2nd Quarter 2025

Guide to the Gauges

Quarterly Economic and Capital Market Review

Navigate Your Future. Enjoy the Journey.

Clark Capital 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.

Second Quarter Summary

We kept the Economy gauge in the Neutral position as the U.S. economy, while resilient, has begun to show some signs of cooling. While there are still risks to the economic outlook due to tariffs, the extreme “Liberation Day” tariffs do not seem likely to be imposed.

We kept the Monetary Policy in the Slow Forward position. At the June FOMC meeting, the Federal Reserve held interest rates in a range of 4.25%-4.5% and their Summary of Economics Projections (SEP) continues to show two rate cuts for the remainder of the year.

We moved the Valuations gauge to the Slow Reverse position to reflect our view that after a move to new highs U.S. large-cap stock valuations appear to be a bit stretched.

We moved the Investor Sentiment gauge to the Slow Forward position as investors became more bullish and less bearish as stocks surged from their April lows.

We kept the Interest Rate gauge in the Neutral position as short-term rates have been in a holding pattern, while the long end of the yield curve has been more volatile.

The gauges reflect the firm’s market expectations and anticipated strategy impacts based on certain economic conditions and industry trends. These projections are subject to change without notice.

Economy

No Change in Position

This quarter, we kept the Economy gauge at Neutral. While there are still risks to the economic outlook due to tariffs, the extreme "Liberation Day" tariffs do not seem likely to be imposed. In our view, we are back to a "Goldilocks" type environment where the economy is neither growing too fast nor slowing too much.

KEY TAKEAWAYS

GDP — The third and final estimate of Q1 GDP came in at -0.5%, down from Q4 GDP of +2.4%. Q1 GDP was negatively impacted by a surge of imports ahead of potential tariffs. The Atlanta Fed's GDPNow is forecasting +2.5% for Q2 GDP.

Labor Market — The unemployment rate declined to 4.1% in June on a stronger-than-expected nonfarm payrolls of 147K. Job openings rose to 7.77M in May from 7.39M in the prior month. The ratio of job openings to unemployed people has fallen to close to parity from its March 2022 peak of 2:1.

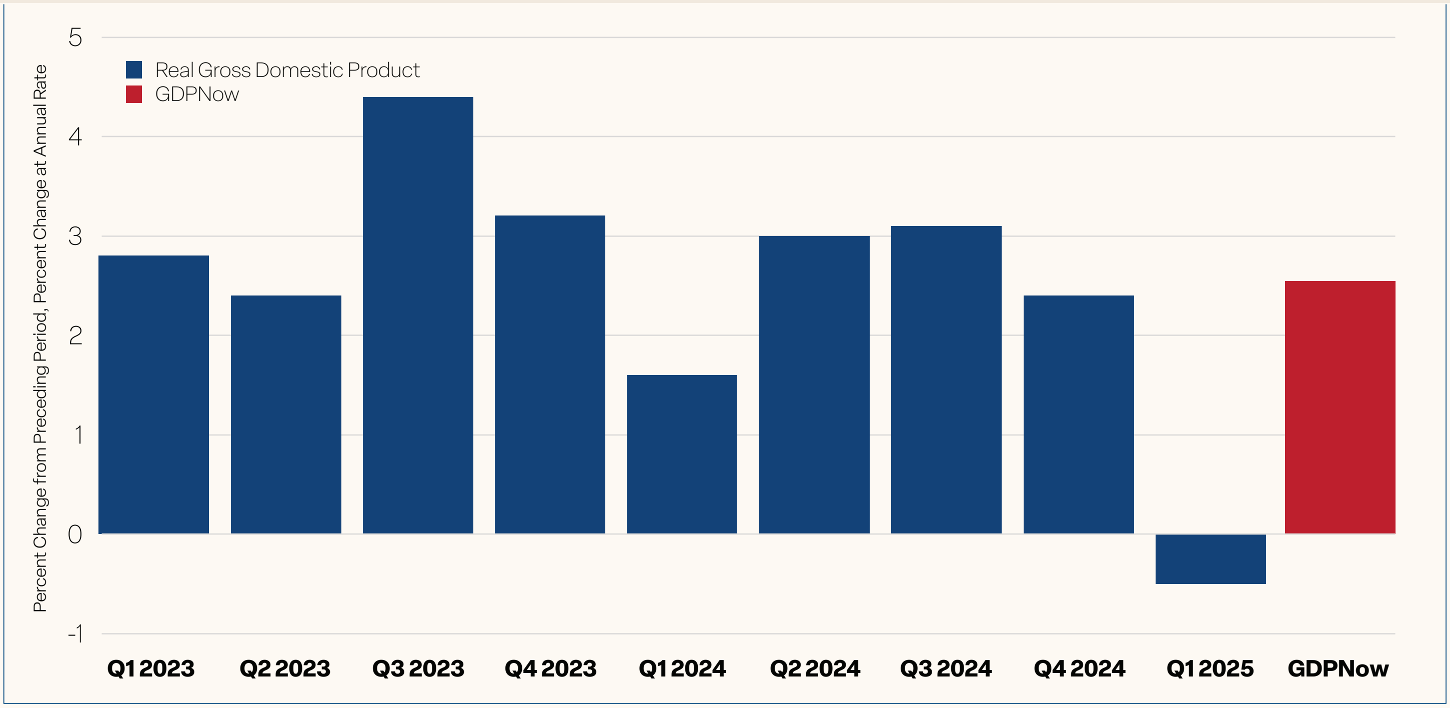
Inflation — Headline CPI and PPI for May came in at 2.4% and 2.6%, respectively. The Fed's preferred measure of inflation, Core PCE, for May came in at 2.7%, slightly ahead of the estimate of 2.6% and up from the prior month's reading of 2.6%. The Fed has made much progress in returning price stability although the rate of inflation remains stubbornly above their 2.0% target.

