1st Quarter 2025

Guide to the Gauges

Quarterly Economic and Capital Market Review

Navigate Your Future. Enjoy the Journey.

ClarkCapital MANAGEMENT GROUP

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

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.

First Quarter Summary

We moved the Economy gauge back one notch to Slow Reverse as the U.S. economy has begun to show signs of cooling. While a recession in 2025 is not our base case, the uncertainty surrounding the impact of tariffs has increased the odds.

We kept the Monetary Policy gauge in the Slow Forward position. At the March FOMC meeting, the Federal Reserve held interest rates in a range of 4.25%-4.5% and made no adjustments to their Summary of Economics Projections (SEP) with regards to interest rates.

We kept the Valuations gauge in the Neutral position to reflect our view that we believe stock valuations remained fairly valued at quarter end.

We moved the Investor Sentiment gauge forward one notch to the Full Forward position as the Volatility Index (VIX) spiked and several investor surveys showed extreme fear and pessimism.

We kept the Interest Rate gauge in the Neutral position as portions of the yield curve have moved back to inversion and interest rate volatility rose during the quarter.

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.

Economy

Moved One Notch to the Left

This quarter we moved the Economy gauge to Slow Reverse to reflect a cooling of the economy. While a recession is not our base case, the odds have increased given the potential impacts of tariffs. However, given the strength of the jobs market, any potential recession would be short and shallow, in our opinion.

KEY TAKEAWAYS

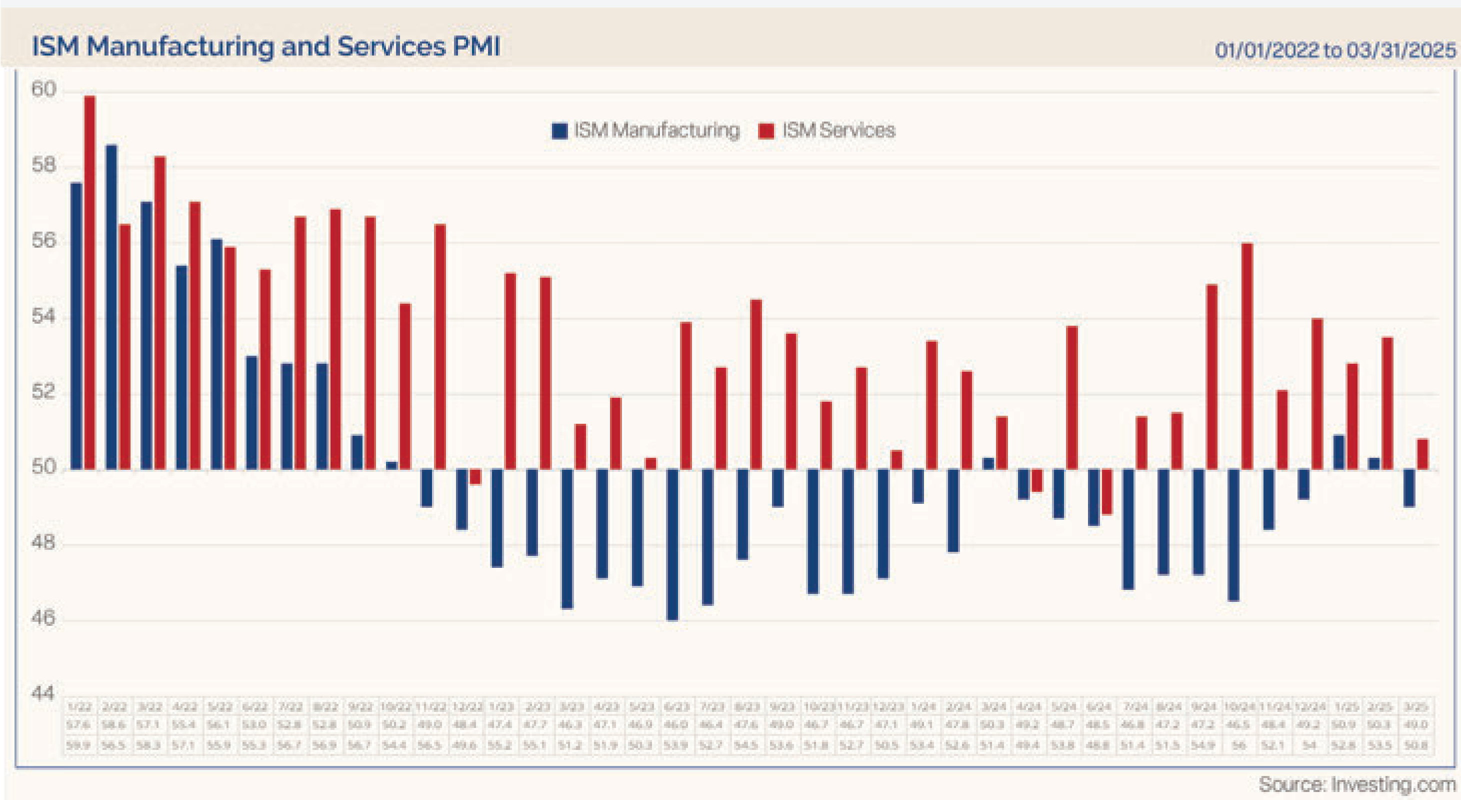
GDP — The third and final reading of GDP for Q4 came in at 2.4%, up slightly from the second estimate of 2.3%. The Atlanta Fed's GDPNow is forecasting -2.8% for Q1 GDP, an estimate that is likely skewed by a surge in imports during the quarter.

