Clark Capital Management Group

Benchmark Review
& Monthly Recap

U. S. Large-Caps and Bonds Gain to Kick Off the Second Half of 2021

Highlights

The S&P 500 Index, NASDAQ Composite, and Dow Jones Industrial Average each posted new all-time highs in July. Small-caps fell for the month and growth continued its recent trend of outperformance compared to value.

With small-caps moving lower for the month, the year-to-date leadership has shifted to large-cap companies. Value still maintains a lead over growth year to date, but that lead has narrowed. International stocks also struggled in July.

The 10-year U.S. Treasury yield continued its recent slide lower in July. After closing June at 1.45%, it ended July at 1.24%. Most bond sectors continued their recovery in July after a rough first quarter.

The U.S. economy is still solidly recovering, but some economic data points showed moderating growth. The initial estimate of Q2 GDP was released and it disappointed at a 6.5% annualized rate compared to expectations of 8.4%.

The Delta variant continues to spread more widely in the U.S. and globally. It is yet to be seen whether this might have an impact on the economic reopening.

We expect ongoing economic improvements and continued above trend growth in the second half of 2021.However, volatility could increase in the months ahead with markets near all-time highs and pandemic issues ongoing.

Equity Markets

Growth continued its recent trend of outperformance compared to value in July. However, even more dramatic was the dominance of large-cap stocks compared to small-caps for the month. While most major U.S. equity indices enjoyed solid gains in July, small-caps fell rather sharply and relinquished their year-to-date leadership role.

After hitting a 52-week intra-day low near the end of June at 14.1, the VIX Index generally trended higher in July. It spiked above 25 at one point during the month (although it did not close at that level) and by the end of July, the VIX Index stood at 18.24. Despite volatility picking up during the month, stocks were generally higher. We believe investors should be prepared for ongoing periods of volatility over the next several months with stocks near all-time highs and after such a strong first half of 2021.

Style mattered once again in July, but market capitalization was a more significant driver of returns during the month. Although there will be times when growth rallies, we still believe that the value/growth disparity that reached a peak last year will likely continue to shift in 2021 with value improving on a relative basis. We at Clark Capital continue to use our disciplined approach of seeking out high-quality companies with improving business conditions at what we believe to be good prices. These types of companies can be found in both the value and growth universe, but the market's shift to value stocks has benefited our focus on quality companies so far this year.

The numbers for July were as follows: The S&P 500 gained 2.38%, the Dow Jones Industrial Average advanced 1.34%, the Russell 3000 improved by 1.69%, the NASDAQ Composite rose 1.19%, and the Russell 2000 Index, a measure of small-cap stocks, declined by -3.61%. This drop in the Russell 2000 Index in July now causes it to lag the large-cap indices so far this year. Year-to-date returns in the same order were as follows: 17.99%, 15.31%, 17.06%, 14.26%, and 13.29%, respectively.

We will continue to monitor how trends shift in the coming months and whether the recent gains in large-cap growth stocks develop more footing, or whether small and mid-cap stocks, along with value, return to their recent leadership roles.

Looking closer at style, the headline Russell 1000 Index gained 2.08% in July. The Russell 1000 Growth Index drove results as it had in June, up 3.30%, while the Russell 1000 Value Index gained only 0.80%. Year-to-date returns were 16.71% and 17.98%, respectively. Value is still outperforming growth so far in

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2021, but that gap narrowed with the returns from last two months. The small-cap universe was down in July regardless of style, with both growth and value declining.

International markets struggled in July, and particularly within emerging markets. Asian markets were hard hit during the month as China ramped up regulatory restrictions. The MSCI Emerging Markets Index dropped -6.73% in July, wiping out most of its gains for the year, and the MSCI ACWI ex USA Index, a broad measure of international equities, fell -1.65%. For the year to date, those two indices now show gains of 0.22% and 7.36%, respectively. Following the trend of recent years, U.S. stocks have continued to outperform their international counterparts.

Fixed Income

After surging higher during the first quarter, the yield on the 10-year U.S. Treasury has declined over the last four months. The yield closed the month of June at 1.45% and it slipped lower in July to end the month at 1.24%. Most bond sectors struggled in the first quarter, particularly the most interest-rate sensitive bonds, but they have been recovering from that point as yields have dropped.

