



## Portfolio Commentary

## Navigator® MultiStrategy

## Portfolio Manager



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## Risk Appetite Remains Strong

## Market Review

The first quarter saw the continuation of very strong equity markets, but the leadership profile has now changed. In 2020, large-cap growth and Technology led markets before, during, and after the COVID-19 pandemic. The launch of a broad vaccine program in November shifted markets into a full-blown risk-on cycle, and the prior laggards, which were economically sensitive stocks, have stormed ahead and now lead market gains.

Small-caps gained 17.9% on the quarter, while the S&P 500 produced a solid, but less spectacular 6.2% gain. Small-cap value, the biggest loser for most of 2020, gained 23.7%, while large-cap was up only 1.9%. Markets have been able to produce large gains without Technology being the primary (and often sole) driver, an event we have not seen for some time. Gains were led by Financials and Energy, but Industrials, Materials, and even Real Estate outperformed the S&P 500.

Optimism towards an economic re-opening took broad hold, and nowhere was that reflected more than in the bond market, where interest rates surged. 10-year Treasury yields rose from under 1% to over 1.7%, and the Barclays U.S. Treasury Index lost 4.3%. Long-term Treasuries endured their worst loss in over 40 years. Corporate credit markets are extremely robust, as high yield bond spreads are now their tightest since 2007, before the Financial Crisis. While Treasuries saw sizeable losses, high yield enjoyed a small gain on the quarter, despite surging interest rates.

## First Quarter Performance Highlights

- The equity portion of the portfolio began the year focusing almost exclusively on small-caps mid-cap value, and growth and established a small position in buybacks. Large-cap growth, minimum volatility, and momentum were least favored in our rankings, and the portfolio largely steered away from these factors.
- Value outperformed growth on the quarter, but almost all of that outperformance came between late January and mid-March, when the 10-year Treasury rate surged from just over 1.0% to 1.7%. Our models continue to focus on the longer-term trends, which favor cyclical, higher beta, and mid/small-caps rather than value or growth in particular.
- The top contributors for the quarter were small-caps (IJR) and mid-cap value (MDYV). Brief trades into momentum (MTUM) and small-cap growth (IJT) did not develop follow-on trends and therefore, we exited these positions and they became top detractors for the quarter.
- The fixed income portion of the portfolio remained invested in high yield bonds, which produced small gains on the quarter.

*Past performance is not indicative of future results.*

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



## Positioning and Outlook

The equity portion of the portfolio came into 2021 favoring small-caps and mid-caps, owning broad small-caps (IJR), mid-cap value and growth, and having established a new position in buybacks. As the quarter developed, we reduced our growth stocks positions, but never took a sustained position in value stocks. Our models found that the cyclical beta and size factors were proving more powerful than the value or growth effect. Value stocks had a particularly strong seven week run between late January and mid-March as interest rates rose. But when rates stalled, small-cap and value relative strength faded with it. As the quarter ended, our models began to shift a bit more towards large-caps, and we added to buybacks and established a new position in large-cap value.

For the quarter, the S&P 500 Index gained 6.2%, and the S&P 500 Value was up 10.9%, while large-cap growth lagged but managed a 2.2% gain. Small-cap value soared by 24.3%, and small-cap growth rose by 12.4%. Momentum and minimum volatility lagged, while buybacks (PKW) enjoyed a strong 15.1% gain.

The dramatic swings in style box and factor performance continued during the quarter, but proved to be the reverse of 2020. The Russell 1000 Value exhibited its strongest performance versus the Russell 1000 Growth Index in over 20 years. While our equity positions only modestly favored large-cap value, the bigger effect for us was avoiding large-cap growth, which appears to have lost its long-running leadership. More importantly, the Russell 2000 has now had its strongest two quarters versus the Russell 2000 since the indexes' inception in 1979. This tremendous outperformance drove us to mid-cap and small-cap stocks over the last five months, and it was the primary factor driving our ETF rankings.

Looking forward, we expect the economic re-opening theme to continue in 2021, and markets should see only modest, corrective downside potential. How much of that re-opening is being priced into the markets has become a more delicate question, and our Equity Team points out that small-caps have lost their valuation edge after their big run.

We will continue to follow our quantitative models, which have mid-cap and small-cap ranking highly, but losing steam. We do not expect a return to the narrow, large-cap growth and Technology led markets of the prior five years. Within fixed income, we continue to favor high yield bonds, and our models have not wavered in that stance. High yield has performed well; however, with yields having fallen to such extremely low levels, it was only able to manage small gains (but avoided the larger losses in Treasuries).

More importantly, broad high yield spreads and riskier CCC bond spreads are now at their lowest levels since the 2008 Financial Crisis. We believe that most of 2021 will present relatively minimal risks within corporate credit, but in the longer term, the lowest spreads in over ten years also present the largest downside risks in over ten years as well. Our models are prepared to move towards risk-off and move into Treasuries or cash if credit markets were to falter. Such a move appears more likely to take place in later 2021, 2022 or even 2023.

### MultiStrategy 25-75 Top Contributors as of March 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares Core S&P Small Cap ETF	9.91	1.38
Invesco Buyback Achievers ETF	4.93	0.72
Navigator Tactical Fixed Income Fund Class I	70.74	0.68

### MultiStrategy 25-75 Top Detractors as of March 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares MSCI USA Momentum Factor ETF	0.82	-0.06
iShares S&P Small-Cap 600 Growth ETF	0.47	-0.03
iShares S&P Small-Cap 600 Value ETF	0.15	0.00

*Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.*

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## MultiStrategy 50-50 Top Contributors as of March 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares Core S&P Small Cap ETF	19.34	2.79
Invesco Buyback Achievers ETF	9.29	1.36
SPDR S&P 400 Mid Cap Value ETF	9.40	1.27

## MultiStrategy 50-50 Top Detractors as of March 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares MSCI USA Momentum Factor ETF	1.51	-0.10
iShares S&P Small-Cap 600 Growth ETF	0.93	-0.06
Symmetry Panoramic Global Fixed Income Fund Class I Shares	0.00	0.00

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

## MultiStrategy 75-25 Top Contributors as of March 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares Core S&P Small Cap ETF	28.73	4.10
SPDR S&P 400 Mid Cap Value ETF	14.15	1.95
Invesco Buyback Achievers ETF	12.58	1.86

## MultiStrategy 75-25 Top Detractors as of March 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares MSCI USA Momentum Factor ETF	2.19	-0.14
iShares S&P Small-Cap 600 Growth ETF	1.39	-0.08
Meeder Conservative Allocation Fund - Institutional Class	0.00	0.00

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

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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 markets countries.

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 securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

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

Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability.

Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

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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