Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

In what has become a bit of a broken record, the S&P 500 Index, NASDAQ Composite, and Dow Jones Industrial Average each posted new all-time highs in August. Small-caps enjoyed gains, but generally lagged large-caps for the month and the Russell 2000 Index has still not surpassed its high from March.

With large-caps and growth continuing their recent strength, market leadership has shifted. Value is still handily outperforming growth in small and mid-caps year to date, but a slight advantage goes to growth for large-caps. Small-caps overall have forfeited leadership to large-caps year to date.

The 10-year U.S. Treasury yield moved modestly higher in August. After drifting down to its lowest level since February early in the month to 1.19%, the yield moved higher closing August at 1.30%. It had ended July at 1.24%. Outside of high yield, most bond sectors were down for the month.

The U.S. economy is recovering solidly, and recent job gains have been the highlight. Inflation numbers remain elevated and garner a lot of attention. The Fed has reiterated its belief that inflation is transitory at this point.

The Delta variant continues to spread more widely across the U.S. 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 and into 2022. Volatility, however, could increase in the months ahead with markets near all-time highs and pandemic issues ongoing.

Stocks Advance Further in August as Bonds Pause

Equity Markets

In the large-cap space, growth continued its recent trend of outperformance compared to value in August. Small-caps, which started the year strongly, have lagged in recent months as growth and large-caps have rallied. Outside of a mid-month spike above 21, the VIX Index remained subdued in August. The VIX Index closed July at 18.24 and ended August at 16.48. Despite the trend lower in the VIX Index, we believe investors should be prepared for ongoing periods of volatility over the next several months with stocks near all-time highs and some uncertainly surrounding the Delta variant.

Size and style mattered once again in August with the largest-cap growth companies outpacing smaller and more value-oriented companies. 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 what we believe to be high-quality companies with improving business conditions at what we believe are good prices. These types of companies can be found in both the value and growth universe, but the market's shift to value stocks since the latter part of 2020 has benefited our focus on quality companies.

The numbers for August were as follows: The S&P 500 gained 3.04%, the Dow Jones Industrial Average advanced 1.50%, the Russell 3000 improved by 2.85%, the NASDAQ Composite led indices higher rising 4.08%, and the Russell 2000 Index, a measure of small-cap stocks, increased by 2.24%. For the year to date, returns in the same order were as follows: 21.58%, 17.04%, 20.39%, 18.92%, and 15.83%, 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 2.89% in August. The Russell 1000 Growth Index drove results as it had in the prior two months, up 3.74%, while the Russell 1000 Value Index gained only 1.98%. For the year to date, the returns were 21.08% and 20.32%, respectively. While growth has caught up to value in the large-cap space, value is still easily outpacing growth in the mid and small cap universe. For example, the Russell 2000 Value Index is up 25.43% year-to-date, while the Russell 2000 Growth Index has gained a mere 6.92% during the same timeframe.

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

International markets bounced back in August after a difficult July following China's ramp up of regulatory restrictions. The MSCI Emerging Markets Index gained 2.62% in August, which accounts for most of the year-to-date gain of 2.84% for this index. The MSCI ACWI ex USA Index, a broad measure of international equities, advanced 1.90%, which contributed to the 9.40% gain for this index so far this year. 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 of 2021, the yield on the 10-year U.S. Treasury dropped over the next four months. That streak ended in August as yields moved higher once again. The yield closed the month of July at 1.24% before ending August at 1.30%. Most bond sectors struggled in the first quarter, particularly the most interest-rate sensitive bonds, but they had enjoyed a period of recovery over the following four months. In August, most bond sectors declined with the notable exception of high-yield bonds, which have been the clear leader in fixed income so far in 2021.

Fixed income returns were as follows for August: the Bloomberg Barclays U.S. Aggregate Bond Index slipped -0.19%, the Bloomberg Barclays U.S. Credit Index declined -0.24%, the Bloomberg Barclays U.S. Corporate High Yield Index rose 0.51%, and the Bloomberg Barclays Municipal Index dropped -0.37%. Year to date, those index returns in the same order were as follows: -0.69%, -0.23%, 4.55%, and 1.53%, respectively.

Treasury Inflated Protected Securities (TIPS), which had rallied strongly in recent months with increased worries about inflation, gave up some ground in August declining by -0.18%, but their year-to-date gain still stands at 4.26%. Shorter-dated U.S. Treasuries enjoyed gains in August (the 5-year U.S. Treasury Index rose 1.02%), but longer-dated Treasuries declined. The general U.S. Treasury Index fell by -0.17% in August and is down -1.43% year-to-date. We continue to maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment.

Economic Data and Outlook

Job market numbers remained strong in July. Non-farm payroll additions showed a better-than-expected gain of 943,000 jobs in July and data was revised higher to show 938,000 jobs created in June. The unemployment rate fell to 5.4% in July, hitting a pandemic-period low and coming in much better than the expected 5.7% rate and the prior month's 5.9% mark. Job openings rose again and crossed 10 million open positions for June. 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, kids start going back to in-person school, and as we progress in this economic recovery. The job market is an important factor to monitor with about 70% of U.S. economic activity driven by consumer spending.

