

# Monthly Moves

## Charting Our Strategies

### Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

### Clark Capital's Bottom-Up, Fundamental Strategies

Equities continued their steady advance in September as U.S., European, and Chinese central banks eased monetary policy as the risks from labor weakness now outweigh the prior threats from inflation. Now approaching the Fed's 2% objective, August's Personal Consumption Expenditures (PCE) and Core PCE (2.2% and 2.7%, respectively) have enabled the Fed to lower the short-term rates by 0.50% as they focus on their full employment mandate.

A positive inflation trajectory, the Federal Reserve's 50 basis point rate cut, and China stimulus broadened the market rally to include dividend-based strategies and value-oriented sectors. Six of the nine S&P style boxes made all-time highs, and most sectors were positive led by Utilities and Consumer Discretionary. Market leadership reversed from long-term trend leaders Technology and Communications to rate sensitive, small-cap and defensive sectors. After reaching new market highs in September, seasonal trends suggest defensive sectors could continue to perform well leading up to the Presidential Election.

Below are strategy updates from September:

#### Navigator® All Cap Core U.S. Equity

- Navigator® All Cap is fully invested 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 most recent addition to the portfolio was a leading electronic signature and digital transaction management company.
- The top three contributors to absolute portfolio return in the month were a construction and facilities management company, a social media and technology firm, and a luxury apparel brand. The top three detractors to absolute portfolio return in the month were a prominent global banking institution, an independent energy company, and a well-known sporting goods retailer.

#### High Dividend Equity

- Navigator® High Dividend Equity is positioned with approximately 98.6% in developed countries with the remainder in cash. The United States is the largest country weight at 91.7%, followed by Britain at 3.5% and Ireland at 1.8%. Large-cap stocks represent 91.8% of the portfolio, mid-cap stocks represent 6.8%, and the remainder is positioned in cash.
- Financials represent the largest sector weight at 24.0% and above the benchmark weight. The next three largest portfolio weights are Industrials, Healthcare, and Information Technology at 14.7%, 14.6%, and 8.7%, respectively.
- A recent portfolio addition was a major biopharmaceutical company, which engages in the discovery, development, licensing, and manufacturing of biopharmaceutical products. The FDA recently approved this company's new schizophrenia drug, which is the first treatment for the mental disorder in over 70 years. The company has a dividend yield of 4.5% with a 5-year dividend growth rate of 7.5%.

*Past performance is not indicative of future results.*

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



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### Navigator® International Equity ADR

- Navigator® International Equity/ADR is positioned with ~16% in emerging markets with the balance in developed economies and cash. Britain, China, Ireland, and Japan are the strategy's largest country weights, all ranging between 9% and 21%.
- ADR's exposure to China is now ~9.6%, slightly above its weighting in the All-Country World less U.S. benchmark.
- Consumer Discretionary, Financials, Industrials, and Information Technology are our largest sector weights.
- During the month, to benefit from improving business fundamentals, the three most recent additions to the portfolio were a major global hotel chain based in the UK, a leading e-commerce platform based in China, and a well-known retail group also based in the UK. The two most recent exits were a digital payments company based in Brazil and a Chinese e-commerce holding company.

### Taxable Fixed Income

- During the month, the portfolio remained focused on adding higher yielding, intermediate maturity bonds to take advantage of the continued normalization in the yield curve.
- An international bank based in the U.S. was added at a yield of 5.25%, while we sold bonds from a well-known home improvement retailer at a yield of 3.95%. This rotation out of lower-yielding names into higher-yielding, yet still solid credit quality, names should continue.
- As bonds mature, the proceeds have been reinvested into similar intermediate names like a prominent food and beverage company and a well-known packaged food brand, with yields remaining in the 4.25-4.5% range.
- Continuing to add bonds like these will potentially help provide the portfolio with attractive yield. It will also be positioned to benefit from further normalization of the yield curve and potentially larger moves lower in shorter maturity bond yields, thus providing a higher total return.