Labor Market — The unemployment rate increased slightly to 4.2% in March despite stronger than expected nonfarm payrolls of +228K. However, February numbers were revised lower by 34K to 117K. Job openings decreased to 7.57M in February from 7.74M in the prior month. The ratio of job openings to unemployed people has fallen to 1.07.

Inflation — Headline CPI and PPI for February came in at 2.8% and 3.2% respectively. Both came in slightly cooler than expected. The Fed's preferred measure of inflation, Core PCE, for February came in at 2.8% just above the estimate of 2.7% and up from the prior month's revised reading of 2.7%.

ISM Manufacturing

The ISM Manufacturing PMI came in at 49 in March, ending a move above 50 that began in January. The March ISM Services PMI came in at 50.8, a sharp decrease from the prior reading of 53.5.



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

Monetary Policy

No Change in Position

This quarter we held the Monetary Policy gauge in Slow Forward as the Federal Reserve, while currently on hold, has signaled that a few rates cuts are still on the table for 2025. The Fed's Summary of Economy Projections (SEP) was left unchanged with regards to interest rates from the December FOMC meeting.

KEY TAKEAWAYS

Rate Hikes — At the March FOMC meeting, the Federal Reserve held the Fed Funds rate in a range of 4.25%-4.50%. This marked the second meeting in a row with no change in policy.

Fed Fund Futures — Fed funds futures are pricing in rate cuts at the June, July, September, and December FOMC meetings this year.

