



Jamie Mullen
Senior Portfolio Manager



Eric Kazatsky
Portfolio Manager

IT'S THE FINAL COUNTDOWN...

As we head into the fourth and final quarter of 2018, the U.S. fixed income market finished September on slightly weaker ground. Rates crept up steadily throughout the past month, putting downward pressure on both the taxable and tax-free indices, leaving both indices solidly in the red.

The Bloomberg Barclays US Aggregate Index is down -1.60% year-to-date (YTD) compared to the Bloomberg Barclays Municipal Aggregate Index, which has declined by just -0.40% YTD. Despite the losses, tax-free bonds remain the clear winner YTD, outperforming their taxable counterparts by almost 120 basis points. For the remainder of 2018, future uncertainty may come from various corners such as the upcoming mid-term elections, continued trade/tariff talks, as well as the pace of future Federal Reserve (the Fed) rate adjustments.

Maybe we'll come back to Earth, who can tell?

While the 10-year U.S. Treasury rate breached the 3% level during the second quarter, the feeling of “higher rates” lasted only less than a week before rallying back to a low of 2.81% on August 24th. The recent march higher pushed the 10-year rate to 3.06%, marking the longest sustained period above the 3% threshold since earlier this year, indicating that higher rates may be here to stay. The U.S. Treasury 2s10s curve experienced additional flattening over the quarter as the 2-year U.S. Treasury rate topped 2.82%, driven to higher levels as the Fed continues along their path of tightening monetary policy.

Higher rates can be a mixed bag for investors. On one hand, higher rates can adversely impact the current price of bond holdings. On the other hand, this singular focus on bond prices ignores the new-found potential to reinvest cash flow from bond portfolios at higher rates, which can potentially help drive future total returns.

Furthermore, the increase in short-term rates can be a positive net benefit to savers. For example, the U.S. Treasury 3-month treasury bill money market yield has increased over 60 basis points this year to 2.16% after nearly a decade of rates in the single basis point range. We believe tactical bond management can help investors continually take advantage of duration allocations that will help navigate the Fed tightening cycle.

We're leaving ground...Will things ever be the same again?

Top of mind for many investors and market participants is how long the Fed tightening cycle will last. While the future of many policy decisions is rarely certain or clear, several indicators shed some light on the future. The economy has met the Fed's 2% inflation gauge and the unemployment rate, which is already low, continues to fall. These indicators point to the expectation of future rate increases.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Third Quarter 2018 — Portfolio Commentary

Current estimates based on Bloomberg's World Interest Rate Probability (WIRP) place the odds of a December 2018 rate hike above 70% with analysts expecting additional rate hikes to continue in 2019. The market is somewhat expecting an end to monetary tightening in 2020, which coincided with the removal of "accommodative" language in the Fed's September post-meeting statement.

Portfolio allocations using barbell strategies remain poised to perform well in the current flat yield curve environment. The benefits of a barbell portfolio include the ability to reinvest the proceeds (liquidity) of shorter-term bonds at higher rates, thus providing the opportunity for higher yields than a traditional bulleted portfolio approach. The strategy also provides the potential for higher yield income from longer dated bonds. With long duration bonds more sensitive to price fluctuations, diversification on both ends of the yield curve can provide price protection.

Tax-Free Portfolio

Last quarter, we questioned if municipals would be able to continue to outperform, and we believe the answer continues to be yes. Municipal bonds more than held their own with the Bloomberg Barclays Municipal Bond Index returning -0.15% in the third quarter, compared to -0.59% for the Bloomberg Barclays US Treasury Index. Longer

duration bonds came under the most pressure over the quarter with the Bloomberg Barclays Long Bond Municipal Index posting a loss of -0.47% through September 30th.

Future tax-free returns will be dependent upon a combination of U.S. Treasury rate movements and the pace of municipal new issue supply. As the municipal market moves away from the summer season, commonly known for having more demand than supply, we anticipate October to have more supply than demand. However, a semi-robust pipeline for the upcoming month could help provide some additional tailwind for the municipal bond sector.

Our focus in the tax-exempt fixed income strategy continues to center on current income, decreasing duration, and sliding down the credit spectrum. Scarcity of bonds has driven high grade municipal spreads to tighter levels, allowing for more opportunistic purchases in sub-AAA credit and revenue generating bond sectors. Focus on essential service issuers, as well as well capitalized healthcare and higher education names, can provide portfolio diversification away from public pension and fixed cost ratio risk that are growing trends in the tax-backed sector.

Source: Bloomberg, Ned Davis Research

Third Quarter 2018 — Portfolio Commentary

The opinions expressed are those of the Clark Capital Management Group Investment Team. 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.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

The Dow Jones Industrial Average is a stock market index that shows how 30 large publicly owned companies based in the U.S. have traded during a standard trading session in the stock market.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI Emerging Markets Index is a freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The S&P 500 Index measures the performance of 500 large companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The Bloomberg Barclays U.S. Government and Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related, and investment grade U.S. corporate securities that have a remaining maturity of greater than 1 year. In addition, the securities have \$250 million or more of outstanding face value, and must be fixed rate and non-convertible.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar denominated non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays 30-Year U.S. Treasury Bellwethers Index is a universe of Treasury bonds, and used as a benchmark against the market for long-term maturity fixed-income securities. The index assumes reinvestment of all distributions and interest payments.

The Bloomberg Barclays 10-Year U.S. Treasury Bellwethers Index is a universe of Treasury bonds, and used as a benchmark against the market for long-term maturity fixed-income securities. The index assumes reinvestment of all distributions and interest payments.

The Bloomberg Barclays 5-Year Municipal Bond Index is the 5 Year (4-6) component of the Municipal Bond index. It is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. The index tracks general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds rated Baa3/BBB- or higher by at least two of the ratings agencies.

The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed

by S&P 500 stock index option prices and which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk. 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. The Bloomberg Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury inflation-protected securities are excluded, due to tax treatment issues. The index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S. The Bloomberg Barclays Capital Aggregate Bond Index is an intermediate term index.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

Morningstar is the largest independent research organization serving more than 5.2 million individual investors, 210,000 Financial Advisors, and 1,700 institutional clients around the world.

For each separate account with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a separate account's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of separate accounts in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a separate account is derived from a weighted average of the performance figures associated with its three-, five- and ten-year Morningstar Rating metrics.

© 2018 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.

Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security, sector or industry. There is no assurance that any securities, sectors or industries discussed herein will be included in an account's portfolio. Asset allocation will vary and the samples shown may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request.