



1st Quarter 2026

Guide to the Gauges

Quarterly Economic and Capital Market Review

Navigate Your Future. Enjoy the Journey.

Guide to the Gauges

Our Latest Assessment of Key Economic Indicators



ECONOMY

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 comprises 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.



MONETARY POLICY

First Quarter Summary

We moved the Economy gauge to the Slow Forward position. After two quarters of above trend growth, economic activity in the U.S. fell to 0.50% in the fourth quarter. We acknowledge there are risks to the economic outlook due to the ongoing conflict in Iran, but a recession occurring in 2026 is not our base case.

We moved the Monetary Policy to the Slow Forward position. Given the potential inflationary impacts from a surge in energy prices, there is now some uncertainty around the timing of future interest rate cuts.



VALUATIONS

This quarter we moved the Valuations gauge to Neutral as stock prices have declined while earnings estimates have risen, lowering multiples for U.S. stocks.

This quarter we moved the Investor Sentiment gauge to Half Forward as bearish sentiment has risen since the start of the conflict in Iran.



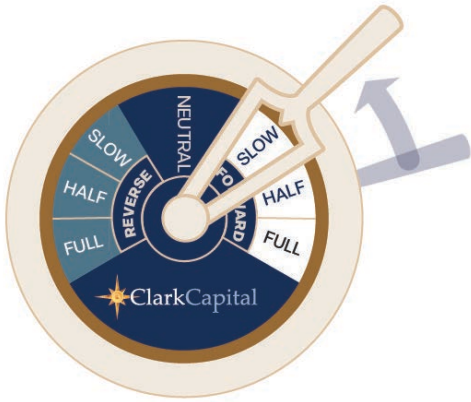
INVESTOR SENTIMENT

We held the Interest Rate gauge in the Slow Forward position. While rates have risen since the beginning of the year, they have not experienced a significant rise.



INTEREST RATES

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

Moves one notch back to Slow Forward

This quarter we moved the Economy gauge to Slow Forward. After two quarters of above trend growth, economic activity in the U.S. fell to 0.5% in the fourth quarter largely due to the government shutdown. We acknowledge there are risks to the economic outlook due to the ongoing conflict in Iran, but a recession occurring in 2026 is not our base case. Our forecast for GDP in 2026 is 3%.

KEY TAKEAWAYS

GDP — The final estimate of Q4 GDP came in at 0.5%, down from the initial estimate of 1.4%. Q4 GDP was negatively impacted by the 43-day government shutdown. The Atlanta Fed’s GDPNow is forecasting 1.3% for Q1 GDP.

Labor Market — The unemployment rate decreased to 4.3% in March. Nonfarm Payrolls increased by 178K, well above estimates of 65K. Job openings fell in February to 6.9M from the previous reading of 7.2M. The number of layoffs and discharges were unchanged at 1.7M.