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.

Real Gross Domestic Product vs. GDPNow

As of 06/25/2025



Sources: BEA; Atlanta Fed; fred.stlouisfed.org

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 additional rate cuts are still on the table for 2025. The Fed's Summary of Economy Projections (SEP) released in June continues to show two rate cuts for the remainder of the year.

KEY TAKEAWAYS

Rate Hikes — At the June FOMC meeting, the Federal Reserve held the fed funds rate in a range of 4.25%-4.50%. This marked the fourth meeting in a row with no change in policy.

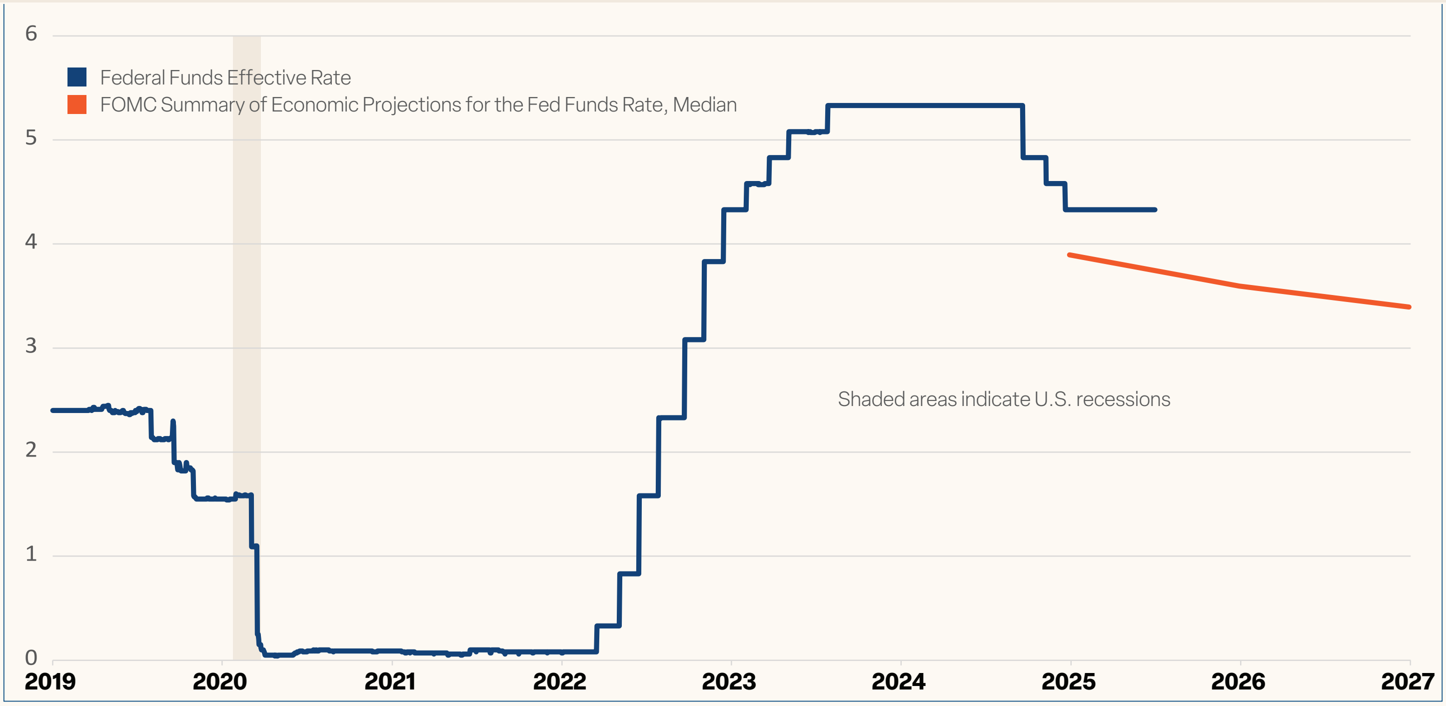
Fed Fund Futures — Fed funds futures are pricing in rate cuts at the September, October, and December FOMC meetings this year.

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

Fed Cutting Rates

The Federal Reserve has been back to "higher for longer" this year as uncertainty surrounding tariffs has caused them to remain on hold.

Fed Funds Rate vs FOMC Economic Projections — 01/01/2019 to 01/01/2027



Sources: Federal Reserve Bank of St. Louis, U.S. Federal Open Market Committee via FRED®

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Valuations

Moved One Notch to the Left

This quarter, we moved the Valuations gauge to the Slow Reverse position to reflect our view that after a move to new highs U.S.large-cap stock valuations appear to be a bit stretched.

