 68% as the Treasury yield declined by 46 basis points. The 10-year point ended at 69%, up from 65% as the Treasury yield declined by 36 basis points.
- July's new issue pipeline remained robust at $41 billion. While this was slightly below the June total of $47.6 billion, it was +47% vs. July 2023 and +20% vs. the 5-year average for the month.
- Inflows into the muni market were strong as the move in interest rates pushed buyers in. All-term muni funds saw inflows of approximately $6 billion for July.

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Clark Capital's Top-Down, Quantitative Strategies

The rotation in the equity markets away from large-cap growth and Technology stocks into small-cap and value stocks was fast and furious. The Russell 2000 Small Cap Index gained over 10% while large-cap growth stocks declined nearly 2%, bringing the total July return spread to 12%. The valuation landscape supported the rotation based on forward P/E multiples with small-cap core trading at a 31% discount to large-cap core and large-cap value trading at a 44% discount to large-cap growth at month end. All the market needed was a catalyst and the June inflation print and rate cut expectations provided the fuel.

Our risk-based credit models remain in a risk-on position. The Bloomberg U.S. Corporate High-Yield Index ended July trading at a new all-time high and investment grade corporate debt surged higher as duration benefited from anticipated rate cuts coming soon.

Below are strategy updates from July:

Alternative

- Alternative credit and event-driven equity led the mutual fund core, while managed futures lagged.
- The portfolio took profits on some recent winners, including gold, biotech, and micro-caps, but did not sell out of any of these positions.
- We added a position in uranium miners. We maintain select niche equity positions, but we are overweight cash until we find a tactical opportunity to take on risk at lower levels.

Fixed Income Total Return (MultiStrategy Fixed Income)

- While equity markets have undergone a dramatic rotation towards mid-caps and small-caps and away from large-cap growth, credit markets have been rock steady and uneventful, providing confirmation that riskier high yield credit should continue to be rewarded.
- Our models continue to favor high yield over Treasuries and cash, with Treasuries now preferred as a potential defensive vehicle.

Global Risk Management

- A huge surge in small-cap stocks since the June CPI report now has pushed small-caps ahead of the S&P 500 since we purchased equities.
- Credit markets remain stable and solid, and they simply yawned at the rotation out of mega-cap Technology companies into small-caps, indicating that all was quiet on their front.
- Our models continue to indicate that a risk-on stance should continue, and eventually Treasuries should become the defensive vehicle of choice.

Global Tactical

- Our credit-based models continue to signal a strong fundamental backdrop for risk assets, and they have not faltered very much since they turned positive in November.
- A huge surge in small-cap stocks since the June CPI report now has pushed small-caps ahead of the S&P 500 since we purchased equities.
- International stocks have produced solid but lesser gains; we believe a stalling U.S. dollar could provide them a boost.

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Sector Opportunity

- The portfolio continues to own Technology, Semiconductors, and the NASDAQ 100, but has reduced those positions as the market rotation has begun in earnest.
- New additions include Banks (regional and large-cap), Infrastructure, Homebuilders, and Industrials.
- Defensive sectors like Utilities and Staples have gotten no traction as the risk environment continues to favor the bold.

Style Opportunity (MultiStrategy Equity)

- The June CPI report provided the confirmation markets were yearning for – that inflation is under control and the Fed can begin cutting rates.
- A dramatic rotation ensued, as large-cap growth, the prior winner, was sold off while small-caps (often interest rate sensitive) rallied massively.
- Our models had been positioned in large-cap growth and the S&P 500, but as the rally took hold, we began to established positions in mid-caps and small-caps. As August began, the portfolio was positioned with 20% to large-cap growth, 28% to the S&P 500, and 50% to mid-caps and small-caps (with a growth bias).

U.S. Strategic Beta

- The surge in mid-cap and small-cap stocks after the June CPI report proved beneficial, as our overweight in mid-caps and small-caps began to pay off.
- The portfolio remains neutral with regard to value vs. growth stocks; however, upon a further and deeper correction, we could look to add to our position in growth stocks at more attractive levels.

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