

# Q2 2021 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.



## Executive Summary

- Global Economies and Earnings Are Rebounding
- Three Positive Gauges, Two Negative — No Changes
- Year End Target for S&P 500 is 4150 — No Change
- 2021 Target Range for 10-Year Treasury Is 0.75% — 1.75%
- Expect more volatility and less return in 2H of year



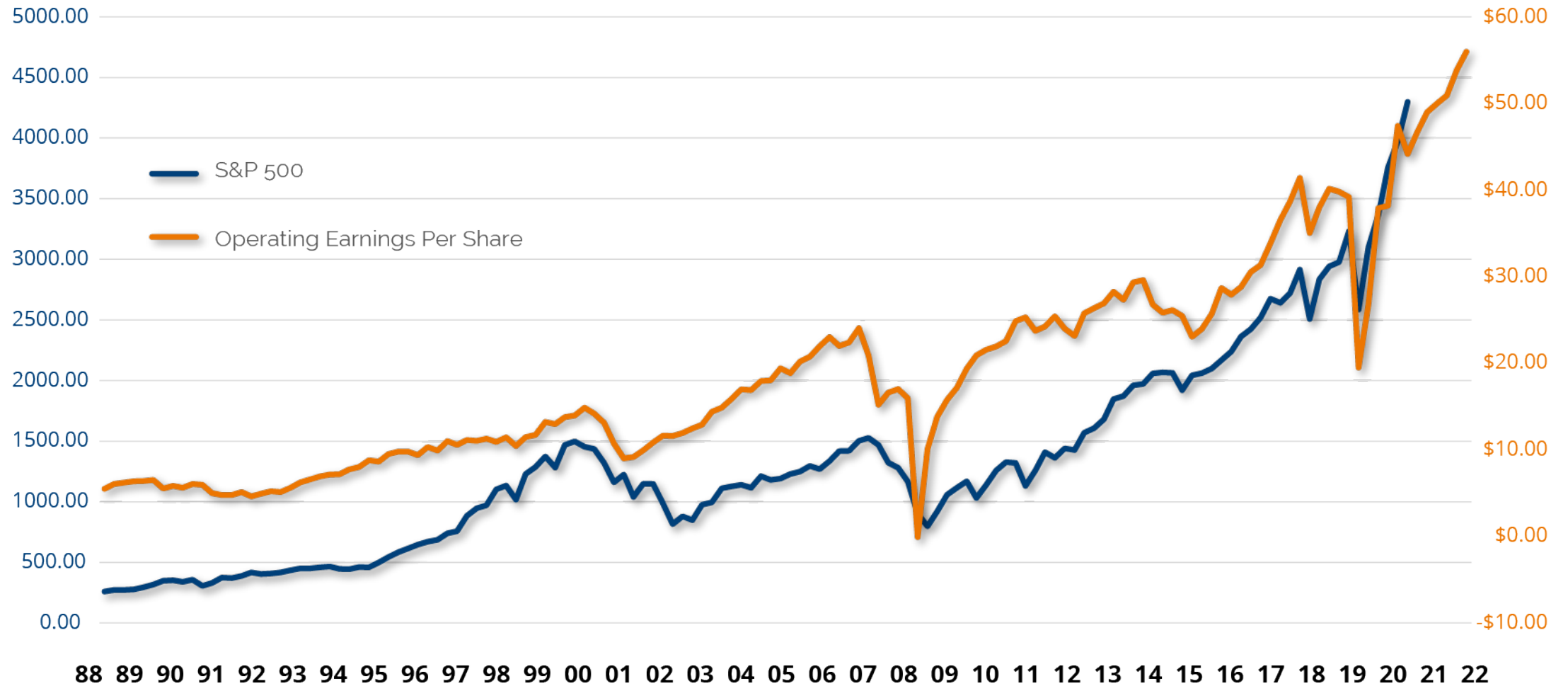
## Why is the Economic Gauge so Positive?

- Post-pandemic growth — way above trend
- Earnings rebound sharply from pandemic lows
- Labor market recovering, driving consumer spending
- As of 7/9, Atlanta Fed's Q2 GDP forecast is for 7.9%
- 2H Forecast is for GDP growth above 5%
- Why does this matter...GDP helps drive earnings