KEY TAKEAWAYS

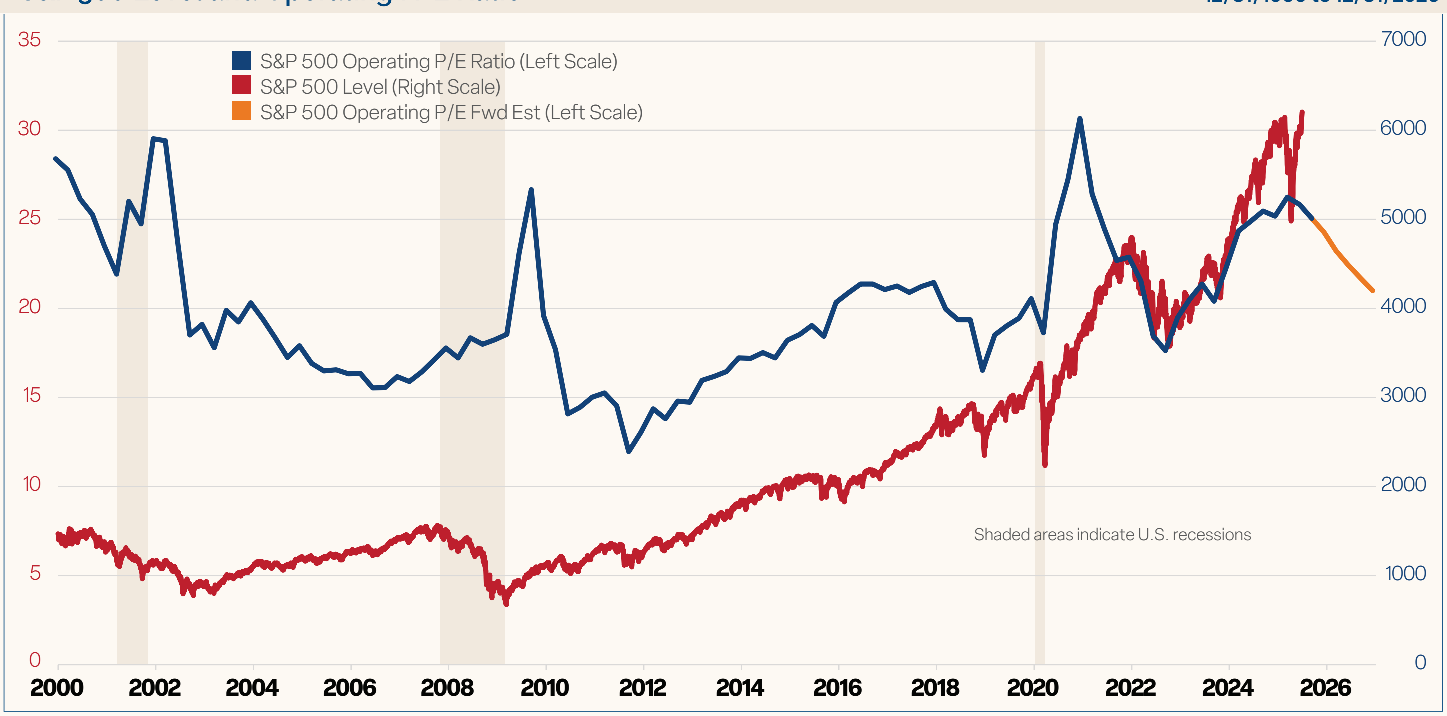
P/E Multiples — With the S&P 500 having reached new highs and earnings estimates having been lowered, valuations for U.S. large-cap stocks are a bit stretched. Valuations for mid-cap, small-cap, and international stocks still appear attractive in our view.

Earnings — Analysts are currently forecasting approximately 9% operating earnings growth in 2025 and 16% growth in 2026. Both would represent record S&P operating earnings. We acknowledge that these estimates could potentially be impacted by tariffs and other factors.

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

For Q1 2025, with 99% of S&P 500 companies having reported, 82% 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 Left

This quarter, we moved the Investor Sentiment gauge to Slow Reverse to reflect that investor sentiment has become more bullish and less bearish. The more fear and pessimism among investors, the more positive for stocks, and vice versa. This is a sensitive gauge and it can change quickly.

KEY TAKEAWAYS

AAII Survey — During the month of June, bullish sentiment increased while bearish sentiment declined compared to April as the market rebounded sharply from the lows of April 7. Bullish sentiment is now above historical averages but well below extreme levels.

VIX Index — The Volatility Index (VIX) hit 60.13 on April 7, it's highest level since the spike back on August 5, 2024. By the end of June, the VIX retreated to 16.73 as stocks recovered their losses sustained in April.

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

Since its 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 07/02/2025

Week Ending	Bullish	Neutral	Bearish
07/02/2025	45.0%	21.9%	33.1%
06/25/2025	35.2%	24.7%	40.3%
06/11/2025	33.2%	25.4%	41.4%
06/11/2025	36.7%	29.7%	33.6%
Historical View			
Historical Averages	37.5%	31.5%	31.0%
1-Year Bullish High	52.7% Week Ending 7/17/2024		
1-Year Neutral High		34.0% Week Ending 01/15/2024	
1-Year Bearish High			61.9% Week Ending 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 held steady, long-term interest rates have been more volatile.

KEY TAKEAWAYS

Change in Yields — Short-term interest rates have been in a holding pattern as the Federal Reserve has not changed the fed funds rate this year. The 10-year treasury yield hit the low of the year of 3.86% intraday on April 3 as a classic flight to safety trade ensued. That reaction was short lived as a sell off in the treasury bond market sent the 10-year yield to 4.59% intraday on April 10. The 10-year treasury yield ended June at 4.24%.