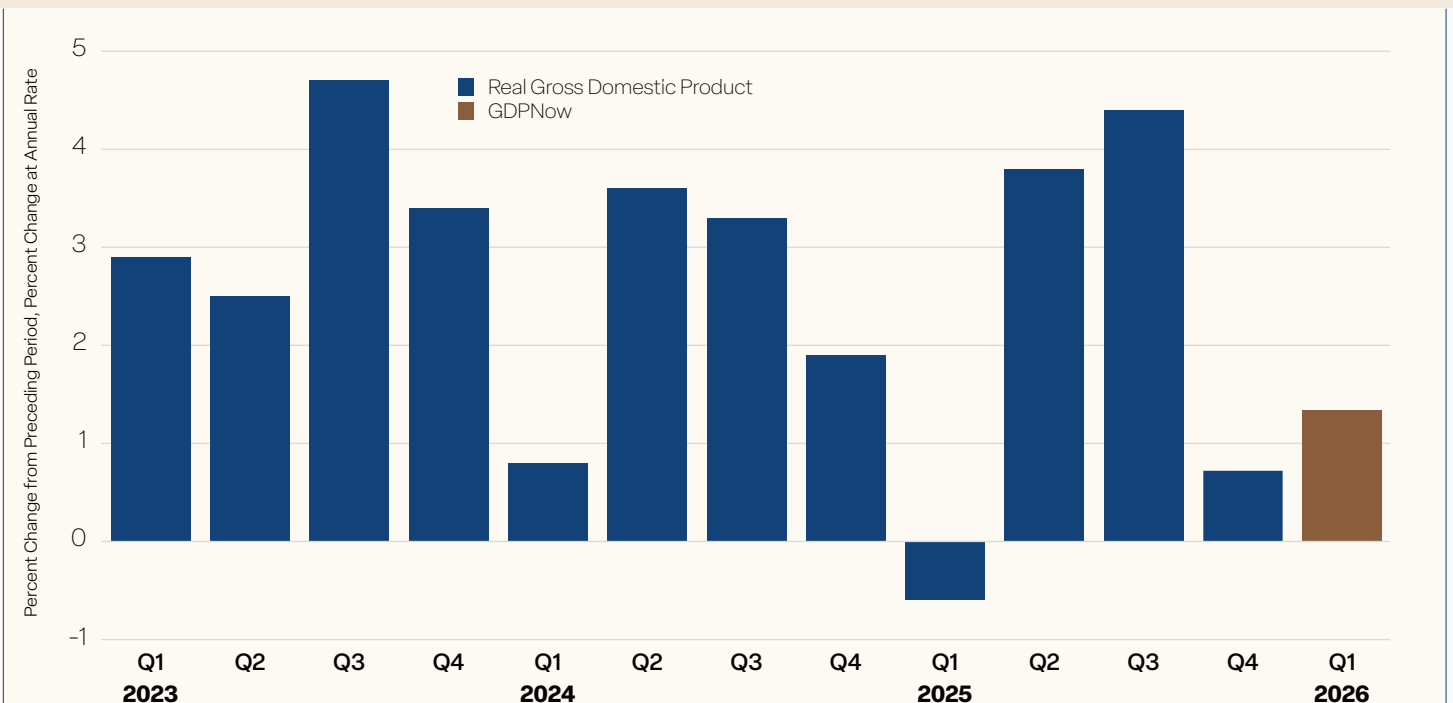
Inflation — Headline CPI for February came in at 2.4%, unchanged from January’s report. Headline PPI for February came in at 3.4%, up sharply from January’s reading of 2.9%. The Fed’s preferred measure of inflation, Core PCE, for January came in at 3.1%, up from December’s reading of 3.0%.

ISM Manufacturing

After two quarters of above trend growth, economic activity in the U.S. fell to 0.5% in the fourth quarter.

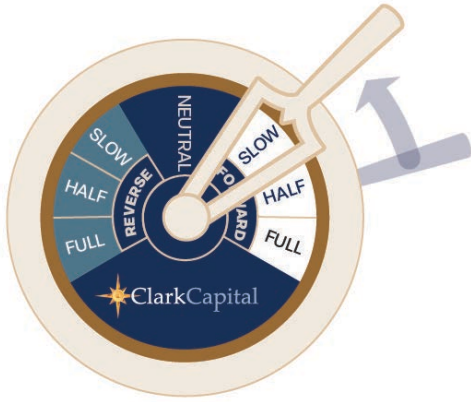
Real Gross Domestic Product vs. GDPNow

As of 3/31/2026



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

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



Monetary Policy

Moves one notch back to Slow Forward

This quarter we moved the Monetary Policy gauge to Slow Forward. Given the potential inflationary impacts from a surge in energy prices, there is now some uncertainty around the timing of future interest rate cuts.

KEY TAKEAWAYS

Interest Rate Policy — At the March FOMC meeting the Federal Reserve held the Fed Funds rate in a range of 3.50%-3.75%, the second meeting this year with no change in rates. Governor Stephen Miran dissented, preferring a rate cut.

Fed Funds Futures — Fed funds futures have effectively priced out additional rate cuts in 2026, while the Fed's Summary of Economic Projections (Dot Plot) released in March shows one.

