Clark Capital Management Group

GUIDE TO THE GAUGES

Quarterly Economic and Capital Market Review

Third Quarter 2024

Guide to the Gauges

Our Latest Assessment of Key Economic Indicators

We believe that over the long term, stock prices are driven by two things: earnings, and what people are willing to pay for those earnings. These five gauges reflect our outlook for the factors that we believe drive stock prices.

Each gauge is comprised of a number of individual indicators, which the Investment Team evaluates on an ongoing basis to determine if the gauge is neutral, positive, or negative.

Third Quarter Summary

The Economy gauge remained in a neutral position, as the U.S. economy appears to remain in a "Goldilocks" environment—it is not growing too quickly to cause overheating, nor is it slowing to a point where recession seems imminent. The Federal Reserve seems to be achieving the elusive soft landing, although we cannot completely rule out the possibility of a recession within the next 12 months. However, given the strength of the job market, any potential recession would likely be short and shallow.

At the September FOMC meeting, the Federal Reserve lowered interest rates for the first time since March 2020. We anticipate that additional rate cuts will continue at a measured pace, with Fed Fund Futures currently pricing in six cuts through September 2025. As a result, we moved this gauge two notches forward to the Half Forward position.

We kept the Valuations and Investor Sentiment gauges unchanged from last quarter, but we moved the Interest Rates gauge one notch forward to reflect the decline in interest rates across the curve since late April, along with some portions of the curve having un-inverted.

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

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.

No Change in Position

Economy

This quarter, we held the Economy gauge in Neutral to reflect that GDP continues to be in a "Goldilocks" type of environment—it is not growing too quickly to cause overheating, nor is it slowing to a point where recession seems imminent. Manufacturing activity in the U.S. has been in contraction 22 out of the last 23 months. Service sector activity has been more encouraging with 49 out of the last 52 months in expansion. The once red-hot labor market is cooling but is still on solid footing. The Federal Reserve appears to be achieving the elusive soft landing, although we can not completely rule out a recession in the next 12 months. However, given the strength of the job market, any potential recession, in our opinion, would be short and shallow.

Key Takeaways

GDP
The third and final estimate of GDP for Q2 came in at 3.0%, unrevised from the second estimate. The Atlanta Fed's GDPNow is forecasting 2.5% for Q3 GDP. The U.S. economy continues to defy the skeptics, although it is beginning to show signs of slowing.

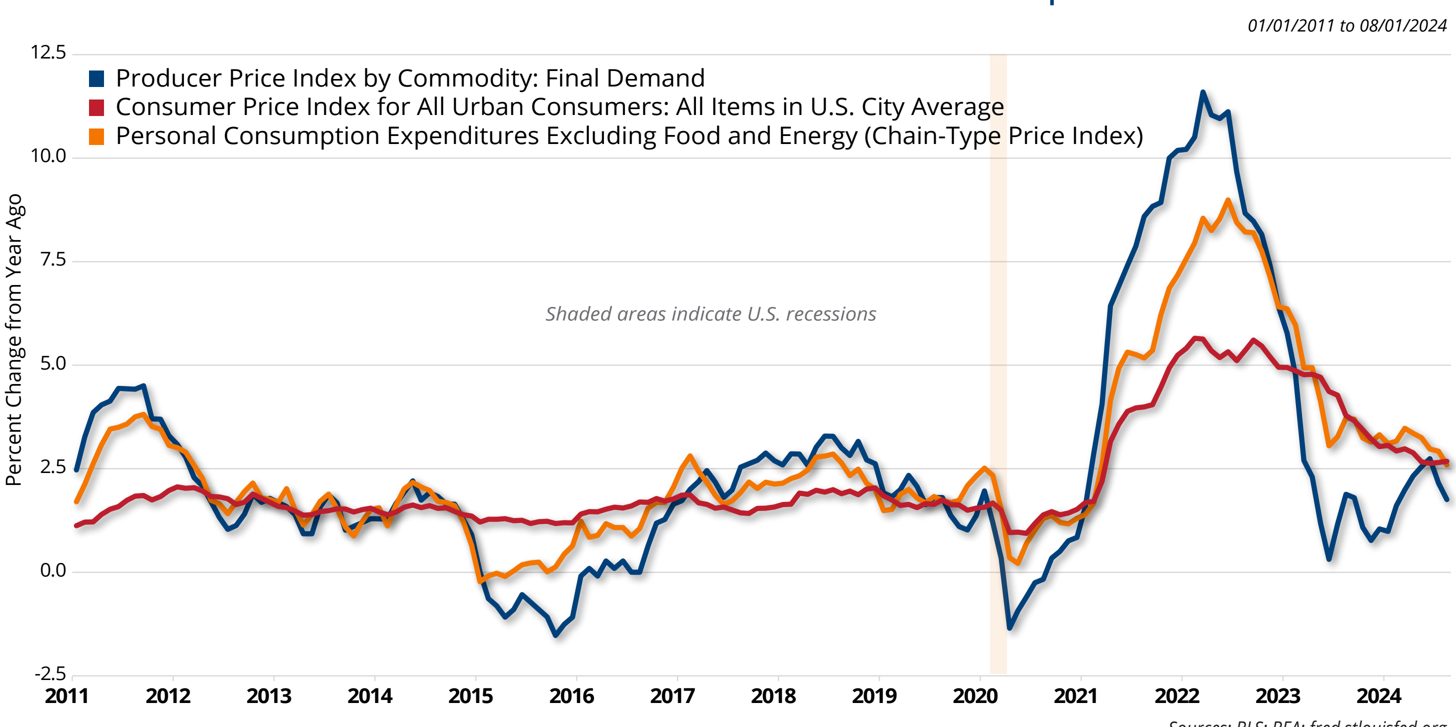
Labor Market
The unemployment rate declined 0.1% to 4.1% in September on the heels of much better-than-expected +254K nonfarm payrolls. Revisions for July and August totaled +72K. Job openings increased to 8.04M in August. The ratio of job openings to unemployed people increased slightly to roughly 1.13.