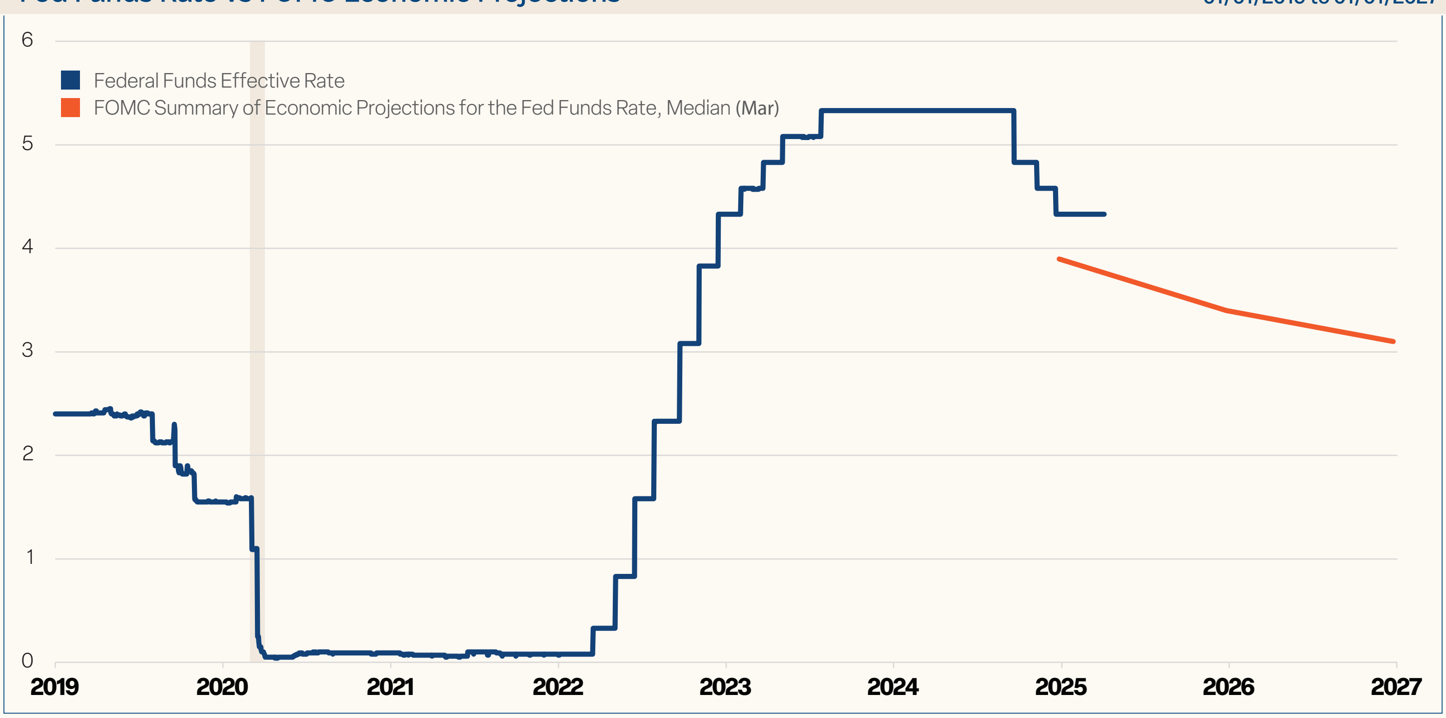
Balance Sheet — Starting in April, Quantitative Tightening (QT) will slow to $5B in Treasury securities a month from $25B. The mortgage-backed securities target of $35B will remain unchanged.

Fed Cutting Rates

The Federal Reserve is back to "higher for longer" as the Summary of Economy Projections (SEP) was revised last December to show two rate cuts in 2025 versus the four that were shown in the September SEP. The September SEP also showed a slightly higher longer run neutral rate of 3.0% versus the prior 2.9%. The March SEP was left unchanged with regards to interest rates from the one in December.

Fed Funds Rate vs FOMC Economic Projections

01/01/2019 to 01/01/2027



Sources: fred.stlouisfed.org, Federal Reserve System (U.S.), Federal Reserve Bank of St. Louis, U.S.. Federal Open Market Committee via FRED®

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Valuations

No Change in Position

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.