# Earnings Drive Stock Prices

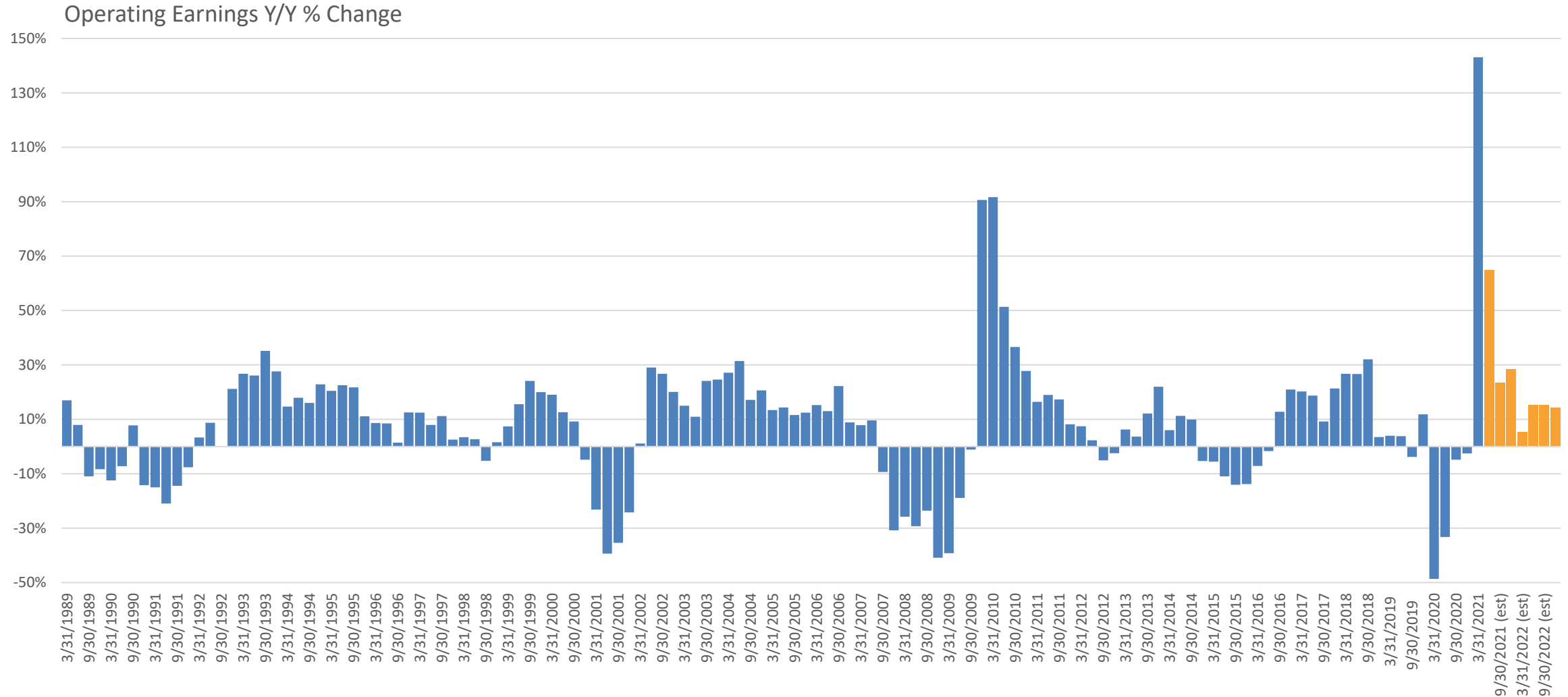
## S&P 500 & Operating Earnings



For illustrative purposes only. Projections or other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially. Past performance is not indicative of future results.



# Earnings Drive Stock Prices

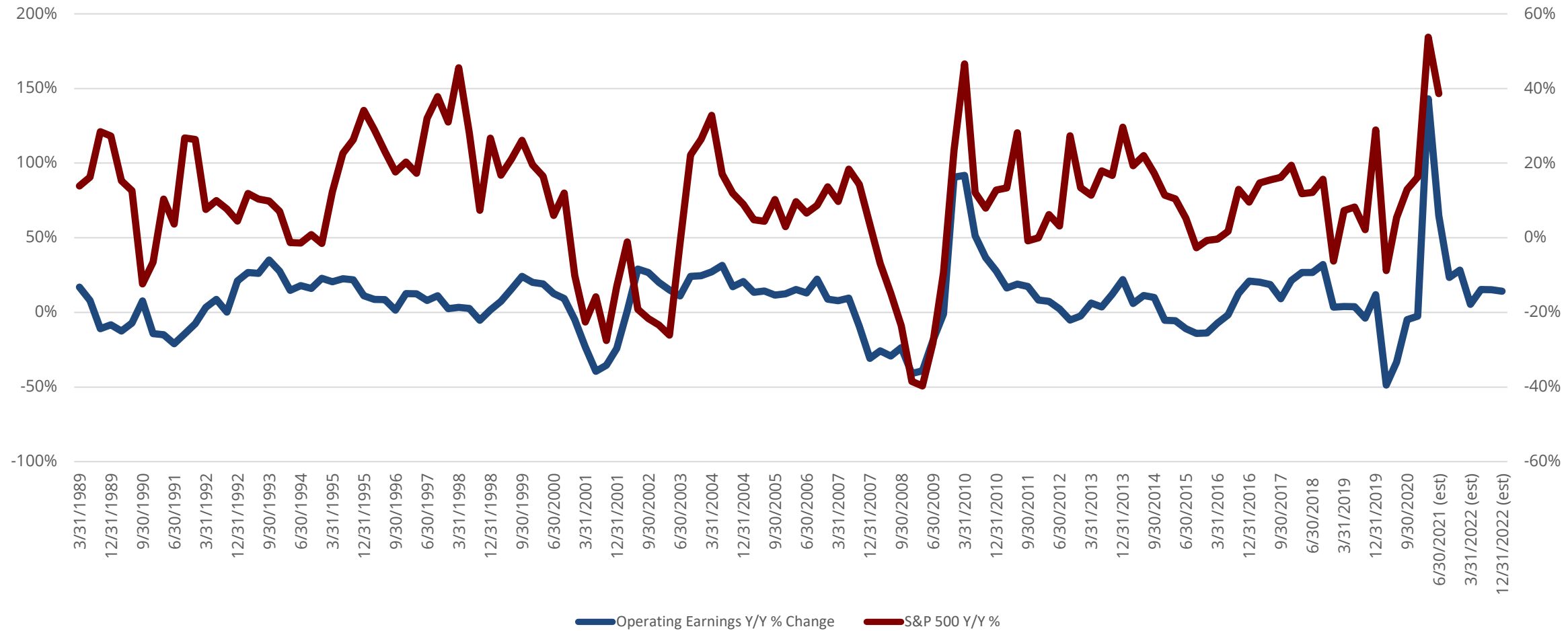


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# Earnings Drive Stock Prices

## S&P 500 & Operating Earnings



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## Why Is the Monetary Policy Gauge So Positive?