Inflation
Headline Consumer Price Index (CPI) and Producer Price Index (PPI) for August came in at 2.5% and 1.7%, respectively. The Fed's preferred measure of inflation, Core Personal Consumption Expenditures (PCE), came in at 2.7% for August. The Fed has made progress in returning price stability although the rate of inflation remains above their 2.0% target.

Inflation Measures Cooling

The rate of inflation continues to move closer to the Federal Reserve's target of 2%, although the last mile can often be the bumpiest.

Producer Price Index vs Consumer Price Index vs Personal Consumption



Source: fred.stlouis.org

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

Moved Two Notches to the Right

Monetary Policy

This quarter we moved the Monetary Policy gauge to a Half Forward position to reflect that the Federal Reserve has begun an interest rate easing cycle. At the September FOMC meeting, the Federal Reserve lowered interest rates by 50 bps to a range of 4.75%-5%. This marked the first rate cut since 03/15/2020. During his September 18th press conference, Fed Chair Jerome Powell stated that 50bps is "not the new pace" and policy is "not on a preset course." He reiterated that future interest rate changes will depend on "incoming data, the evolving outlook, and the balance of risks."

Key Takeaways

Rate Hikes
At the September FOMC meeting, the Federal Reserve lowered interest rates by 50 bps to a range of 4.75%-5%. This marked the first rate cut since 03/15/2020.

Fed Fund Futures
Fed Fund Futures are currently pricing in six rate cuts through September 2025.