Yield Curve — The 10yr/3m spread has moved in and out of inversion this year. An inverted yield curve has preceded recessions in the past. 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 other factors.

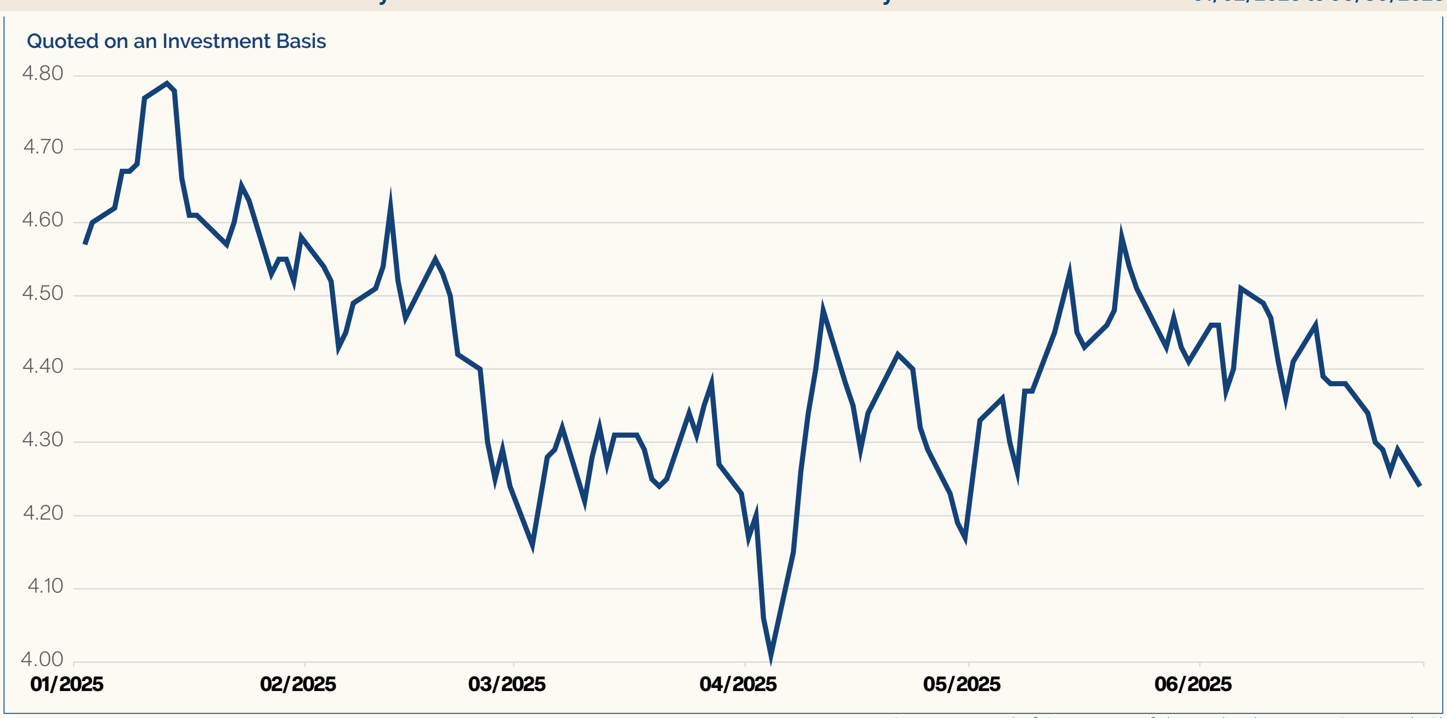
Interest Rate Volatility — Interest rate volatility, as measured by the BofA MOVE Index, hit the highest level of 2025 on April 8 at 139.88 as a wave of volatility hit the treasury market. The MOVE Index ended June at 90.26 as volatility in the Treasury bond market eased.

Yield Moving Higher

Despite the Fed being on hold this year, the long end of the yield curve has been a bit of a rollercoaster ride.

Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity

01/02/2025 to 06/30/2025



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

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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.

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.

Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

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 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).

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an “index”) are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index

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CCM-1179

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