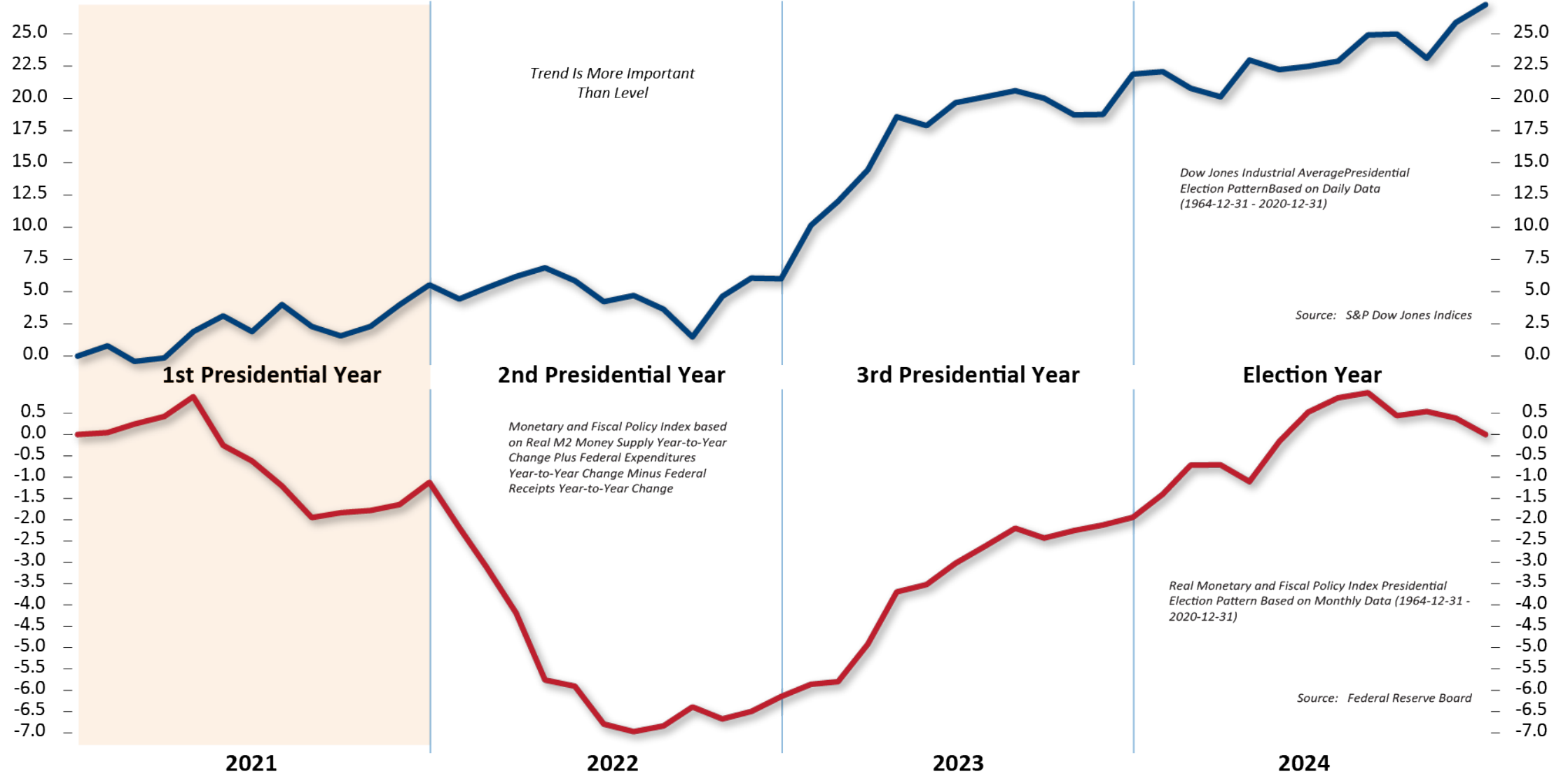
- Fed still in full accommodative mode
- Tapering likely to start next year
- Rate increases likely in 2023
- We believe Fed policy change will likely flatten the yield curve
- Why does this matter...stocks usually do well when Fed is stimulating





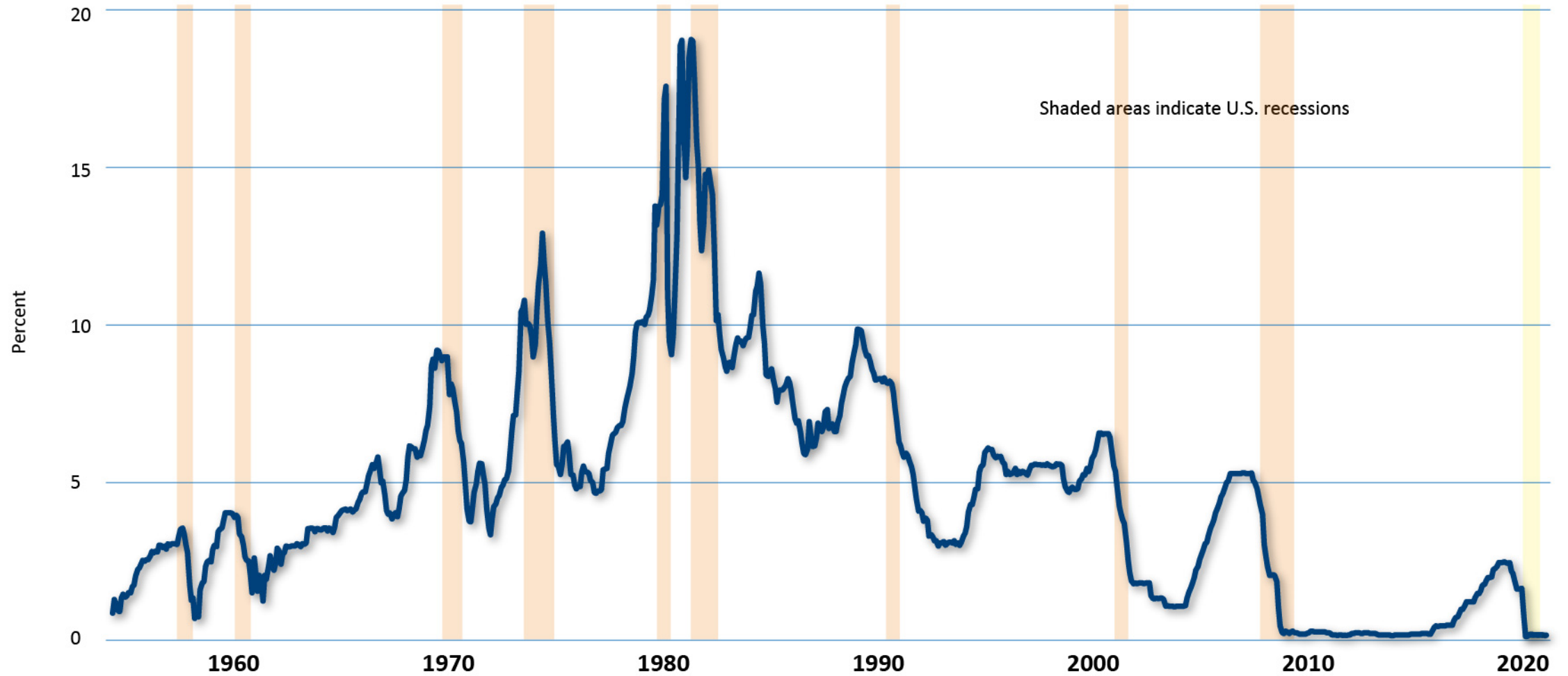
# Fiscal & Monetary Stimulus Has Been a Tailwind