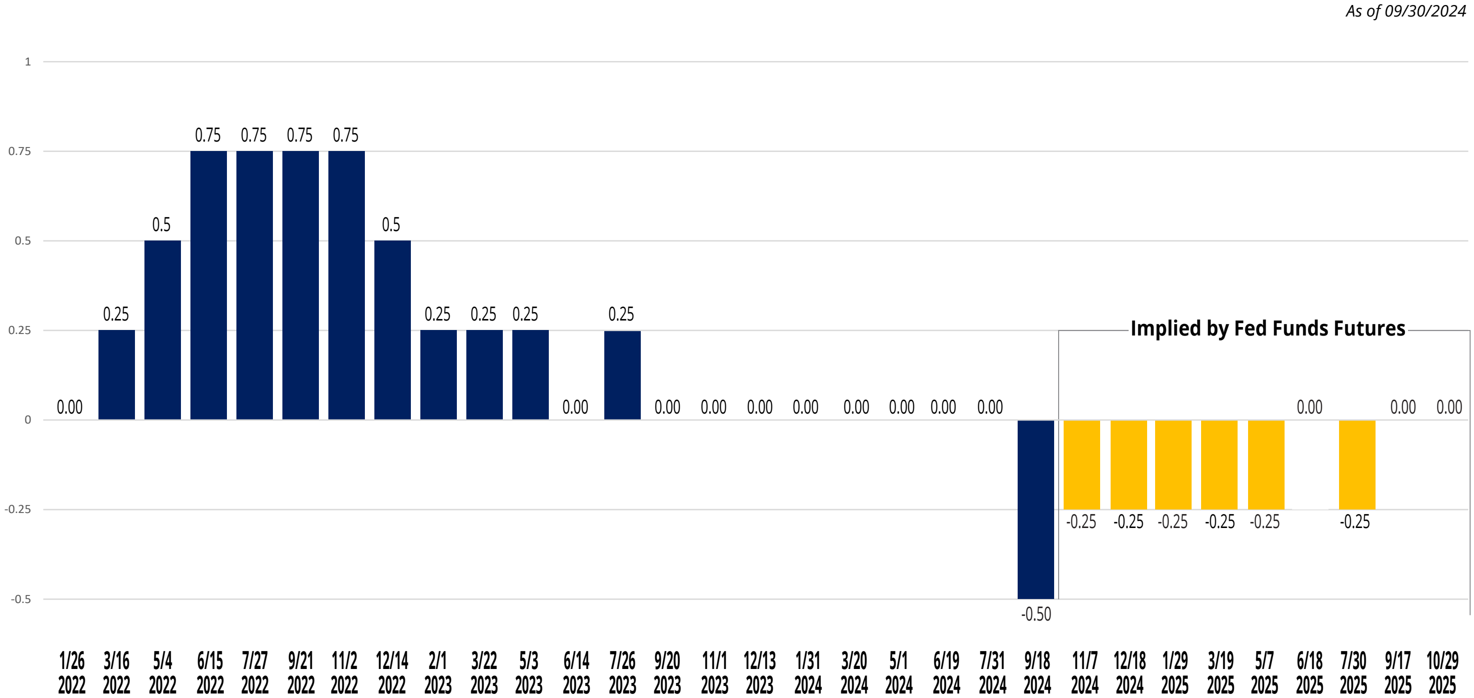
Balance Sheet
In June, the Fed slowed the pace of Quantitative Tightening (QT) from a reduction of $60 billion in Treasury securities a month to $25 billion. The target of reducing mortgage securities by $35 billion a month will remain in place.

Fed Cutting Rates

In September, the Federal Reserve began what we believe will be a slow rate cut cycle and should be viewed as a positive for risk assets.

Fed Rate Hikes: Actual and Implied by Fed Funds Futures

As of 09/30/2024



Source: Clark Capital, fred.stlouisfed.org, CME FedWatch Tool. For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially.

Valuations

This quarter, we held the Valuations gauge in neutral to reflect that forward P/E multiples remain in “fair value” range for S&P 500 companies.

No Change in Position

Key Takeaways

P/E Multiples
Despite multiple record highs in 2024, the S&P 500 remains in “fair value” range as earnings growth has kept valuations near average levels over the last few decades.

