Monthly Portfolio Commentary | February 2025

Charting Our Strategies

Monthly Moves

Clark Capital's Bottom-Up, Fundamental Strategies

The Trump administration's inconsistent tariff policies with major trade partners like Mexico, Canada, and China dampened investor optimism and consumer sentiment in February. While international equities saw gains and large-cap value stocks were slightly positive, large-cap growth and small-cap stocks declined by 6.2% and 4.9%, respectively.

Despite the macro drama coming from Washington, D.C., corporate earnings have come in strong. Over 97% of the S&P 500 Index reported, with 75% reporting positive EPS surprises and 63% positive revenue surprises. Year to date through February 18, more than 80 S&P 500 Index companies announced dividend increases. Our equity portfolios continue holding companies we view as anti-fragile and that continue to see strong business momentum. The largest sector weights across our equity portfolios remain Technology and Financial Services.

In the bond markets, the focus shifted from Fed policy to tariffs and DOGE implementation in February. As budget cuts began to take effect with job cuts and the discontinuation of some federal programs, treasury rates began to move lower on the prospect for higher unemployment and lower growth. The threat of tariffs also began to weigh on the future projections for economic growth.

The fears of a slowing economy pushed rate cuts back into the conversation and drove 10-year Treasury Note yields down 43 basis points (bps) to 4.21%. Within the taxable bond portfolio, we focused on extending the overall duration of the strategy. The reinvesting of maturities and coupon payments into 5-year and longer bonds continued. With rates expected to remain in this lower range for the foreseeable future, we believe this reinvestment will position the portfolio well over the next few months.

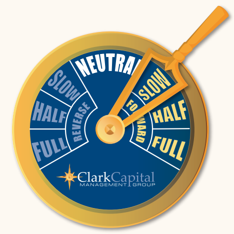
Below are strategy updates from February:

Navigator® All Cap Core U.S. Equity

- The portfolio is fully invested with approximately 76% in large-cap stocks and the remainder in mid- and small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, the three most recent additions to the portfolio were a pharmaceutical and biotechnology company, a company in the semiconductor and technology industries, and a company in the Energy sector. The three most recent exits were a company in the semiconductor and materials science industry, a global leader in the advertising and marketing industry, and company in the Energy sector.

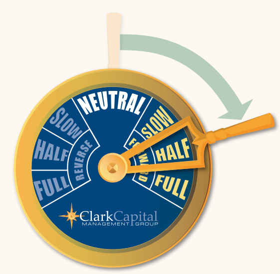
Economic Gauges

Economy



Monetary Policy

Valuations



Investor Sentiment

Interest Rates

- The top three contributors to absolute portfolio return in the month were a financial technology company, a media and entertainment company, and a leading company in the technology sector. The top three detractors to absolute portfolio return in the month were a technology company, a leader in e-commerce, and a company in the consumer goods sector.

Navigator® High Dividend Equity

- In February, performance factors experiencing weakness were investment quality (value outperformed growth), under exposure to mid-caps, and residual volatility versus continued strength in momentum, size, and liquidity.
- The portfolio is positioned with 91.8% in large cap, 5.5% in mid cap, and the remainder in cash.
- To benefit from improving business fundamentals, the most recent addition to the portfolio was a biopharmaceutical company that engages in the development and sale of pharmaceutical products. It focuses on treating conditions such as chronic autoimmune diseases in rheumatology, gastroenterology, dermatology, and oncology. A recent portfolio exit was another pharmaceutical company due to a declining drug pipeline and weaker earnings profile.
- Financials represent the largest sector weight at 25.6% and above the benchmark weight. The next three largest weights are Industrials, Healthcare, and Information Technology at 14.5%, 13.2% and 9.0%, respectively.
- Positioning in Consumer Staples and Industrials helped relative performance versus Communication Services and Financials which detracted from performance.
- The top three contributors to absolute portfolio return in the month were a company in the tobacco industry, a major player in telecommunications, and a company in the Energy sector. Detractors to absolute portfolio return were a large healthcare company and two technology companies.

Navigator® Large-Cap Growth

- The portfolio is fully invested with approximately 94% in large cap stocks. 99% of total holdings are in developed countries with ~91% based in the United States.
- Over 70% of Large Cap Growth's holdings are derived from the 100 largest cash flow producing companies with high and growing cash flows, high cash flow margins and increasing sales.
- Information Technology, Communication Services and Industrials are our largest sector weights.
- The top three contributors to absolute portfolio return during the month were a global pharmaceutical company specializing in developing and manufacturing medicines, a leading technology company, and a multinational technology company. The top three detractors to absolute portfolio return during the month were a technology company focused on digital advertising and cloud computing, an e-commerce and cloud computing giant, and a technology company specializing in the manufacturing of electric vehicles.

Navigator® International Equity ADR

- The portfolio is positioned with approximately 17% in emerging markets with the balance in developed economies and cash.

- Britain, Canada, China, Japan, and Switzerland are the strategy's largest country weights, all ranging between 8% and 16%.
- ADR's exposure to China is now approximately 8.2%, which is slightly above its weighting in the All-Country World ex US benchmark.
- Consumer Discretionary, Financials, Industrials, Healthcare 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 mining company, a major player in consumer goods, and a defense and aerospace company.
- The three most recent exits were a company in the insurance and risk management sector, a company in the hospitality industry, and a Japanese tobacco company.
- The top three contributors to absolute portfolio return in the month were a company in the automotive and electric vehicle industry, a major player in e-commerce, and an international financial services company. The top three detractors to absolute portfolio return in the month were a company in the semiconductor industry, a company in electronics manufacturing, and an Israeli technology company.