## DJIA and Monetary & Fiscal Policy Presidential Cycles



# Fed Still Has Gas Pedal to the Floor

## Effective Federal Funds Rate



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





# Fed Still Has Gas Pedal to the Floor

**Powell: QE taper likely 'well before' interest rate increase**

- By Reuters Staff



## Why is the Valuation Gauge Slightly Negative?

- Valuations for stocks are above LT averages
- Typically, not great at calling turning points
- Stocks still attractive relative to bonds
- Earnings catching up to stocks
- Why does this matter...stocks still have appreciation potential



# In a Vacuum, Stocks Not Cheap

## S&P 500 Forward vs. Trailing Price/Earnings Ratios

Monthly Data 1983-02-28 to 2021-06-30

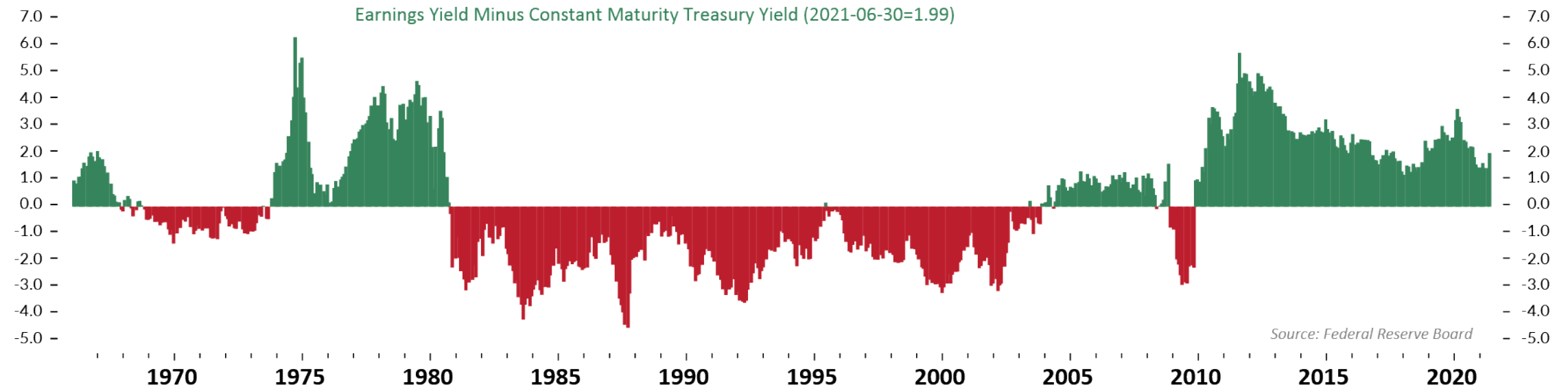
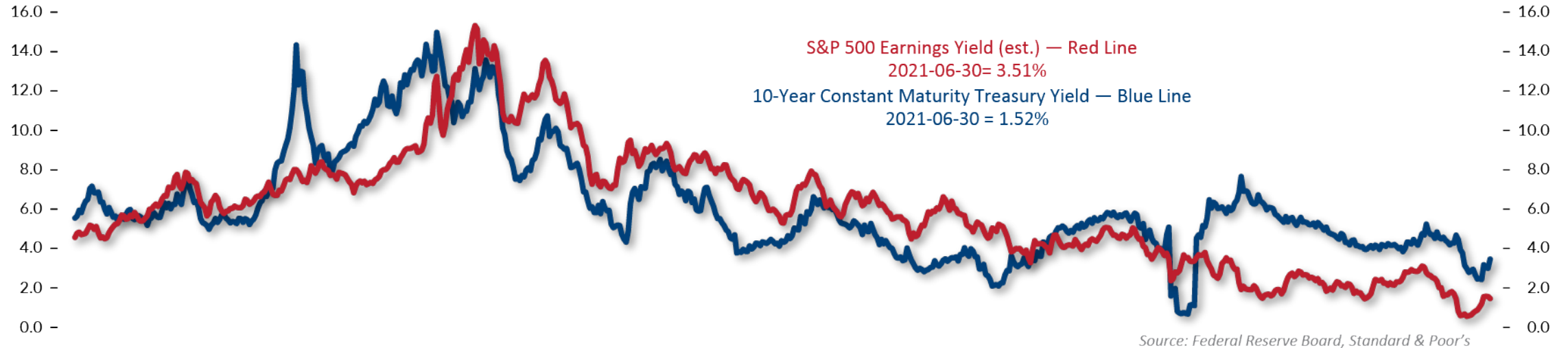


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# ...But are Still Attractive Relative to Bonds