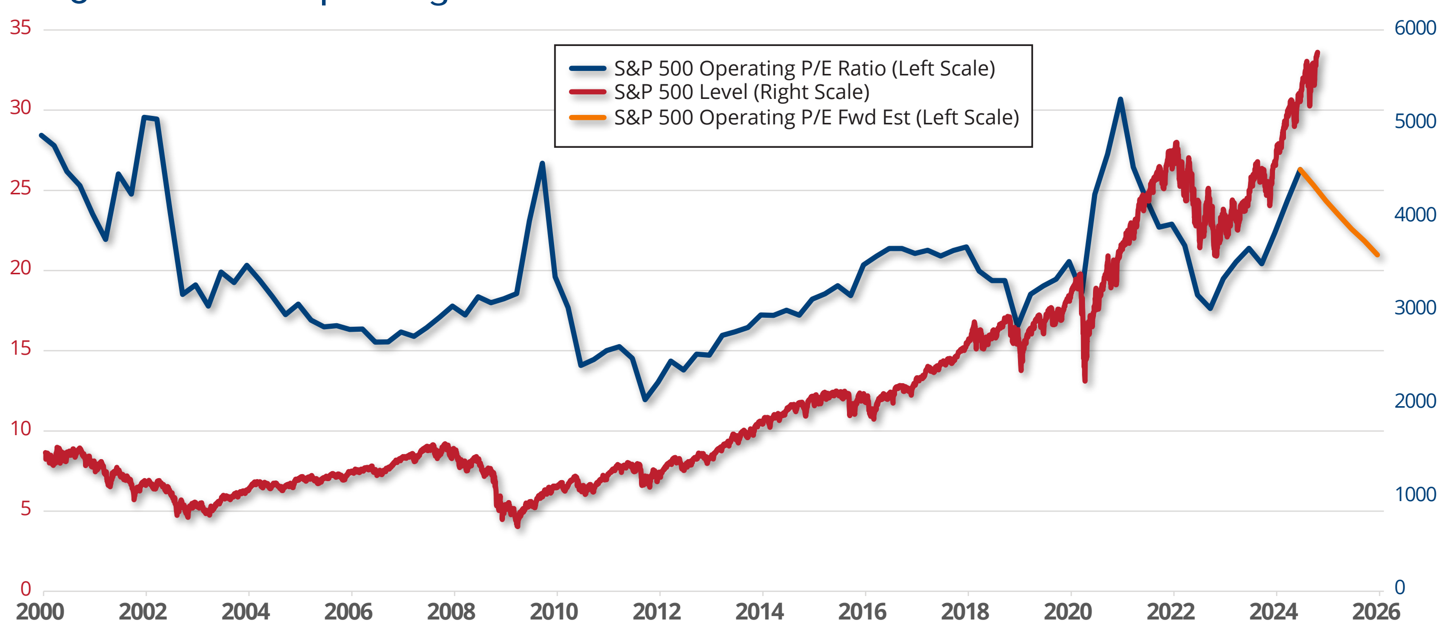
Earnings
Analysts are currently forecasting ~11% operating earnings growth in 2024 and ~16% growth in 2025. Both would represent record S&P operating earnings. We acknowledge that these estimates will likely be revised in the future.

S&P 500 Calendar Year Operating Earning per Share Actuals & Estimates

For Q3 2024 with 99.4% of S&P 500 companies having reported, 84% have reported EPS either in line with or above analyst estimates.

S&P 500 Level and Operating P/E Ratio

12/31/1999 to 09/30/2024



Source: S&P, YCharts. For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially

No Change in Position

Investor Sentiment

This quarter, we held the Investor Sentiment gauge in Slow Reverse to reflect that bullish investor sentiment remains elevated though not at extreme levels. We also observed that stock volatility, as measured by the VIX Index, retreated to below 20 after briefly exceeding 65 on August 5th. Investor Sentiment a contrarian indicator. The more fear and pessimism among investors, the more positive for stocks, and vice versa. This is a sensitive gauge and can change quickly.