High yield bonds have been the winner in fixed income so far this year, but Treasury Inflation-Protected Securities (TIPS) have surged of late, which has made them among the best pockets of the bond market. The ongoing and massive support from the Federal Reserve is keeping a lid on interest rates (particularly on the front end of the yield curve), but we did anticipate some steepening of the yield curve would occur in 2021. That steepening has happened, but as is typical, these moves are not just made in a steady manner. The yield curve has flattened somewhat in recent months with longer-term yields declining.

Fixed income returns for July were as follows: the Bloomberg Barclays U.S. Aggregate Bond Index gained 1.12%, the Bloomberg Barclays U.S. Credit Index advanced 1.30%, the Bloomberg Barclays U.S. Corporate High Yield Index rose 0.38% and the Bloomberg Barclays Municipal Index gained 0.83%. For the year to date, those index returns in the same order were as follows: -0.50%, 0.01%, 4.01%, and 1.90%, respectively. U.S. Treasuries enjoyed gains across the board as interest rates dropped with longer dated U.S. Treasuries showing the best results in July (the 30-year index was up +4.11% for the month), but it is still down -5.51% year to date.

As inflation concerns and expectations have increased in recent months, TIPS have had solid results. Over the last three months, the Bloomberg Barclays U.S. Treasury TIPs Index has gained 4.54%, which puts its year-to-date gain at 4.44%. We continue to maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment.

Economic Data and Outlook

Non-farm payroll additions rebounded strongly in June with 850,000 additions, compared to expectations of 720,000 and the prior month's mark of 583,000. However, the unemployment rate ticked higher to 5.9% from the prior month's level of 5.8% and estimates of 5.6%. Job openings remain high and were more than 9.2 million in May, but this was slightly below expectations, which were calling for over 9.3 million openings. Jobs are available and unemployed workers are available as well, but the job market recovery seems to be slower than one would expect given these circumstances. This is likely due in part to the expanded unemployment benefits that were extended during the pandemic, a mismatch of job skills and job openings, as well as childcare challenges. We do believe that more workers will move back into the job market as some of the extended benefits begin to expire and as we move further along in this economic recovery. Progress in the job market will be important to monitor with about 70% of U.S. economic activity driven by consumer spending.

The housing market is still posting strong numbers, but it too has some imbalances in supply and demand. Home price increases have been dramatic in recent months and May price gains were equally as robust. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased 16.99% in May. Demand is outpacing supply at this point in many parts of the country and home prices are rising sharply, which can price some buyers out of the market.

Existing home sales rose in June, while new home sales declined from the prior month and both readings fell short of expectations. Housing starts surpassed expectations and improved from the prior month. However, building permits missed expectations in June and were lower than May's pace. We will continue to monitor how rising home prices and low supply impact housing market progress in 2021. The housing market has been a clear source of strength during the economic recovery and has historically been a good leading indicator for the economy.

The widely followed ISM Manufacturing Index for June was at 60.6, which was a slight miss compared to expectations of 60.9. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 60.1 – below expectations of 63.5 and the prior month's reading of 64.0. Manufacturing and service industries have improved from the shutdown period and continue to show solid growth as the economy recovers, but some of the data is showing that growth is moderating. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so these current readings remain in very strong growth territory.

Retail sales (ex. auto and gas) increased in June, up 1.1%, more than double the expected monthly increase of 0.5%. However, the prior month's originally reported decline of -0.8% was revised to show a larger decrease of -1.0%. The Conference Board's Leading Index gained 0.7% in June, just shy of expectations of 0.8%. The first estimate (advance reading) of second quarter GDP was announced, and it was well below expectations of 8.4%, coming in instead at an annualized rate of 6.5%. A final revised reading for first quarter GDP was lowered to 6.3% annualized growth. These growth rates are still well above long-term trend growth, which is estimated to be around 2.0%, so the economic recovery remains robust, and we anticipate above trend growth well into 2022. However, similar to some other economic readings, the rate of change is slowing after a powerful rebound following the pandemic driven economic shutdown.