KEY TAKEAWAYS

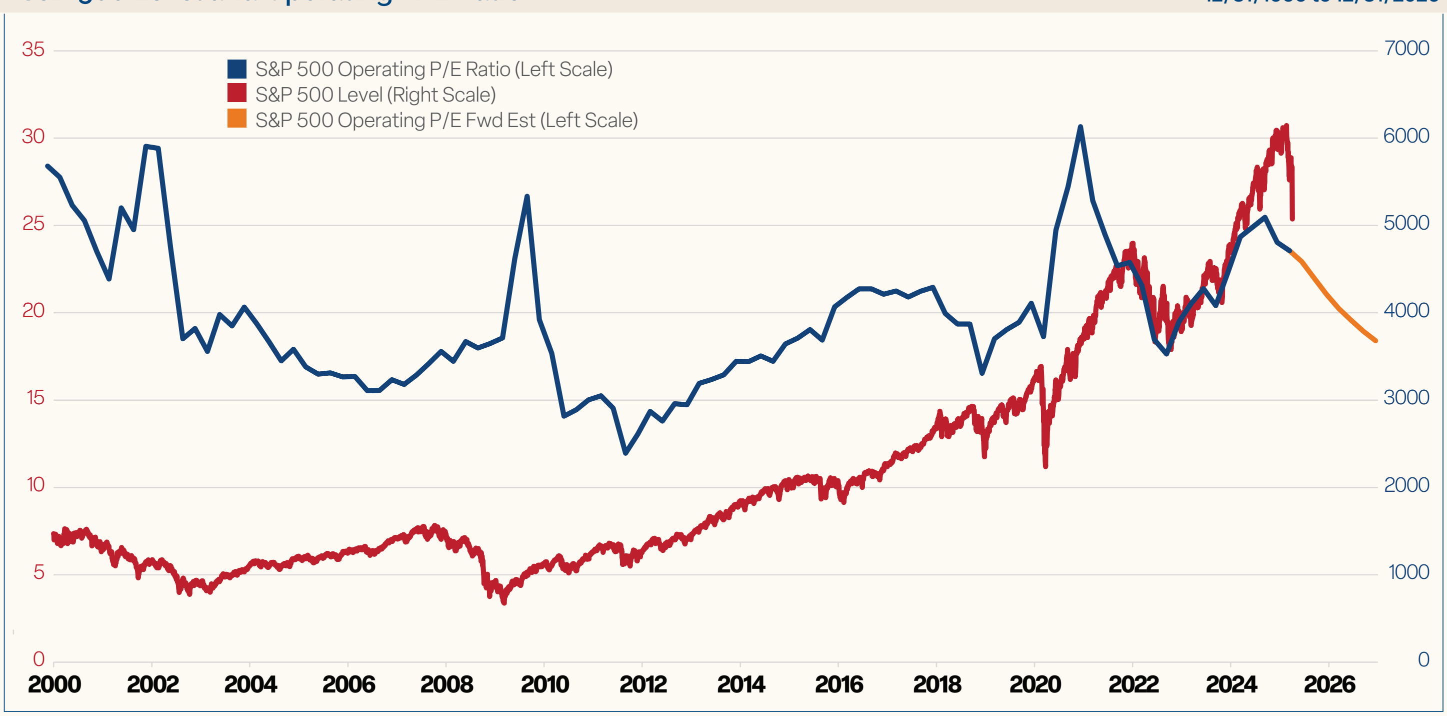
P/E Multiples — A sharp sell-off in equities has kept the S&P 500 in "fair value" range as earnings expectations have remained largely unchanged.

Earnings — Analysts are currently forecasting ~14.2% operating earnings growth in 2025 and ~14.5% growth in 2026. 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 Q4 2024 with 99% of S&P 500 companies having reported, 80% have reported EPS either in line with or above analyst estimates.

S&P 500 Level and Operating P/E Ratio — 12/31/1999 to 12/31/2026



Source: CBOE, YCharts

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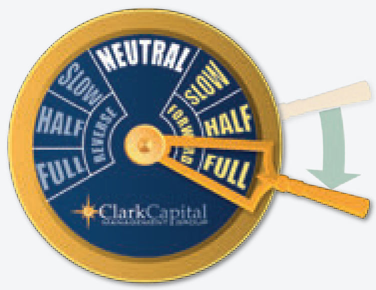


Investor Sentiment

Moved One Notch to the Right

This quarter we move the Investor Sentiment gauge to Full Forward to reflect that investor sentiment moved to extreme levels of bearishness. The more fear and pessimism among investors, the more positive for stocks, and vice versa. This gauge is sensitive and can change quickly.