## S&P 500 Earnings Yield vs. 10-Year Treasury Yield

Monthly Data 1966-01-31 to 2021-06-30



Source: Ned Davis Research

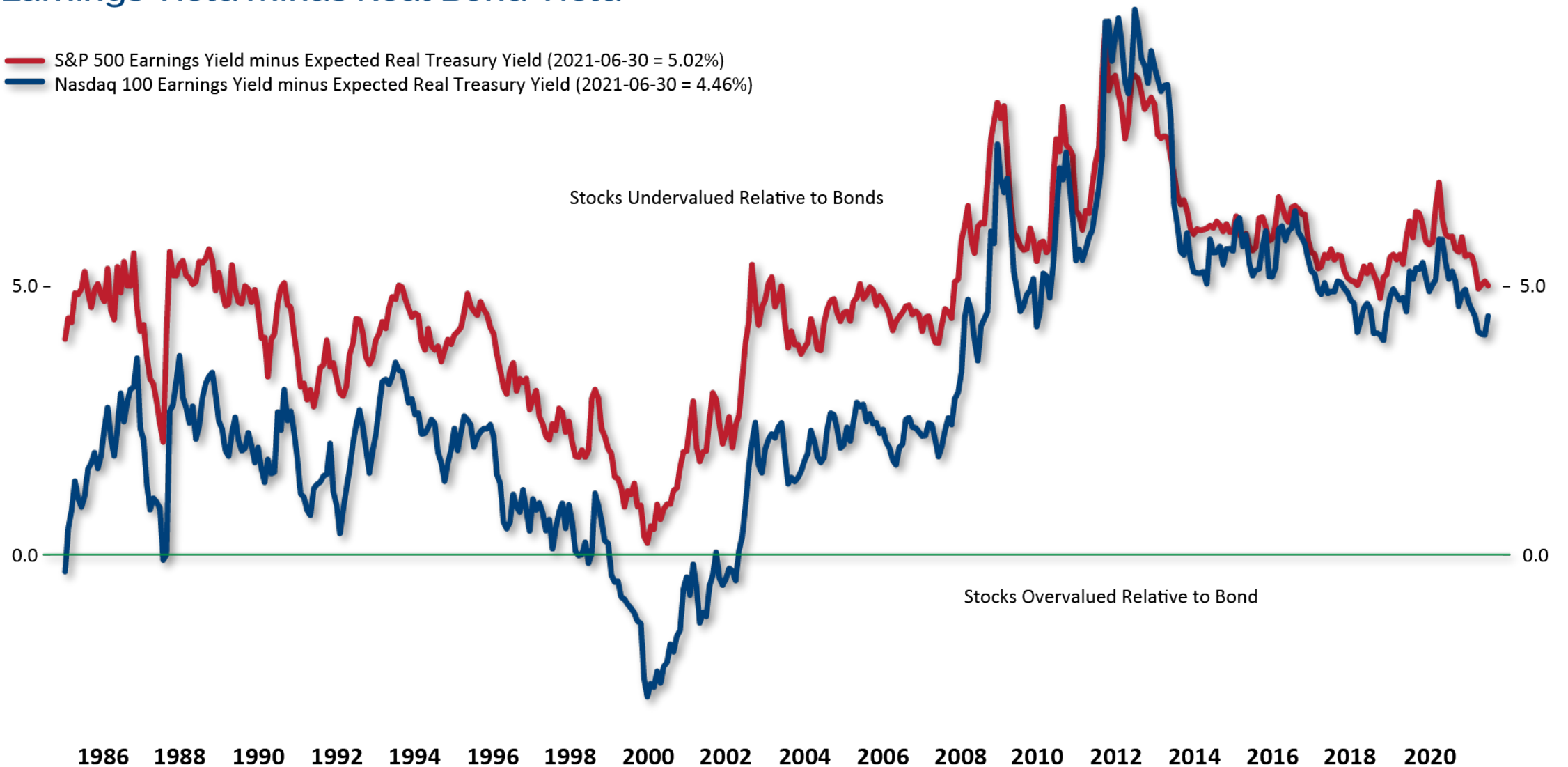


# Especially When Inflation is Considered

## Earnings Yield minus Real Bond Yield

Monthly 3/31/1985 - 6/30/2021

- S&P 500 Earnings Yield minus Expected Real Treasury Yield (2021-06-30 = 5.02%)
- Nasdaq 100 Earnings Yield minus Expected Real Treasury Yield (2021-06-30 = 4.46%)



## Why is the Investor Sentiment Gauge Negative?

- Evidence of speculation
- Often associated with some near-term risk
- Very sensitive gauge — can change quickly
- VIX now lower than LT average
- Why does this matter...could indicate some short-term weakness

