Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

The Santa Claus rally did not disappoint in 2020 as most major U.S. equity indices put in new all-time highs late in December.

The broadening of the equity market rally continued in December as small and mid-cap stocks continued their recent outperformance of large-caps. Growth made a comeback in December after underperforming value in recent months.

The economy continued to grow late in the year, but economic readings in December (largely covering November) did show a slowdown in the pace of expansion. The surge in COVID-19 cases this winter has created new challenges.

The 10-year U.S. Treasury yield closed at or above .90% for all of December after closing November at 0.84%. The yield closed 2020 at 0.93%.

Similar to November, stock market returns in December were solid despite COVID-19 cases spiking to unprecedented levels.

The near term still holds tremendous uncertainties, but the light at the end of this dark tunnel appears to be getting brighter as vaccines roll out more widely moving beyond 2020 and into 2021.

2020 Comes to an End; Great Year for Stocks Amid Tough Year for Most

Equity Markets

As difficult as a year it was dealing with all the issues caused by the pandemic, the stock market was able to record a strong year of gains with record highs achieved among major U.S. equity indices. Despite the surge in COVID-19 cases late in the year, equities looked beyond the near-term bad news and focused on the start of the vaccine rollout and ongoing economic improvements. As a result, the powerful gains in November were followed by more gains in December. The S&P 500, Dow Jones Industrial Average, NASDAQ Composite and Russell 2000 Indices all recorded new all-time highs in December.

The CBOE Volatility Index, or VIX Index, closed above 40 in late October, but it declined rather sharply for the balance of the year as stocks rallied. The VIX Index ended December at 22.75. VIX levels in late November and early December were at their lowest points since before the pandemic. Volatility clearly declined during November and December, but might be pointing to some complacency building in the market and potential short-term weakness. Moving into the new year and as COVID-19 cases are accelerating in the U.S. and other parts of the world, we expect volatility could rise once again, particularly with how strong the year ended for stocks. We believe investors should be prepared for a bumpy ride as we move through these near-term difficulties with the pandemic until the vaccine becomes more widely distributed.

The recent outperformance of value waned in December, reverting to the dominant trend overall in 2020 of growth over value. We at Clark Capital continue to use our disciplined approach of seeking out high-quality companies with improving business conditions at what we believe are good prices.

The value/growth disparity has been, and continues to be, very stretched from our perspective, but some shift has occurred over the last few months as the FANMAG stocks have lost strength relative to the broader market. As always, we will continue to make purposeful investments in both stocks and bonds as we move forward in what we believe will be a period of wider outcomes of investment results. We still believe the rally is broadening despite the resurgence of growth in December. Small and mid-cap companies continued their recent outperformance and international stocks continued their recent strength as well.

The numbers for December were as follows: the S&P 500 gained 3.84%, the Dow Jones Industrial Average advanced 3.41%, the Russell 3000 rose 4.50%, the NASDAQ Composite advanced 5.71%, and the Russell 2000 Index, a measure of small-cap stocks, rallied 8.65%, following up strongly on its historic November gains. For all of 2020, results continued to show major dispersion among these broad indices and returns in the same order, were as follows: 18.4%, 9.72%,

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20.89%, 44.92%, and 19.96%, respectively.

The S&P 500 Index (which is market-cap weighted) easily outpaced its equal weighted counterpart in 2020. For the year, the S&P 500 Equal Weighted Index was up 12.83%, but over the last three months of 2020, the equal weight measure gained 18.46% compared to the headline, market-cap weighted S&P 500, which rose 12.15%. We believe this is evidence that the market rally is broadening. The recent rally in small-caps largely evened out the large-cap trade, which had dominated for most of the year. Reflecting the recent gains of smaller-sized companies, the Russell 2000 Index gained 31.37% during Q4 of 2020, as small and mid-cap stocks rallied late in the year.

Looking at style, growth stocks had the clear advantage for the year despite some recent outperformance of value stocks. The headline Russell 1000 Index was up 20.96% in 2020. The Russell 1000 Growth Index advanced 38.49%, while the Russell 1000 Value Index finally got into positive territory after gains in December, ending the year up 2.80%. However, in Q4, the same growth index gained 11.39%, while the value index advanced 16.25%.

