August 2024

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Clark Capital's Bottom-Up, Fundamental Strategies

Most broad equity indices rallied in August as interest rates fell further at the short end, steepening the U.S. Treasury yield curve. This was supported by a continued slow descent in Personal Consumption Expenditures (PCE) and Core PCE inflation, which landed at 2.6% and 2.5%, respectively. Business momentum among the largest stocks continues to push both 12-month earnings estimates and prices to new highs. In our view, the relative attractiveness of small-cap, SMID-cap, and international equities is intact. We believe the current environment provides investors an opportunity to true-up their asset allocation and create greater diversification among equity classes.

Credit remained firm throughout the month as rates declined across the market. For example, the yield to worst on the Bloomberg Investment Grade Corporate Index moved lower to 4.72%, the lowest it's been in two years. Lower overall yields and stable credit spreads contributed to a fourth straight month of positive total returns for investment grade corporate debt.

Below are strategy updates from August:

Navigator® All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately ~72% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, to capitalize on improving business fundamentals, the three most recent additions to the portfolio were a beverage and spirits company, a leading digital payments provider, and a luxury apparel brand.
- The three most recent exits included a manufacturer of electrical products, a semiconductor equipment supplier, and a retailer specializing in home goods.

High Dividend Equity

- Financials represent the largest sector weight in the portfolio at 24.5%, which is above the benchmark weight. The next three largest portfolio weights are Healthcare, Industrials, and Information Technology at 15.3%, 14.1%, and 8.0%, respectively.
- To capitalize on strengthening business fundamentals, the latest portfolio addition was an energy infrastructure firm specializing in the transportation, sale, and processing of natural gas. This company features a strong combination of gas transmission and dry gas-oriented gathering and processing assets, with a favorable earnings trajectory driven by increasing liquified natural gas export demand. Recent portfolio sales included an energy company and a retail home goods retailer, reflecting a decline in their business momentum.
- Portfolio exposure in Healthcare and Information Technology contributed to relative performance versus positioning in Consumer Discretionary and Real Estate, which acted as a drag.

Navigator® International Equity ADR

- Navigator® International Equity/ADR is positioned with ~15% in emerging markets with the balance in developed economies and cash. Britain, Ireland, and Japan are the strategy's largest country weights, all ranging between 11% and 18%.
- ADR's exposure to China is now ~6.6%, which is slightly above 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.

Clark Capital Management Group

Monthly Moves

Charting Our Strategies

- During the month, to capitalize on improving business fundamentals, the three most recent additions to the portfolio were a global automotive technology firm based in the U.K., a Swiss pharmaceutical company, and a leading e-commerce giant from China.
- The three most recent exits included a prominent video game company from Japan, a major Chinese online retail platform, and a Chinese internet services provider.

Taxable Fixed Income

- Within the portfolio, the focus was on adding higher yielding, intermediate maturity bonds to take advantage of the move in interest rates.
- In bank bonds, trades were executed to increase yield significantly while reducing interest rate risks. For example, 3-year bonds in a banking company were added at a yield of 4.83%, which pulled the overall yield of the portfolio higher while reducing duration. Other short bonds in improving companies like an American car manufacturer were also added to increase the yield of the portfolio.
- We believe continuing to add bonds like these will help provide the portfolio with attractive yield while positioning for ongoing normalization of the yield curve.

Tax-Free Fixed Income

- The Bloomberg Municipal 5-year Index posted another positive month, returning 1.29% in August (Bloomberg data).
- Despite a month usually muted with vacations and decreased market action, August's new deal pipeline kept the spigot open, as issuers continued to eagerly issue before the election dynamic fully sets in.
- August supply totaled approximately $49B, which was a whopping 43% above the last decade's average. This was made even more impressive when you include the fact that the lookback considers other election periods as well as the COVID period. It is the year's largest issuance month to date and the fourth month this year to come in above $40B. (Municipal Markets Analytics data).
- We continue to closely monitor the shape of the muni yield curve and celebrate its continued normalization.
- We continue to increase exposure in industrial revenue bonds (IDRs), pollution control revenue bonds (PCRs), and housing bonds to better align with index holdings and take advantage of the additional yield they offer in intermediate maturities.

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Clark Capital's Top-Down, Quantitative Strategies

On August 5th, the CBOE Volatility Index (VIX) surged to its third highest intraday level on record, with higher levels reached only during the 2008 Global Financial Crisis and early 2020 during the COVID market meltdown. However, our credit models remained very bullish, indicating that August's decline was just a correction, and not the start of deeper market selloff.

Below are strategy updates from August:

Alternative

- Alternate credit, event driven securities, and equity long/short lead the mutual fund core, while managed futures have struggled amid equity and interest rate volatility.
- The portfolio reduced equity exposure slightly in late August and maintains positions in gold, silver, and metals mining. Other commodities are to be avoided.

Fixed Income Total Return (MultiStrategy Fixed Income)

- The Fed has signaled that an easing cycle should begin in September, and credit markets continue to display strength.
- Though high yield spreads expanded by 80 basis points briefly when Japan raised interest rates, spreads had recovered completely by the end of the month, indicating a fundamental underlying strength in corporate balance sheets.

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

- U.S. markets experienced a sharp, but extremely brief correction in early August, but spent the rest of the month recovering. Our models never wavered in their risk facing stance. As August progressed, market breadth improved. International markets showed improved performance, largely due to dollar weakness.

Sector Opportunity

- Financials, Utilities, and Real Estate have benefitted from the market's belief that the Fed will soon enter an easing cycle, which was finally confirmed at Jackson Hole.
- Homebuilders and Aerospace also continue to rank highly, while Technology, Materials, and Energy have displayed weakness and stand at the bottom of our matrix.

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Style Opportunity (MultiStrategy Equity)

- Few equity styles have separated themselves and established a leadership trend.
- Small-caps and defensive value have improved, driven by Financials and rate sensitive sectors.
- The Style portfolio has increased its exposure to small-caps, but also allocates to large-cap growth while also establishing a large-cap value position in early September.

U.S. Strategic Beta

- In early August, the portfolio sold its holdings in minimum volatility and added to large-cap growth, which had been beaten down during the correction.
- The portfolio continues to overweight mid-caps and small-caps and is largely neutral regarding value vs. growth.

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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 of an investment), credit, payment, 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).

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries.

The "Economic 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. For educational use only.

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.

A 10-year Treasury note is a debt obligation issued by the U.S. Treasury Department that has a maturity of 10 years.

The CBOE Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index (SPX).

The Bloomberg 5-Year Municipal Bond Index provides a broad-based performance measure of the U.S. municipal bond market, consisting of securities with 4-6 year maturities.

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

Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations. Looked at another way, the Treasury yield is the effective interest rate that the U.S. government pays to borrow money for different lengths of time.

The MSCI All Country World Index (ACWI) ex US is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 22 of 23 developed countries and 24 emerging markets.

The chartered financial analyst (CFA) charter is a globally-recognized professional designation offered by the CFA Institute, an organization that measures and certifies the competence and integrity of financial analysts.

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 securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

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