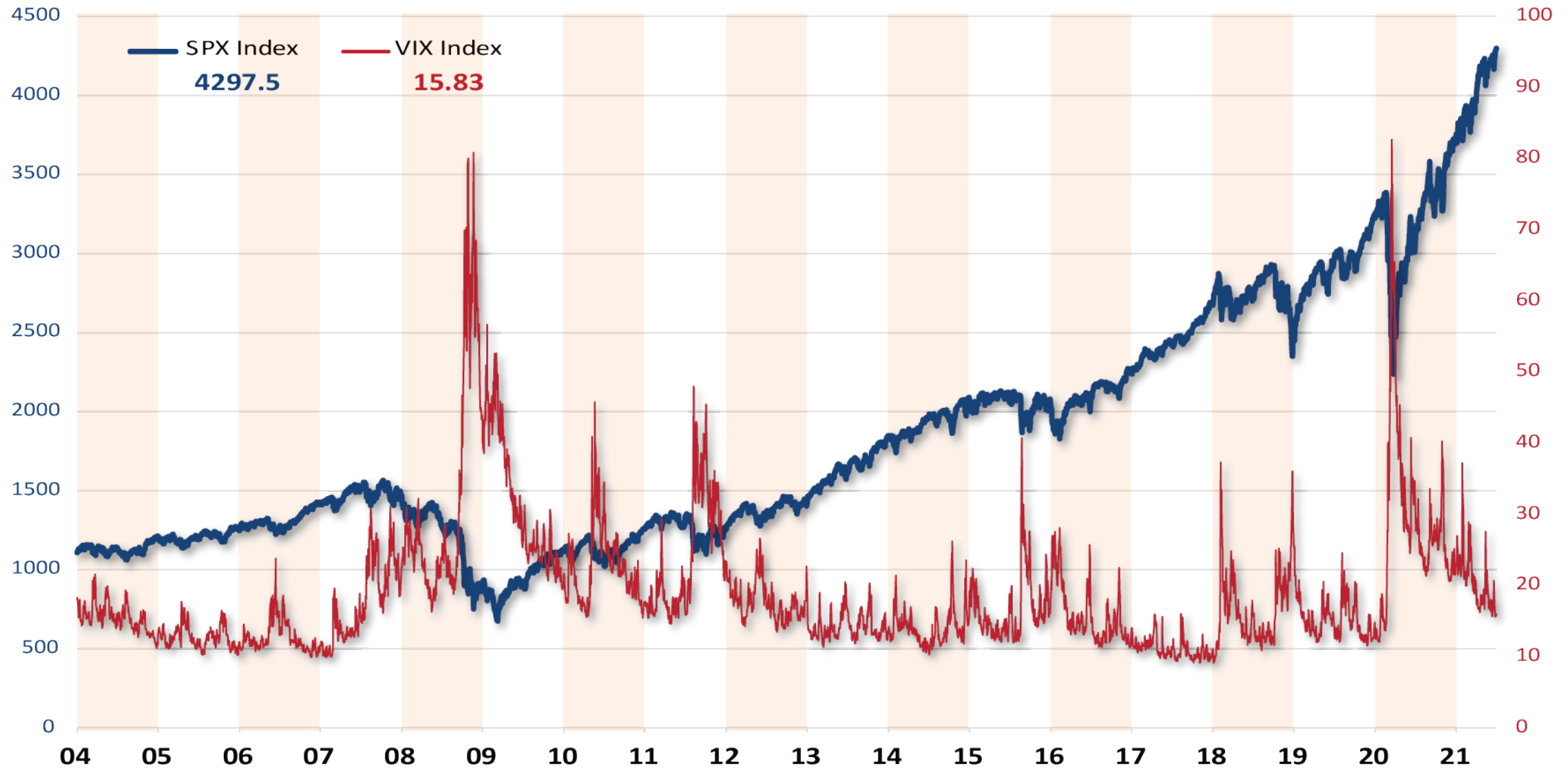




# Investor Sentiment – Volatility Lower

## S&P 500 vs. Volatility

1/1/2004 to 6/30/2021



## Why is the Interest Rate Gauge Positive?

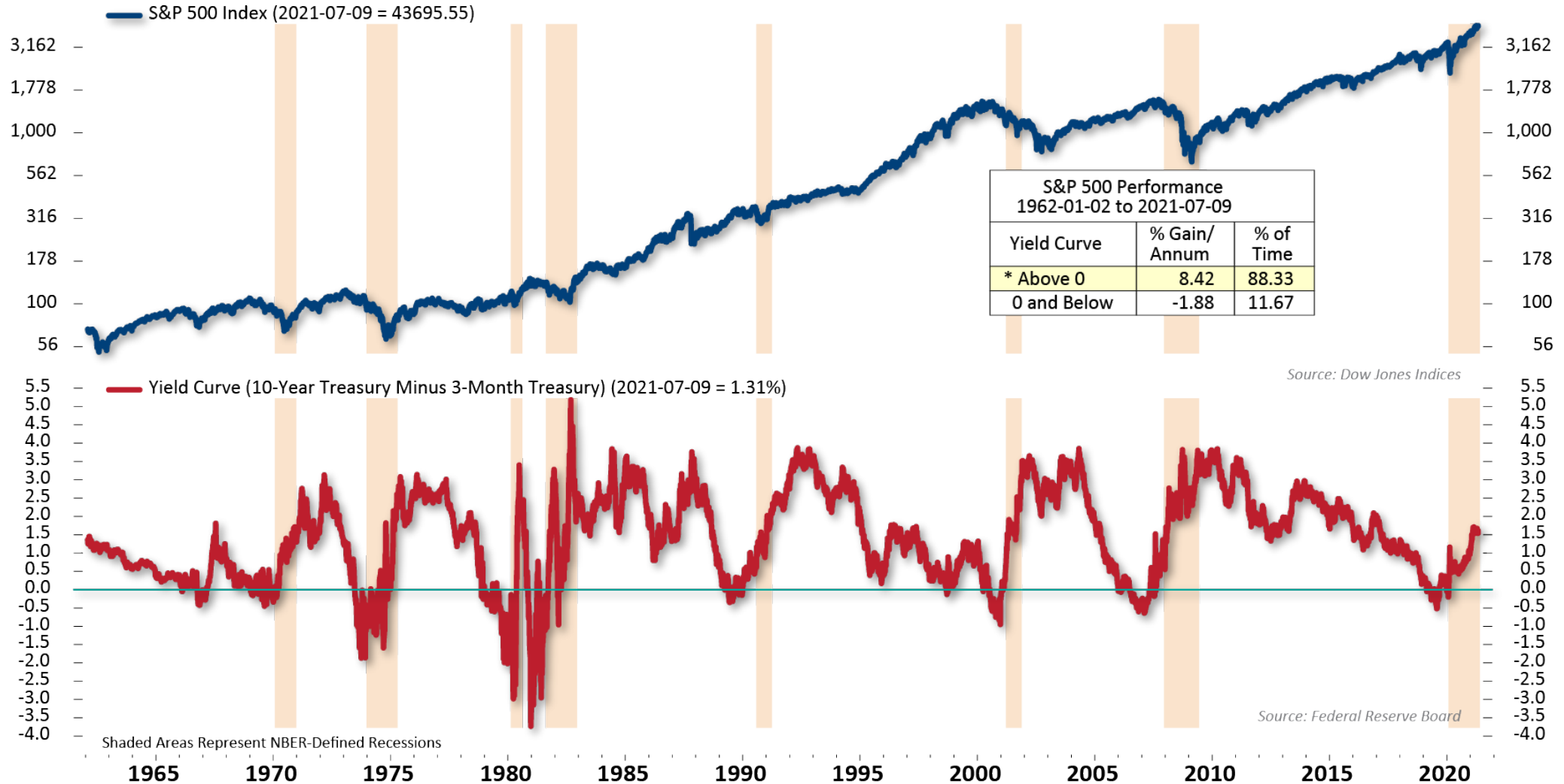
- Rates are low and the yield curve is positively sloped
- The yield on the 10-year Treasury has declined after a sharp move up. A reversal in Fed policy would tend to flatten the curve
- Expect rates to be range bound
- Why does this matter...low rates and positively sloped yield curve are usually favorable for stocks



# Yield Curve Still Positively Slope and Rates are Low

## S&P 500 vs. Yield Curve (10-Year Minus Three-Month)

Daily Data 1962-01-02 to 2021-07-09 (Log Scale)



Past performance is not indicative of future results.