International equities enjoyed solid gains in December as well. Emerging markets, which led international markets overall in 2020, also outperformed to close out the year. The MSCI Emerging Markets Index gained 7.35% in December and the MSCI ACWI ex USA Index, a broad measure of international equities, advanced 5.41% with 2020 returns of 18.31% and 10.65%, respectively.

Fixed Income

The yield on the 10-year U.S. Treasury resumed its recent increase in December and closed the year at 0.93% compared to November's close of 0.84%. Bond results were mixed but improving credit conditions provided a positive backdrop for credit in December. We continue to believe that we will be in a "lower for longer" interest rate environment for the foreseeable future, but that does not mean that rates cannot fluctuate along the way. The ongoing and massive support from the Federal Reserve is generally keeping a lid on interest rates and we expect that environment to continue.

Fixed income returns were as follows for December: the Bloomberg Barclays U.S. Aggregate Bond Index gained 0.14%, the Bloomberg Barclays U.S. Credit Index advanced 0.46%, the Bloomberg Barclays U.S. Corporate High Yield Index rallied an impressive 1.88% and the Bloomberg Barclays Municipal Index rose 0.61%.

Treasuries still showed solid results in 2020 driven by powerful first quarter returns, but this pocket of fixed income underperformed in recent months. This is consistent with our expectations for corporate bonds to outpace sovereign debt as corporate bonds benefit from improving economic conditions. For example, for the month of December, the general Bloomberg Barclays U.S. Treasury Index declined -0.23%, but in 2020, it was still up 8.0%. High yield bonds, which struggled during the pandemic induced sell off of risk assets earlier in the year, have continued to make a comeback and are now up 7.11% for the year.

Economic Data and Outlook

Economic gains continued in December, but with some moderation. Although the pace of growth has started to slow, the economic expansion is still above long-term trends, and we believe the "V-shaped" part of this recovery should continue well into 2021.

As we moved into winter and COVID-19 cases spiked again, job market gains slowed rapidly. Non-farm payroll additions in November came in at 245,000 – a very strong month in normal circumstances, but dramatically fewer gains than the 610,000 recorded in October. The reading was also well below expectations of 460,000. The unemployment rate improved as expected to 6.7% in November, a decline of 0.2%. In December 2019, the unemployment rate was 3.5%, so there is still a lot of ground to make up, but progress has been made from the pandemic high unemployment mark of 14.7% in April.

After surging to a two-year high of 59.3 in October, the widely followed ISM Manufacturing Index fell in November to 57.5. A decline was expected, but expectations were only calling for a drop to 58.0. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, was just ahead of expectations at 55.9 (estimates were at 55.8), but this too was a drop from October's mark of 56.6. Manufacturing and service industries have clearly improved from the shutdown period and continue to show solid growth. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction.

Retail sales (ex. auto and gas) declined in November by -0.8% when a modest gain of 0.1% was expected. The prior month's reading was also revised to show a drop in October of -0.1% from a previously reported gain of 0.2%. Retail spending seemed to slow as we moved into the winter months.

The housing market has remained strong and has been a source of broader economic strength during this recovery. The pace of new home sales cooled in November, dropping to an 841,000 annualized rate from the prior month's 945,000 rate and expectations of 995,000. However, housing starts and building permits both exceeded expectations in November and both increased from October levels. All three of these housing measures have been at levels in recent months that have not been seen since prior to the 2008 Financial Crisis. The Conference Board's Leading Index gained 0.6% in November, ahead of the expected 0.5% advance. The final reading of third quarter GDP was revised modestly higher to a 33.4% annualized growth rate from the prior estimate of 33.1%.

While strong gains continue in many parts of the economy, particularly in the housing market, some data is reflecting that the pace of improvement is now slowing. We had anticipated that the third quarter would rebound strongly and while the fourth quarter would reflect above trend economic growth, it would be more muted compared to the third quarter.

The Fed has been unwavering in its commitment to support the proper functioning of the financial system. On top of this, the 5th fiscal stimulus plan was finally passed in the final week of the year. Hopefully, this $900 billion plan will help bridge the gap during this challenging period in the recovery as COVID-19 cases rise and the distribution of the vaccine is still in its early stages. With the transition to the Biden administration in January, another round of stimulus might be forthcoming. However, how that looks will depend largely on the outcome of the Senate run-off races in Georgia, which will determine whether Republicans maintain control of the Senate or whether it shifts to Democrats.