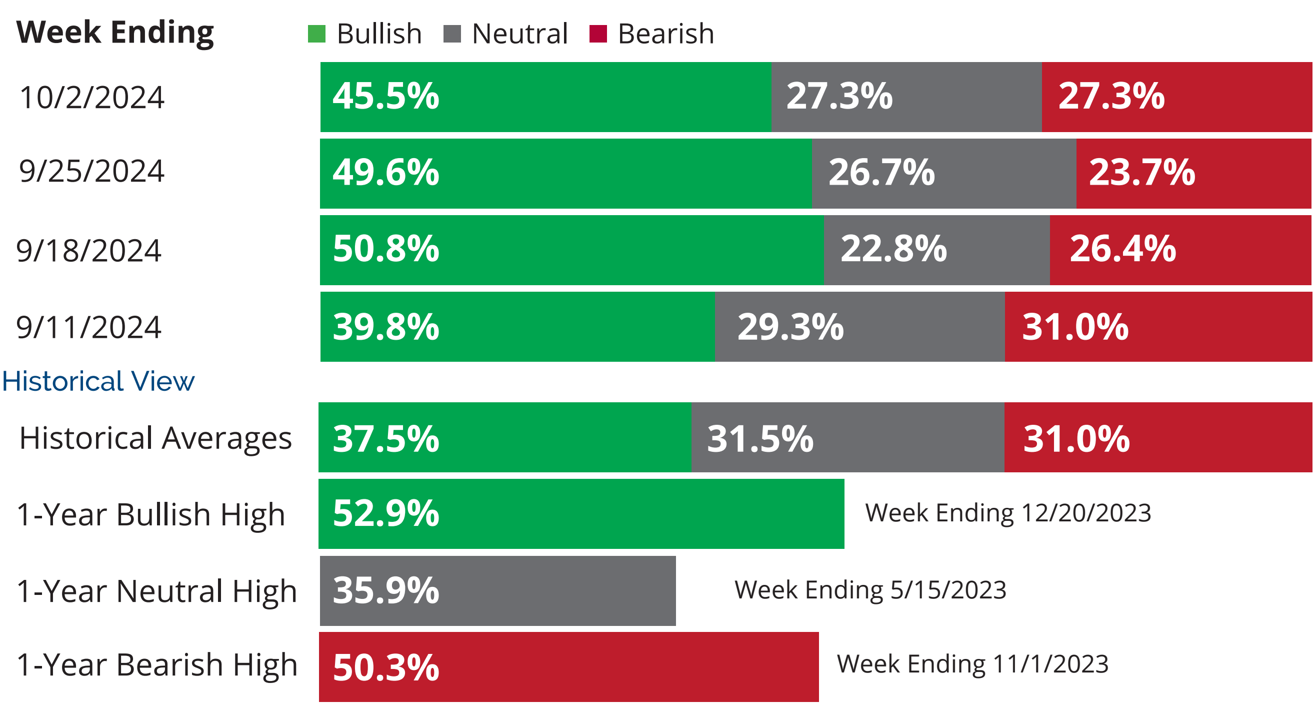
Key Takeaways

AAII Survey
In the middle of July, the AAII Sentiment Survey reached 52.7% bullish as the S&P 500 notched an all time high. Sentiment became less bullish and more bearish as stocks sold off and culminated in a volatile session on Aug 5th. By the end of September, sentiment became more bullish and less bearish again as stocks recovered from the sell off and notched fresh highs.

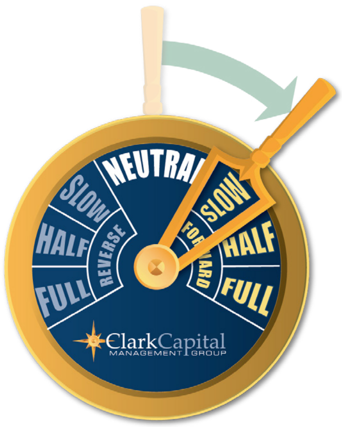
VIX Index
The CBOE Volatility Index (VIX) averaged 14 for the first seven months of the year. On Aug 5th, a global stock sell off sparked waves of fear among investors and sent the VIX above 65, the third highest level since it's inception in the early 1990s. The VIX quickly retreated to 27.71 on Aug 6th as stability returned to financial markets and ended September at 16.73.

What Does the AAII Survey Indicate About Bullish and Bearish Sentiment?

Since it's inception in 1987, the AAII Survey has been a useful contrarian indicator. In the past when the survey has reached extreme levels of bullishness or bearishness, a change in direction for the market often follows.



Source: American Association of Individual Investors. For illustrative purposes only. Past performance is not indicative of future results.



Moved One Notch
to the Right

Interest Rates

This quarter we moved the Interest Rates gauge to the Slow Forward position to reflect that interest rates across the curve have moved lower since late April and portions of the curve have un-inverted.

Key Takeaways

Change in Yields
Yields have dropped dramatically from their highs in late April as the Federal Reserve began an interest rate cutting cycle, inflation moderated further, and a "flight to quality" trade occurred.