### Tax-Free Fixed Income

- We will be keeping an eye on credit as we head into Q4 and approach the general elections. Debt issues on ballots as well as possible broad administration changes could pose tailwinds or headwinds to municipal price direction and overall credit.
- While we do see supply easing in November and December, October could prove challenging as issuers rush to market prior to the election. Throw in some political turmoil in NYC and sadly, storm damage during hurricane season, market footing could prove challenging.
- Within the portfolio, we added to Industrial Revenue (IDR), Pollution Control Revenue (PCR), Housing, and Power sectors through the month to augment our core high grade holdings with yield and to seek an opportunity for total return.
- Credit spreads have rallied through the month, and given their tendency to widen in elections (as has occurred in 4 of the last 5 elections according to BAML data), we will begin to reduce our pace of allocations there and look for performance in alternative high-grade structures.

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### Clark Capital's Top-Down, Quantitative Strategies

It was a positive month for markets across asset classes in what is normally a seasonally weak period ahead of the Presidential Election. The markets were buoyed by rate cut expectations and the Fed delivered with a 0.50% rate cut. With the rate cut, the environment has now shifted to a global coordinated rate cut/liquidity cycle. Additional rate cuts are expected with the market pricing in 2-3 more cuts by the end of the year.

The S&P 500 gained 2.14%, the Russell 2000 Index of small-cap stocks gained 0.70%, MSCI SACWI ex-U.S. gained 2.69%, the High Yield Index gained 1.62%, and the Aggregate Bond Index gained 1.34%. Through three quarters of the year, the S&P 500 gained 22.08%, its 9th best return through September 30th since 1950. Three rules apply to today's market: don't fight the Fed, don't fight the tape, and watch credit.

In our opinion, all three continue to be supportive of risk assets. The Presidential Election is now about a month away. Polling suggests a very tight race that likely will come down to the wire. We expect some level of heightened election volatility. As long as credit trends remain strong and supportive, which they have all year, we would view any volatility and associated market weakness as a buying opportunity and a pause that refreshes.

Below are strategy updates from September:

#### Alternative

- Equity, long-short equity, and fixed income led the mutual fund core, while a lack of sustained trends continued to make managed futures the laggard.
- The portfolio recently reduced equities and added to precious metals, which are making new short-term highs.
- We continue to hold a cash buffer to shield the portfolio against election-related volatility.

#### Fixed Income Total Return (MultiStrategy Fixed Income)

- High yield and credit markets continue to appear remarkably strong.
- During the yen-related volatility in July and August, high yield held steady, and has advanced considerably since then.
- Spreads have fallen down below 3%, indicating a strong credit backdrop that may keep the Fixed Income Total Return portfolio positioned in high yield over the intermediate-term.

#### Global Risk Management

- The portfolio maintains its risk-on position established in November, and credit markets remain stout.
- The riskiest portion of credit markets, CCC-rated high yield bonds, made new high versus investment grade bonds — an indication that recession is still far distant.
- We expect to continue to favor U.S. and international stocks into the fourth quarter.

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### Global Tactical

- The credit-driven models that guide the Global Tactical strategy's allocations remained quite strong, despite equity volatility during the quarter.
- Market breadth improved notably, as investors welcomed a new Fed easing cycle.
- Small-caps, international equities, and emerging markets all outperformed the S&P 500 during the quarter.

### Sector Opportunity

- The portfolio favors Financials, REITs, Utilities, Homebuilders, and Aerospace and Defense. Technology and Semiconductors are to be avoided.
- Consumer Discretionary was just added and Industrials are on the rise, as they have found life with the Fed easing cycle now officially underway.

### Style Opportunity (MultiStrategy Equity)

- During the Tech-driven correction in July and August, large-cap growth was the laggard, but it has regained considerable ground since.
- Over the longer-term, value vs. growth is now largely neutral, and the S&P 500 has risen near the top of our rankings.
- The current portfolio slightly favors large-cap value, but also owns large-cap growth and has increased its position in the S&P 500.

### U.S. Strategic Beta

- The portfolio added a minimum volatility ETF to provide a buffer against potential fourth quarter volatility.
- Once the markets have direction following the election, the risk environment should be clearer, and the portfolio could well add to mid-cap and small-cap stocks, along with growth stocks.

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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. Securities are 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.

CCC-rated bonds are generally more volatile than higher-rated bonds, which can lead to greater price fluctuations and potentially higher losses. Interest rate risk.

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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 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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