KEY TAKEAWAYS

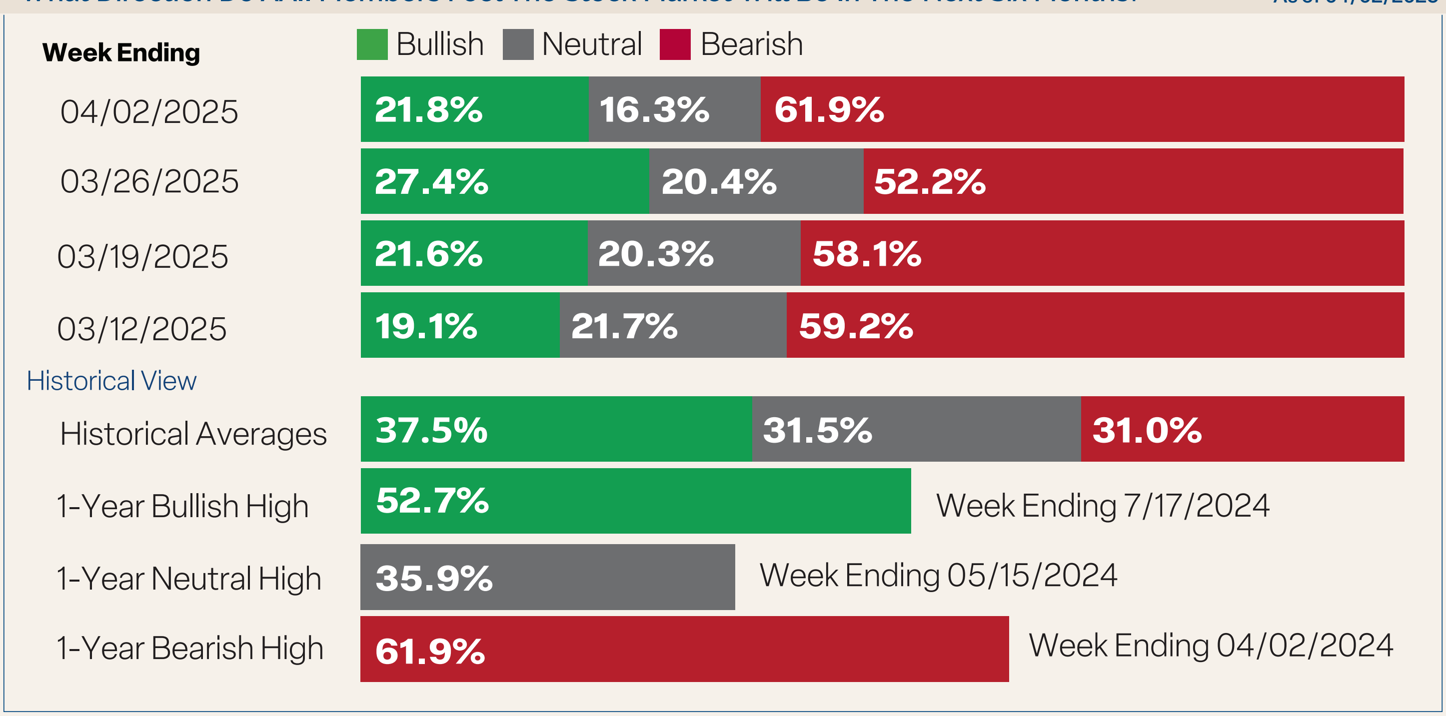
AAII Survey — During the month of March, bullish sentiment decreased significantly while bearish sentiment surged as a decline in the market coupled with concerns about tariffs and other policies weighed on investor psyche. The April 2 bearish reading of 61.9% is the third highest since the survey began in 1987.

VIX Index — The Volatility Index (VIX) hit 45.61 on April 4, its highest level since the spike back on August 5 of 2024.

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 reaches extreme levels of bullishness or bearishness a change in direction for the market often follows.

What Direction Do AAII Members Feel The Stock Market Will Be In The Next Six Months? As of 04/02/2025



Source: American Association of Individual Investors

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Interest Rates

No Change in Position

This quarter we held the Interest Rates gauge in the Neutral position to reflect that while short-term interest rates have moved lower, long-term interest rates have risen since last September when the Fed began to lower rates.

KEY TAKEAWAYS

Change in Yields — Short term interest rates have moved lower from their cycle highs as the Federal Reserve cut the fed funds rate a total of 100 basis points (bps) in 2024. The 10-year Treasury yield hit the high of the year of 4.79% on January 14 but ended April 4 at 4.01% as concerns about tariffs causing a slowdown in the economy sparked a rally in the bond market.