# Special Topics

- Bonds
- Inflation



# Treasuries Get Hit by Rising Rates...Credit Provides Some Shelter

Rising Rate Periods	10-Year Treasury Rate Increase (bps)*	Bloomberg Barclay's 7-10-Year U.S. Treasuries**	Bloomberg Barclay's U.S. Corporate Investment Grade***	Bloomberg Barclay's U.S. Corporate High Yield****
8/4/2020-3/31/2021	122	-7.38%	-3.26%	7.04%
09/07/2017-11/08/2018	119	-5.29%	-2.73%	2.78%
07/05/2016-03/13/2017	125	-7.01%	-2.10%	8.73%
07/25/2012-12/31/2013	161	-7.03%	0.53%	14.71%
10/06/2010-04/08/2011	118	-5.72%	-1.21%	7.28%
12/18/2008-12/31/2009	177	-6.42%	21.05%	73.30%
06/02/2005-06/28/2006	136	-4.28%	-2.72%	5.49%
10/05/1998-01/20/2000	263	-8.11%	-3.02%	3.77%
01/18/1996-07/05/1996	153	-5.29%	-4.19%	2.78%
10/15/1993-11/07/1994	286	-7.01%	-8.11%	8.73%

\*10-Year Treasury Constant Maturity Rate.

\*\*Cumulative Return of Bloomberg Barclays U.S. Aggregate Government-Treasury7-10, \*\*\*Cumulative Return of Bloomberg Barclays U.S. Corporate Investment Grade, \*\*\*\*Cumulative Return of Bloomberg Barclays U.S. Aggregate Credit Corporate HY. Past performance is no guarantee of future results. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.



# Inflation — Not the End of the World

Stocks Have Done Reasonably Well During Inflationary Periods

	Stocks	Bonds	Cash	Inflation
<b>1930s</b>	-0.9%	4.0%	1.0%	-2.1%
<b>1940s</b>	8.5%	2.5%	0.5%	5.5%
<b>1950s</b>	19.5%	0.8%	2.0%	2.0%
<b>1960s</b>	7.7%	2.4%	4.0%	2.3%
<b>1970s</b>	5.9%	5.4%	6.3%	7.1%
<b>1980s</b>	17.3%	12.0%	8.8%	5.5%
<b>1990s</b>	18.0%	7.4%	4.8%	3.0%
<b>2000s</b>	-1.0%	6.3%	2.7%	2.6%
<b>2010s</b>	13.4%	4.1%	0.5%	1.8%



# Worst Trades Ever? “Time In,” Not “Timing”

If you bought in at the market highs just prior to a major downturn...

S&P 500 Index* Purchase Date	Return through 6/30/2021
March 24, 2000	181%
September 10, 2001	293%
October 9, 2007	175%

\*S&P 500 price only (not factoring in dividends). Economic and market forecasts presented herein reflect a series of assumptions and judgments as of the date of this presentation and are subject to change without notice. Forward-looking statements cannot be guaranteed.



# Q2 2021 Review

Domestic Equity		Q2 2021	YTD 2021
	S&P 500	8.55%	15.25%
	S&P 500 Equal Weighted	6.90%	19.18%
	Russell 3000	8.24%	15.11%
	Russell 2000	4.29%	17.54%
	Russell 1000 Value	5.21%	17.05%
	Russell 1000 Growth	11.93%	12.99%
International Equity			
	MSCI Emerging Market	5.05%	7.45%
	MSCI All Country World (ex US)	5.48%	9.16%
Fixed Income			
	BBgBarc U.S. Aggregate Bond	1.83%	-1.60%
	BBgBarc U.S. Treasury	1.75%	-2.58%
	BBgBarc U.S. Corporate	3.55%	-1.27%
	BBgBarc U.S. Corporate High Yield	2.74%	3.62%
	BBgBarc Municipal	1.42%	1.06%

Past performance is not indicative of future results. This is not a recommendation to buy or sell a particular security. Please see attached disclosures.





# Asset Management Excellence as of 6/30/2021

		Q2 2021 Portfolio Performance (Gross)	Q2 2021 Portfolio Performance (Net of 3.00%)	Q2 2021 Primary Benchmark Performance
Fixed Income	Navigator Fixed Income Total Return	2.29	1.53	2.74/1.83*
	Navigator Taxable Fixed Income	1.78	1.03	1.70
	Navigator Tax-Free Fixed Income	0.99	0.24	0.48
Equity	Navigator International Equity ADR	5.71	4.94	5.48
	Navigator High Dividend Equity	5.18	4.41	5.21
	Navigator All Cap U.S. Equity	7.72	6.94	8.24
	Navigator Small Cap U.S. Equity	4.03	3.27	4.29
	Navigator U.S. Style Opportunity	2.64	1.88	8.24
	Navigator Alternative	3.37	2.61	2.41
	Navigator Global Tactical	6.62	5.84	4.72
Blend	Navigator MultiStrategy 25-75	2.30	1.54	4.17
	Navigator MultiStrategy 50-50	2.41	1.65	5.56
	Navigator MultiStrategy 75-25	2.48	1.72	6.92

The performance shown is past performance. Past performance is not indicative of future results. \*Primary benchmark is BBgBarc U.S. Corporate High Yield Bond (2.74). Secondary benchmark is BBgBarc U.S. Aggregate Bond (1.83).



# Asset Management Excellence as of 6/30/2021

		YTD 2021 Portfolio Performance (Gross)	YTD 2021 Portfolio Performance (Net of 3.00%)	YTD 2021 Primary Benchmark Performance
Fixed Income	Navigator Fixed Income Total Return	3.22	1.69	3.62/-1.60*
	Navigator Taxable Fixed Income	0.44	-1.06	-0.52
	Navigator Tax-Free Fixed Income	0.71	-0.79	0.17
Equity	Navigator International Equity ADR	14.07	12.41	9.16
	Navigator High Dividend Equity	15.65	13.96	17.05
	Navigator All Cap U.S. Equity	20.38	18.64	15.11
	Navigator Small Cap U.S. Equity	23.78	22.00	17.54
	Navigator U.S. Style Opportunity	16.27	14.58	15.11
	Navigator Alternative	3.54	2.00	3.73
	Navigator Global Tactical	15.60	13.91	5.35
Blend	Navigator MultiStrategy 25-75	6.44	4.87	6.49
	Navigator MultiStrategy 50-50	9.88	8.27	9.36
	Navigator MultiStrategy 75-25	13.09	11.44	12.24