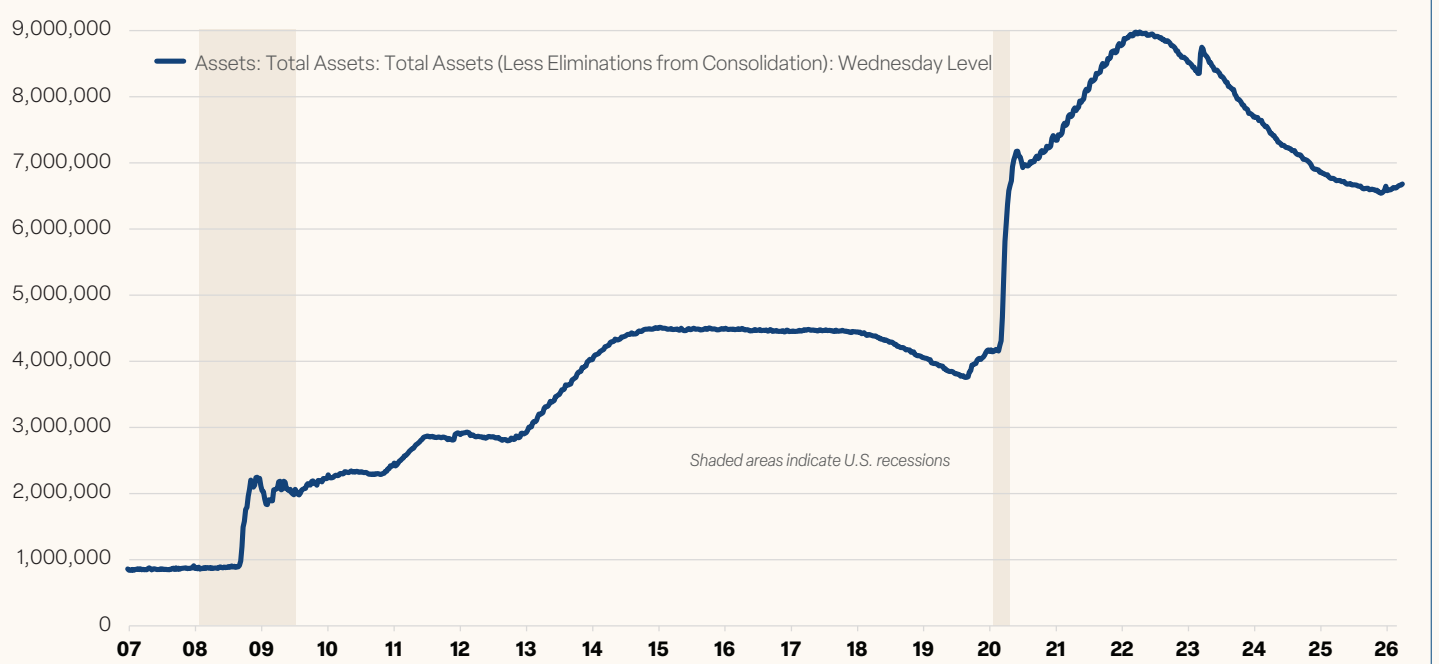
New Federal Chair — Jerome Powell's term as Fed Chair ends in May. Kevin Warsh, who served as a member of the Federal Reserve Board of Governors from 2006 to 2011, has been nominated as his successor. His nomination is currently being held up in committee and it's unclear when it will move forward.

Fed Cutting Rates

The Federal Reserve officially ended quantitative tightening (QT) on December 1 of last year.

Total Assets

1/3/2007 to 4/1/2026



Source: Board of Governors of the Federal Reserve System (U.S.)

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Valuations

No change in position

This quarter we held the Valuations gauge to Neutral as stock prices have declined while earnings estimates have risen, lowering multiples for U.S. stocks.

KEY TAKEAWAYS

P/E Multiples — With the S&P 500 and other indexes off their highs and earnings estimates continuing to rise, stock valuations have improved.