Yield Curve — Portions of the yield curve have moved back to inversion, most notably the 3M/10YR, while the 2YR/10YR is positively sloped. Historically yield curve inversions have preceded most recessions. Our base case is that the U.S. economy will avoid a recession this year, although the possibility of one has increased given uncertainty around the impacts of tariffs and a reduction in government spending.

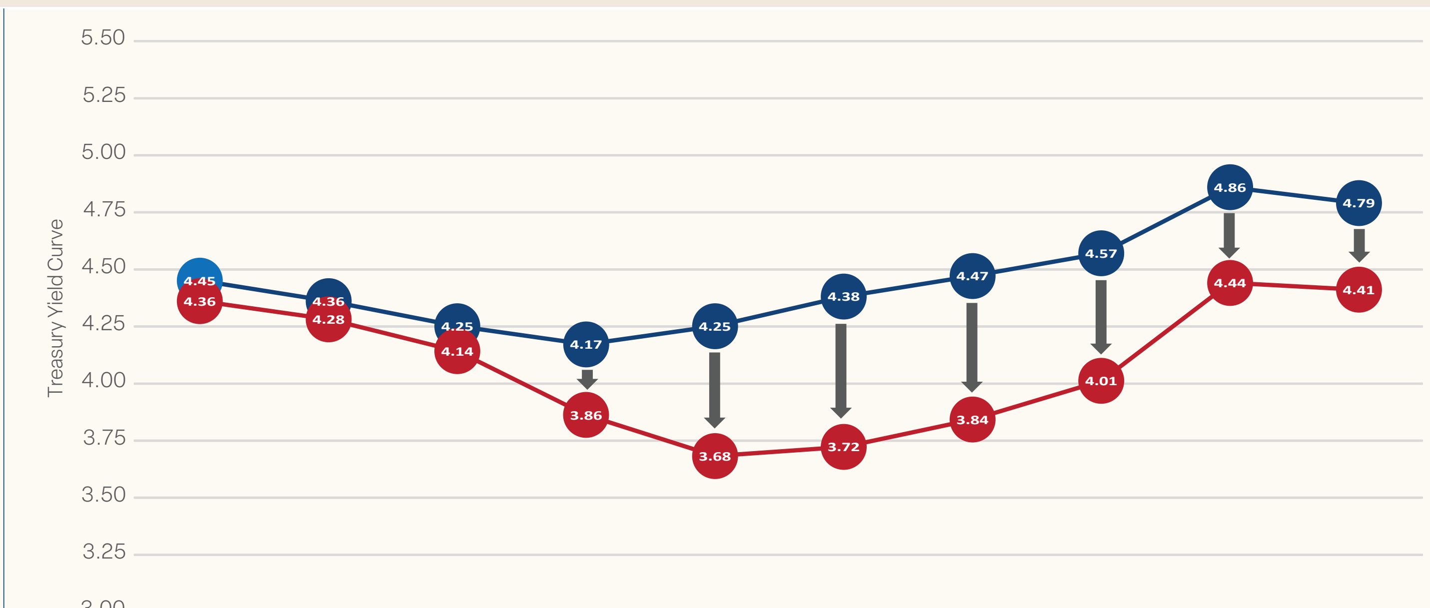
Interest Rate Volatility —Interest rate volatility, as measured by the BofA MOVE Index, hit the highest level of 2025 on April 4 at 125.71.

Yield Moving Higher

A global sell-off in equities triggered by concerns over tariffs sparked a brief “flight to safety” rally in bonds and move down in yields.

U.S. Treasuries Yield Curve

As of 04/04/2025



	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2025	4.45	4.36	4.25	4.17	4.25	4.38	4.47	4.57	4.86	4.79
04/04/2025	4.36	4.28	4.14	3.86	3.68	3.72	3.84	4.01	4.44	4.41

Source: www.ustreasuryyieldcurve.com

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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.

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 or an investment), credit, prepayment, 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).

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.

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