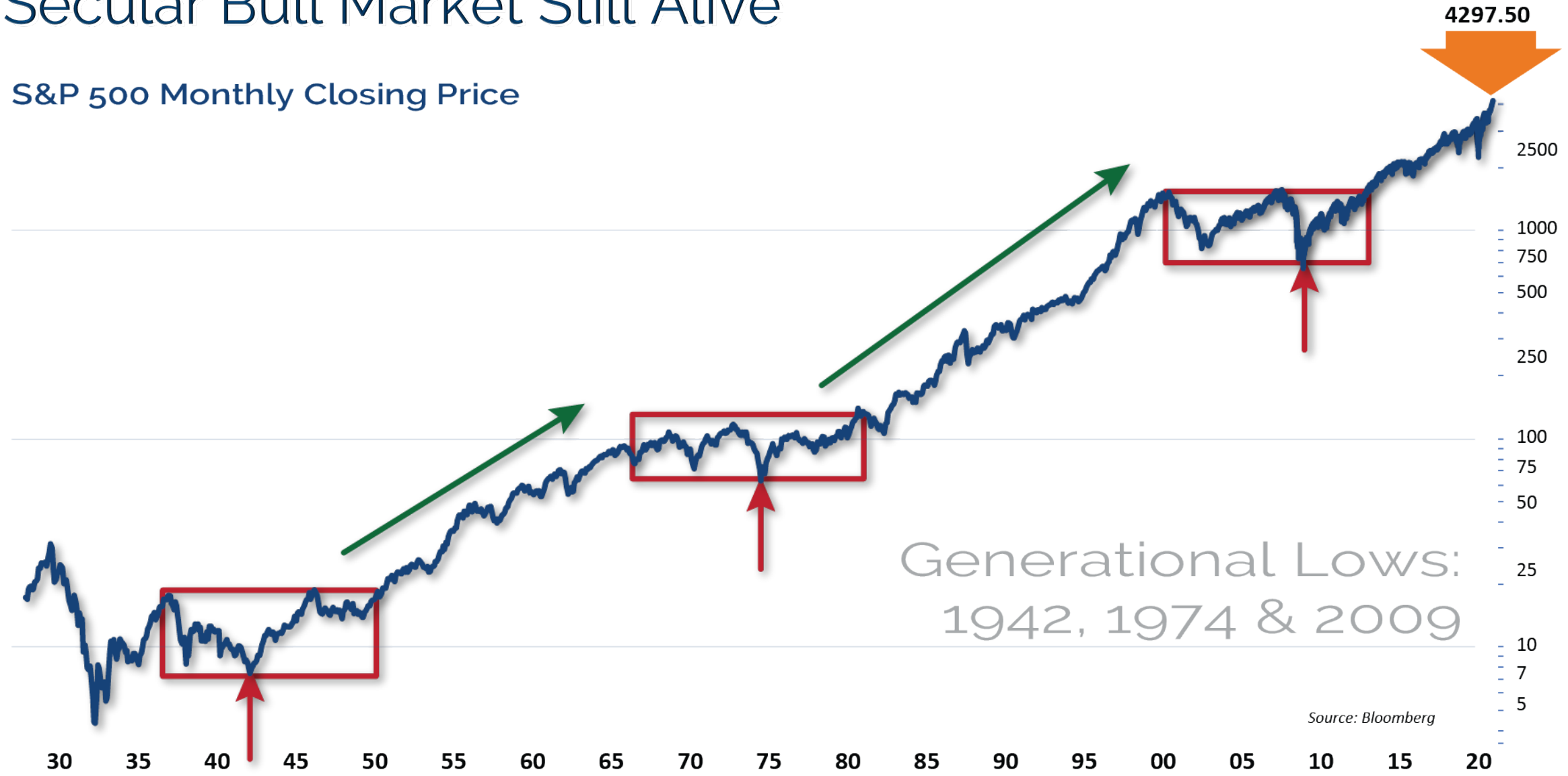
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1/1/1928 to 6/30/2021

# Secular Bull Market Still Alive

## S&P 500 Monthly Closing Price



Generational Lows:  
1942, 1974 & 2009

Source: Bloomberg



# Q&A



# Disclosure

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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 75% of U.S. equities.

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 companies with lower price-to-book ratios and lower expected growth values.

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 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 Russell 3000 Index measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The MSCI Emerging Markets Index captures large and mid cap representation across 26 Emerging Markets covering approximately 85% of the free float-adjusted market capitalization in each country..

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.

BBgBarc U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The BBgBarc US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The US Treasury Index is a component of the US Aggregate, US Universal, Global Aggregate and Global Treasury Indices.

The BBgBarc US 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. The US Corporate Index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US Corporate Index securities also contribute to the multi-currency Global Aggregate Index.

The BBgBarc 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.

The BBgBarc U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The S&P 500 Dividend Aristocrats includes stocks with a float-adjusted market capitalization of at least \$3 billion and an average trading volume of at least \$5 million, in addition to consistently increasing dividend payments. The index typically contains 40 to 50 companies.

The S&P Equal Weight Index is based on the S&P 500. All index constituents are members of the S&P 500 and follow the eligibility criteria for that index. The S&P EWI is maintained in accordance with the index methodology of the S&P 500, which measures 500 leading companies in leading U.S. industries. The S&P EWI measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EWI will differ.

The S&P 500® Enhanced Value – Lowest Quintile Index is designed to measure the performance of the 100 lowest-ranked stocks in the S&P 500 based on value score. Value scores are calculated using three fundamental measures: book value-to-price, earnings-to-price, and sales-to-price.

The S&P 500 Enhanced Value Index is designed to measure the performance of the top 100 stocks in the S&P 500® with attractive valuations based on "value scores" calculated using three fundamental measures: book value-to-price, earnings-to-price, and sales-to-price.

The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal (which is published by Dow Jones & Company), a practice that dates back to the beginning of the century. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

The NASDAQ Composite is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock market. The composition of the NASDAQ Composite is heavily weighted towards information technology companies.

The Nasdaq 100 Index is a basket of the 100 largest, most actively traded U.S. companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry, like commercial and investment banks.

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.