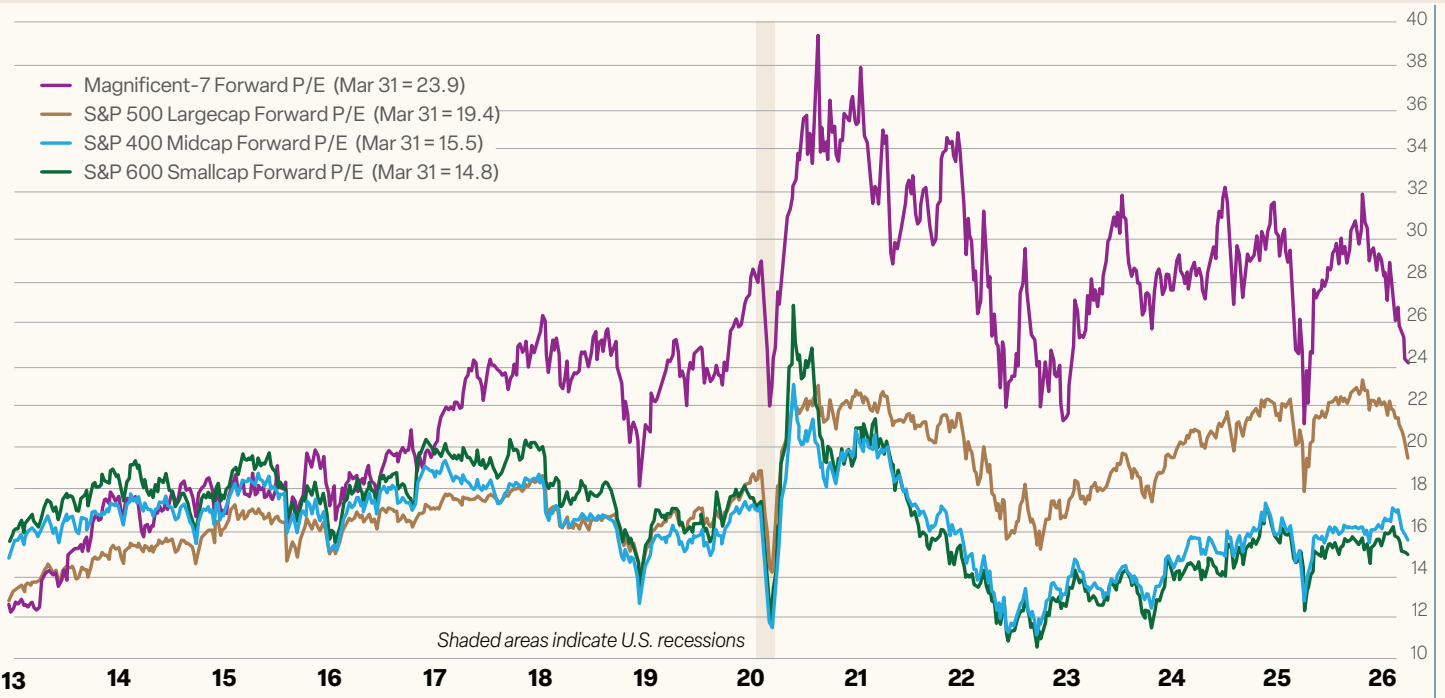
Earnings — Analysts are currently forecasting -18% operating earnings growth in 2026 and -16% growth in 2027. Both would represent record S&P operating earnings. We acknowledge that these estimates could potentially be impacted by the conflict in Iran, tariffs, and other factors.

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

For Q4 2025 73% of S&P 500 companies reported earnings above estimates, 6% reported earnings in-line, and 21% reported earnings below estimates.

Forward P/E Ratios: Largecap, Midcap, Smallcap & MAG-7

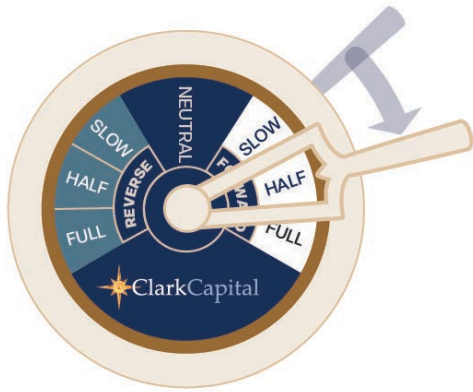
1/1/2013 to 3/31/2026



*Magnificent-7 stocks include Alphabet(Google), Amazon, Apple, Meta (Facebook), Microsoft, NVIDIA, and Tesla. Both classes of Alphabet are included.

Source: LSEG Datastream and Yardeni Research, and Standard & Poor's.

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Investor Sentiment

Moves one notch forward to Half Forward

This quarter we moved the Investor Sentiment gauge to Half Forward as bearish sentiment has risen since the start of the conflict in Iran. 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

AAll Survey — During March, the AAll Investor Sentiment survey became more bearish and less bullish compared to February. Other sentiment indicators such as CNN's Fear & Greed Index are pointing to extreme fear in the market.

VIX Index — The CBOE Volatility Index (VIX) has moved higher since the start of the year. It ended last year at 14.95 and closed above 30 on March 27 and March 30 as the markets reacted to ongoing conflict in Iran. The last time the VIX closed above 30 was in April 2025 during the "Tariff Tantrum."