The housing market is still posting strong numbers, but some supply and demand imbalances remain. Strong demand has pushed prices higher, and in June, prices soared once again. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 19.08% in June. 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 and new home sales increased in July from the prior month, and both were ahead of expectations. Housing starts were below expectations and lower than the prior month, while building permits surpassed estimates and improved from June. We will continue to monitor how rising home prices and low supply impact housing market progress in 2021. The movement of interest rates also impacts the housing market in relation to the cost of a mortgage. 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 July was at 59.5, missing estimates of 61.0 and declining from June's mark of 60.6. However, the ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 64.1 – easily surpassing expectations of 60.5 and the prior month's reading of 60.1. Manufacturing and service industries have improved from the shutdown period and continue to show solid growth as the economy recovers. 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) dropped more than expected in July declining -0.7% from the prior month. Expectations were calling for a modest drop of -0.1%, but June's previously reported gain of 1.1% was revised higher to reflect a 1.3% advance. Consumer confidence seems to be taking a hit, due in part to the surge in the Delta variant.

The Conference Board's Leading Index gained 0.9% in July, surpassing expectations of 0.7%. However, June's reading was revised lower to 0.5% from 0.7%. The second reading of second quarter GDP was revised from 6.5% to 6.6%, slightly below expectations of 6.7%. 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, the rate of change is slowing after a powerful rebound following the pandemic driven economic shutdown, which should be expected.

The Fed has been unwavering in its commitment to support the proper functioning of the financial system since the onset of the pandemic. Recall 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 to settle down as the supply chain catches up with demand, although in the near term we 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 5.4% in July. Chairman Powell spoke (virtually) at the annual Jackson Hole Symposium in late August, and he remained measured in his comments about reducing monetary stimulus. No timeframe for a tapering of the bond purchases was announced, but there has been some recent acknowledgment that it could begin later in 2021. Many market observers will watch for a potential tapering announcement at the next FOMC meeting in September. The Fed is clearly not in a rush to reduce the monetary accommodation deployed since the pandemic began, but we are likely shifting to that phase of reducing stimulus in the quarters ahead.

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 feel 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 at all-time highs and with the surge of the Delta variant, investors should be prepared for more volatility as we move into the fall.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

August marked the seventh straight month of gains for the S&P 500, which is its longest winning streak since the ten-month streak that ended in January 2018. A combination of solid Q2 corporate earnings, accommodative monetary policy, and a recovery from the pandemic continues to provide a tailwind for stocks. The risk rally resumed with equities ending higher despite a mid-month downdraft and heightened volatility. Sentiment continued to fluctuate between Delta variant worries and continued strength in corporate earnings and job gains. The S&P 500 has closed at 53 record highs so far this year, the most ever through August. The market's gradual climb higher this summer has been slow enough to thwart overbought conditions and extreme bullish sentiment.

Clark Capital's Bottom-Up, Fundamental Strategies

The majority of stock indices advanced to new highs in August as current earnings, labor, and economic growth trends offset the threats of the COVID Delta variant. Large-cap growth continued to outpace large-value, small-caps, and international stocks during the month on the heels of 10-year Treasury yields declining to 1.30%. The market eagerly awaited Fed Chairman Powell's speech at the annual Jackson Hole Economic Policy Symposium. Overall, Powell's comments were mildly dovish, as he downplayed inflation. He said there is more work to do on the jobs front and said the Fed "could" taper by year end. He also signaled that rate hikes are a ways off as tapering bond purchases would occur first.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	July	61.0	59.5	60.6	—
ISM Services Index	July	60.5	64.1	60.1	—
Change in Nonfarm Payrolls	July	870k	943k	850k	938k
Unemployment Rate	July	5.7%	5.4%	5.9%	—
Average Hourly Earnings YoY	July	3.9%	4.0%	3.6%	3.7%
JOLTS Job Openings	June	9270k	10073k	9209k	9483k
PPI Final Demand MoM	July	0.6%	1.0%	1.0%	—
PPI Final Demand YoY	July	7.2%	7.8%	7.3%	—
PPI Ex Food and Energy MoM	July	0.5%	1.0%	1.0%	—
PPI Ex Food and Energy YoY	July	5.6%	6.2%	5.6%	—
CPI MoM	July	0.5%	0.5%	0.9%	—
CPI YoY	July	5.3%	5.4%	5.4%	—
CPI Ex Food and Energy MoM	July	0.4%	0.3%	0.9%	—
CPI Ex Food and Energy YoY	July	4.3%	4.3%	4.5%	—
Retail Sales Ex Auto and Gas	July	-0.1%	-0.7%	1.1%	1.3%
Industrial Production MoM	July	0.5%	0.9%	0.4%	0.2%

Event	Period	Estimate	Actual	Prior	Revised
Building Permits	July	1610k	1635k	1598k	1594k
Housing Starts	July	1600k	1534k	1643k	1650k
New Home Sales	July	697k	708k	676k	701k
Existing Home Sales	July	5.83m	5.99m	5.86m	5.87m
Leading Index	July	0.7%	0.9%	0.7%	0.5%
Durable Goods Orders	July P	-0.3%	-0.1%	0.9%	0.8%
GDP Annualized QoQ	2Q S	6.7%	6.6%	6.5%	—
U. of Mich. Sentiment	Aug P	81.2	70.2	81.2	—
Personal Income	July	0.3%	1.1%	0.1%	0.2%
Personal Spending	July	0.4%	0.3%	1.0%	1.1%
S&P CoreLogic CS 20-City YoY NSA	June	18.60%	19.08%	16.99%	17.14%

Source: Bloomberg

P=Preliminary, S=Secondary

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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 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe.

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.

Treasury inflation-protected securities (TIPS) are a type of Treasury security issued by the U.S. government. TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money.

The 5 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 5 year.

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 U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

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 Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

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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