The Fed has been unwavering in its commitment to support the proper functioning of the financial system. Recall that the Fed operates under a dual mandate of price stability and full employment. Although inflation readings have been elevated in recent months, the Fed continues to state its belief that this is more transitory, or short term in nature. We would agree that inflation is likely more cyclical at this point and anticipate more reflation as the economy continues to reopen. The Fed seems more focused on the full employment side of its mandate and is driving towards that goal as it continues to stimulate. The unemployment rate was 3.5% in February 2020, so there is still a lot of ground to make up on the labor front with the unemployment rate at 5.9%.

At the FOMC meeting in June, the Fed raised its inflation expectations from 2.4% to 3.4% for 2021, but maintained the idea that inflation will move closer to the 2% policy objective in the next few years. It will be important to monitor how Fed officials talk about or react to mounting concerns about inflation. The FOMC meeting in July kept the status quo, but many market observers are focused on the annual Jackson Hole Symposium in August, which has historically been an event where policy shifts have been announced. The focus will be on whether Chairman Powell talks about the tapering of the Fed's bond purchases at this August event.

We remain resolute in our belief that the U.S. economy and corporate America will continue to recover as we progress through this pandemic period. The Delta variant of the coronavirus is concerning, and we will monitor how this might impact the economic recovery in the months ahead. Overall, we believe that 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. As we close out the traditionally slower summer months with major stock indices near all-time highs and the recent emergence of the Delta variant, investors should be prepared for more volatility as we move from the summer to the fall.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

While mostly higher, the major equity market indices have turned a little mixed. Leadership has shifted away from the economic re-opening themes and growth has again emerged as the leader, especially in Technology. There is growing concern about valuations, peak earnings growth, and peak economic growth. The growth in new COVID cases from the Delta variant continued to shift investor preferences away from mobility, back-to-work and back-to-school beneficiaries to large-cap growth in July.

Clark Capital's Bottom-Up, Fundamental Strategies

U.S. large-cap equities moved higher with the S&P 500 Index up for the sixth straight month. While several of the major indices hit record highs in July, there has been a rotation occurring under the surface. For example, while the S&P 500 advanced 2.38% during the month of July, the Russell 2000 lost 3.61%. Growth outperformed value by 300 basis points, following a 700 basis points outperformance in Q2, reversing a good portion of the first quarter re-opening trade outperformance.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	June	60.9	60.6	61.2	—
ISM Services Index	June	63.5	60.1	64.0	—
Change in Non-farm Payrolls	June	720k	850k	559k	583k
Unemployment Rate	June	5.6%	5.9%	5.8%	—
Average Hourly Earnings YoY	June	3.6%	3.6%	2.0%	1.9%
JOLTS Job Openings	May	9325k	9209k	9286k	9193k
PPI Final Demand MoM	June	0.6%	1.0%	0.8%	—
PPI Final Demand YoY	June	6.7%	7.3%	6.6%	—
PPI Ex Food and Energy MoM	June	0.5%	1.0%	0.7%	—
PPI Ex Food and Energy YoY	June	5.1%	5.6%	4.8%	—
CPI MoM	June	0.5%	0.9%	0.6%	—
CPI YoY	June	4.9%	5.4%	5.0%	—
CPI Ex Food and Energy MoM	June	0.4%	0.9%	0.7%	—
CPI Ex Food and Energy YoY	June	4.0%	4.5%	3.8%	—
Retail Sales Ex Auto and Gas	June	0.5%	1.1%	-0.8%	-1.0%
Industrial Production MoM	June	0.6%	0.4%	0.8%	0.7%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	June	1696k	1598k	1681k	1683k
Housing Starts	June	1590k	1643k	1572k	1546k
New Home Sales	June	796k	676k	769k	724k
Existing Home Sales	June	5.90m	5.86m	5.80m	5.78m
Leading Index	June	0.8%	0.7%	1.3%	1.2%
Durable Goods Orders	June P	2.2%	0.8%	2.3%	3.2%
GDP Annualized QoQ	2Q A	6.4%	6.4%	6.4%	—
U. of Mich. Sentiment	July P	86.5	80.8	85.5	—
Personal Income	June	-0.3%	0.1%	-2.0%	-2.2%
Personal Spending	June	0.7%	1.0%	0.0%	-0.1%
S&P CoreLogic CS 20-City YoY NSA	May	16.33%	16.99%	14.88%	15.01%

Source: Bloomberg

A=Advanced, P=Preliminary

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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 value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

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.

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.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries*. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas

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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