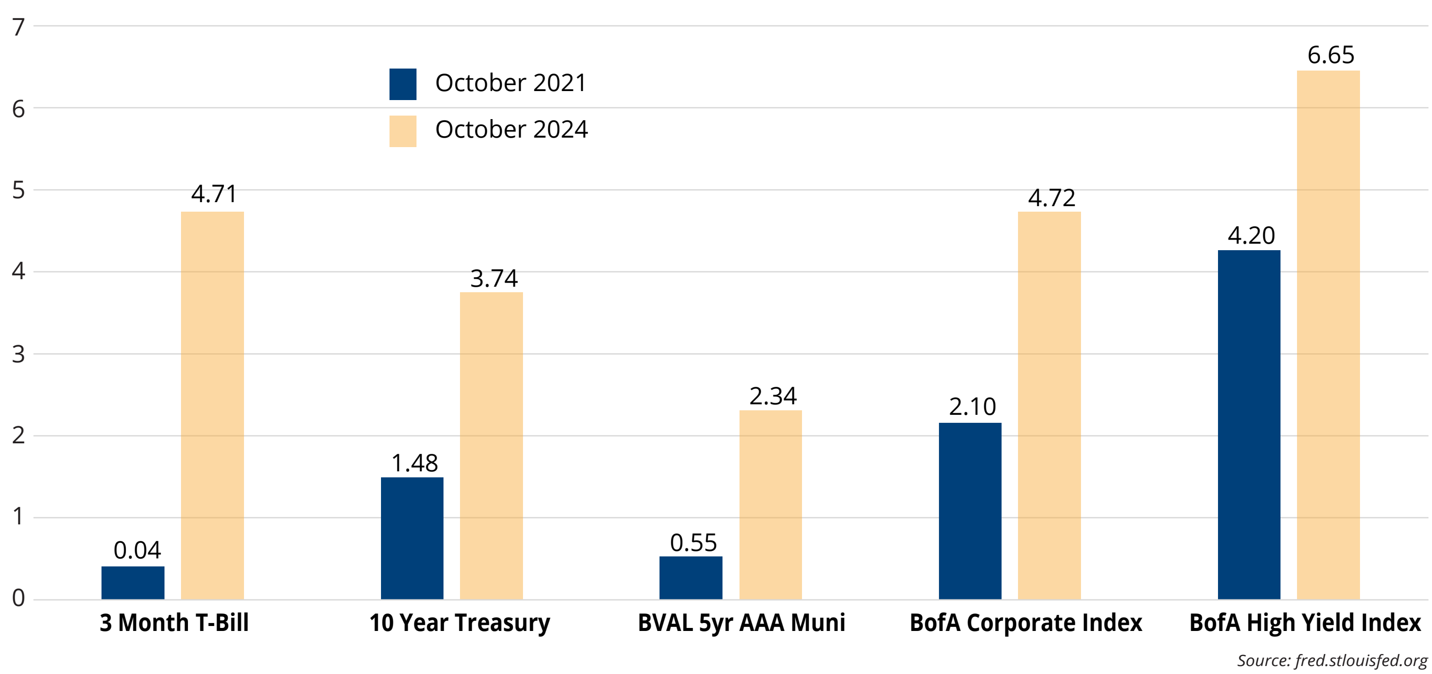
Yield Curve
Portions of the yield curve remain inverted, most notably the 3-month/10-year. Historically, this pattern has preceded most recessions, although it does not indicate the depth or duration of any potential recession. But we expect the U.S. economy will avoid a recession and experience a soft landing, although the possibility of a recession cannot be totally eliminated.

Interest Rate Volatility
Interest rate volatility, as measured by the BofA MOVE Index, hit the lowest point of the year of 82.49 on May 22nd and increased to 121.22 on Aug 5th as Treasury yields dropped sharply from their highs. The MOVE Index ended September at 94.61.

Yield Moving Higher

Yields for Treasuries, municipals, investment grade corporates, and high yield bonds are significantly higher than three years ago, presenting a potentially attractive opportunity for fixed income investors.

Change in Yields October 2021 to October 2024



Source: fred.stlouisfed.org. For illustrative purposes only. Past performance is not indicative of future results. The BVAL Muni Benchmark 5-Year is a financial index that measures the performance of municipal bonds with an average maturity of approximately five years. This index is part of the Bloomberg Valuation Service (BVAL) suite, which provides benchmark indices for various fixed-income securities.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

The 3 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 3 months.

The 10 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 10 months.

The MOVE Index measures U.S. interest rate volatility. The index tracks the movement in U.S. Treasury yield volatility implied by current prices of 1-month OTC options.

The ICE BofA US Corporate Index Total Return Index tracks the performance of investment grade rated corporate bonds in the U.S.

The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

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.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

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