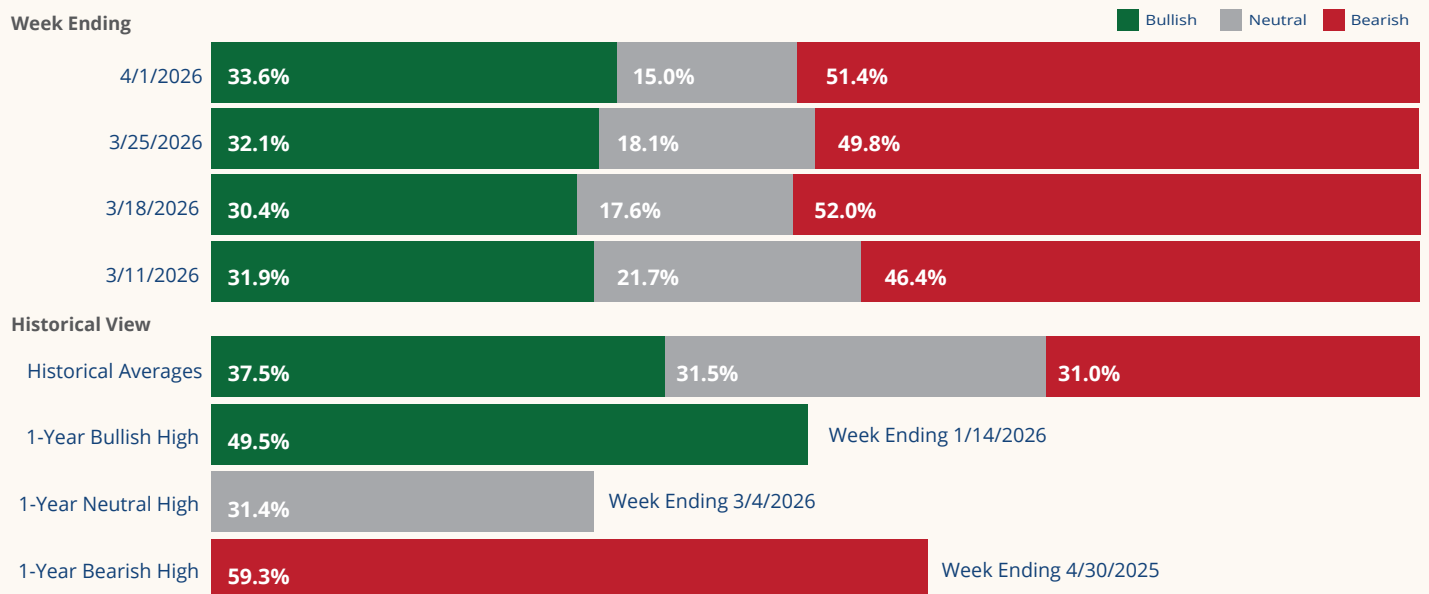
What Does the AAll Survey Indicate About Bullish and Bearish Sentiment?

Since its inception in 1987 the AAll 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 AAll Members Feel The Stock Market Will Be in the Next 6 Months?

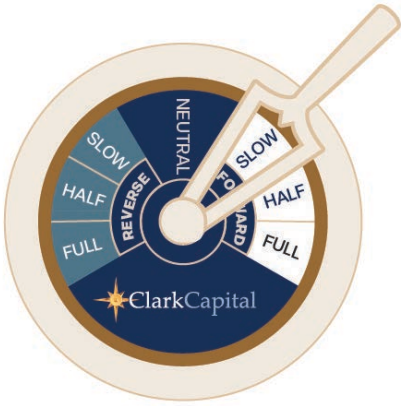
As of 4/1/2026

Sentiment Votes



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 Slow Forward position. While rates have risen since the beginning of the year, they have not experienced a significant rise.

KEY TAKEAWAYS

Change in Yields — Interest rates have moved higher across most of the yield curve since the start of 2026 as the Federal Reserve appears to be on hold and inflation expectations have increased due to rising energy prices.

Yield Curve — The 3m/10yr spread moved in and out of inversion last year but is currently positively sloped. An inverted yield curve has preceded recessions in the past. Our base case is that the U.S. economy will avoid a recession in 2026, although the possibility of one can not be completely ruled out.

Interest Rate Volatility — In December, the BofAML MOVE Index fell to the lowest level in the past four years and ended the year at 63.96 as volatility in the Treasury bond market eased. The MOVE Index hit 115.02 on March 26 as the bond market reacted to the ongoing conflict in Iran.

Yield Moving Higher

The 10-year treasury yield was on a bit of a rollercoaster ride in 2025 and has experience more volatility in 2026.

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

1/1/2026 to 4/1/2026



Quoted on an Investment Basis

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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