The strong stock market momentum from November continued in December, despite ongoing challenges with the pandemic. We remain resolute in our belief that the U.S. economy and corporate America will make it through this pandemic period. This stance has not changed since the beginning of the crisis.

There are clear short-term challenges as we head into 2021 amid surging COVID-19 cases. Vaccines are on their way, but it is taking time to produce and distribute these more broadly. The next few months might see elevated capital market volatility as we go through this challenging period. Overall, we do believe the economy and financial markets are heading in the right direction. As always, we continue to believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

December capped off a very strong year of returns for the market. Technology and work from home related sectors were clear benefactors, although the market trends broadened as the light at the end of the tunnel has come into view with the vaccine approvals. At present, our tactical models favor high yield bonds over Treasuries and small-caps over large-caps. Sentiment has gotten a little extreme as we enter 2021, which may lead a brief pause or consolidation, but trend, momentum, and credit remain very supportive of the market.

Clark Capital's Bottom-Up, Fundamental Strategies

Cyclicals continue to perform well with the expectation of increased economic activity in 2021. This positive momentum was reinforced by Congress approving a $900 billion COVID-19 relief package and the FOMC offering guidance about its purchases of Treasuries and mortgage-backed securities by linking the purchase program to economic conditions. In fixed income, we expect the muni curve to steepen in Q1 2021 and have been taking advantage of the demand to reduce duration.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Nov	58.0	57.5	59.3	—
ISM Services Index	Nov	55.8	55.9	56.6	—
Change in Nonfarm Payrolls	Nov	460k	245k	638k	610k
Unemployment Rate	Nov	6.7%	6.7%	6.9%	—
Average Hourly Earnings YoY	Nov	4.2%	4.4%	4.5%	4.4%
JOLTS Job Openings	Oct	6300k	6652k	6436k	6494k
PPI Final Demand MoM	Nov	0.1%	0.1%	0.3%	—
PPI Final Demand YoY	Nov	0.7%	0.8%	0.5%	—
PPI Ex Food and Energy MoM	Nov	0.2%	0.1%	0.1%	—
PPI Ex Food and Energy YoY	Nov	1.5%	1.4%	1.1%	—
CPI MoM	Nov	0.1%	0.2%	0.0%	—
CPI YoY	Nov	1.1%	1.2%	1.2%	—
CPI Ex Food and Energy MoM	Nov	0.1%	0.2%	0.0%	—
CPI Ex Food and Energy YoY	Nov	1.5%	1.6%	1.6%	—
Retail Sales Ex Auto and Gas	Nov	0.1%	-0.8%	0.2%	-0.1%
Industrial Production MoM	Nov	0.3%	0.4%	1.1%	0.9%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	Nov	1560k	1639k	1545k	1544k
Housing Starts	Nov	1535k	1547k	1530k	1528k
New Home Sales	Nov	995k	841k	999k	945k
Existing Home Sales	Nov	6.70m	6.69m	6.85m	6.86m
Leading Index	Nov	0.5%	0.6%	0.7%	0.8%
Durable Goods Orders	Nov P	0.6%	0.9%	1.3%	1.8%
GDP Annualized QoQ	3Q T	33.1%	33.1%	33.1%	—
U. of Mich. Sentiment	Dec P	76.0	81.4	76.9	—
Personal Income	Nov	-0.3%	-1.1%	-0.7%	-0.6%
Personal Spending	Nov	-0.2%	-0.4%	0.5%	0.3%
S&P CoreLogic CS 20-City YoY NSA	Oct	6.95%	7.95%	6.57%	6.64%

Source: Bloomberg

P=Preliminary, T=Third

The visual shown above are for illustrative purposes only. Data as of 12/31/2020.

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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.

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 S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Dow Jones Industrial Average indicates the value of 30 large, publicly owned companies based in the United States.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

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 Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

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 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the "risk free" rate when valuing the markets or an individual security.

The MSCI Emerging Markets Index is used to measure large and mid-cap equity market performance in the global emerging markets.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 developed market countries and 24 emerging market countries, covering approximately 85% of the global equity opportunity set outside of the U.S.

Bloomberg Barclays U.S. Aggregate Bond Index: The index is unmanaged and measures the performance of the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries and government-related and corporate securities that have a remaining maturity of at least one year.

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 U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

Personal consumption expenditures price index is the component statistic for consumption in gross domestic product collected by the United States Bureau of Economic Analysis.

The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

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.

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