Navigator® Taxable Fixed Income

- Within the portfolio the focus was on extending the overall duration of the strategy. The reinvesting of maturities and coupon payments into five-year and longer bonds continued. With rates expected to remain in this lower range for the foreseeable future, this reinvestment should set the portfolio up to outperform over the next few months.
- The pharmaceutical sector saw shorter bonds sold and longer bonds added, increasing the overall yield while also reducing the overall invested dollars.
- This was also executed in the banking sector. One-year bonds were sold and reinvested into longer maturities, thus adding yield while reducing the overall cost to the trade as the longer bonds were bought at a significant discount price.
- These trades and others like them not only increased the duration of the portfolio in order to realize price appreciation but also increased the overall yield on the portfolio. This thesis of maximizing yield while also positioning to maximize total return will be the near-term focus over the next few months. .

Navigator® Tax-Free Fixed Income

- For another month, muni curve steepening continued — 3s30s increased 12 basis points on top of last month's 16 basis points; 5s20s increased 10 basis points. In fact, from 11 years and out, with the base year being the 5-year, munis steepened. (Bloomberg data). While fears of economic weakness could bring about a flatter curve, we do see an opportunity in more index-centric duration and will invest accordingly.
- Market concerns with healthcare and federal funding keep credit at the forefront of our management efforts. We continue to review holdings and remain bearish on healthcare and states and municipalities that are reliant on Federal allocations.

- We are underweight hospitals and look to hold only major systems or facilities with regional advantage. We are also reducing holdings in credits we feel could face headwinds, be it on a state or local basis.

Clark Capital's Top-Down, Quantitative Strategies

February was a down month for the stock market in the U.S. The S&P ended the month 1.3% lower, and the Russell 2000 lost 5.4%. Meanwhile, international stocks have been outperforming. The MSCI ACWI ex-US Index gained 1.4% during February. Bonds rose during the month; the high yield index was up 67 bps, and 7-10-year Treasuries were up 2.8% as yields fell.

U.S. equity markets in February were driven partly by investor concerns over tariffs, including 25% tariffs on goods imported from Canada and Mexico, which were scheduled to take effect in early March. President Trump also announced his intention to increase tariffs on China by an additional 10%. Investors will watch closely to see whether the president follows through on these threats or continues to delay implementation.

The correction in stocks and weaker economic data, tariff news, and chaos in Washington has weighed on both consumer and investor sentiment. For example, the AAII survey of investor sentiment shows over 60% of investors are bearish and only 19% are bullish. To put that into perspective, the only other times bearish sentiment was over 60% over the past 20 years was during the Global Financial Crisis and September 2022, as the market was bottoming. Remember Warren Buffett's quote, "Be fearful when others are greedy, and greedy when others are fearful." Seems appropriate for right now.

Credit has handled the market turbulence in stride. High yield bond indices ended the month at new all-time highs, credit spreads remain contained, and financial conditions have eased, with Treasury yields and the dollar declining. The credit models that drive our tactical models, including Fixed Income Total Return and Global Tactical, remain risk-on and those strategies are positioned accordingly.

Navigator® Alternative

- Multi-strategy and event-driven lead the mutual fund core, while managed futures have lagged.
- The portfolio took on a small position long low beta and short high beta stocks, which has helped during the recent decline.
- We also have added to listed private equity and large-cap growth as the decline has matured.

Navigator® Fixed Income Total Return (MultiStrategy Fixed Income)

- While equity markets have been losing ground due to tariffs, credit markets are taking the turbulence with aplomb.
- While Treasuries have strengthened a bit versus high yield, spreads remain very much under control.
- High yield and credit continue on a positive course, and we expect to continue to favor credit over the intermediate term.

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Charting Our Strategies

Navigator® Global Risk Management

- The portfolio is likely to continue to overweight equities, as our credit models continue to be positive despite the tariff related concerns driving the recent decline.
- When our models hold strong despite sentiment-driven weakness, we tend to view these declines as buying opportunities — or opportunities to hold in and remain fully invested.

Navigator® Global Tactical

- Our credit-based models indicate that the tariff-driven decline has not been accompanied by underlying fundamental weakness.
- Credit markets are very stable, and thus our position in equities is likely to continue.
- With sentiment now extremely pessimistic and markets technically oversold, we believe that markets are positioned to recover in the short term.

Navigator® U.S. Sector Opportunity

- The portfolio emphasizes Financials (broad financials, broker dealers, and insurance), Telecomm Services, and Technology (now only market weight), along with a healthy position in the S&P 500 itself.
- Some defensive issues have risen in our rankings, and they could become candidates. Healthcare, in particular, could join the portfolio soon.
- We are avoiding defensive-oriented Consumer Staples, HealthCare, Utilities, and the always volatile Energy.

Navigator® U.S. Style Opportunity (MultiStrategy Equity)

- While the portfolio continues to favor large-cap growth, its underlying holdings have slowly reduced the Technology and mega-cap dominance, while Financials and Industrials have gained weight.
- Major holdings such as our momentum-based holdings mostly overweight Financials, so their strength is reflected in the portfolio.
- The last week of February, we added large-cap value into the mix, so overall, the portfolio has a large-cap bent with a modest growth tilt.

Navigator® U.S. Strategic Beta

- In early March, the portfolio moved some cash from large value into large growth as the decline steepened and large-cap growth was hard hit.
- The portfolio maintains a modest overweight to mid and small caps on a valuation basis, but so far that valuation gap has been widening.

Disclosures

The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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 Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index.

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 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.

AAA bonds are bonds that have the highest credit rating possible, indicating that they are considered a safe investment with the lowest risk of default.

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

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