Clark Capital Management Group

Benchmark Review & Monthly Recap

Highlights

As quickly as volatility came, it dissipated in October. After hitting an intraday high of 25.6 in September, the VIX Index, a measure of volatility, traded below 15 in October – the lowest intraday mark since early July. It settled the month at 16.26.

Equities bounced back strongly from declines in September. Large-cap growth was particularly in favor in October, but equities across the board advanced.

The 10-year U.S. Treasury yield moved modestly higher in October, closing the month at 1.55% compared to 1.52% at the end of September. Yields rose sharply during most of the month, closing 10/21/21 at 1.68%, but the last several days of the month saw yields move lower.

The U.S. economy is still recovering, but as expected, the rate of growth has slowed as evidenced by the initial read of 2.0% annualized GDP growth in the third quarter.

The Delta variant and ongoing supply chain issues appear to be causing an additional short-term headwind to economic growth, but we expect fourth quarter growth to improve from the Q3 level. Volatility, however, could stay elevated with markets once again at all-time highs and a showdown over government funding looming.

New Highs in October as September Volatility is Short-Lived

Equity Markets

The sharp drop in stocks in September was more than equaled by their strong rebound in October. The Dow Jones Industrial Average, the S&P 500 and the NASDAQ Composite put in new all-time highs in October (and surpassed those with new highs on November 1). Large-cap growth outperformed in October in a bit of a rewind to most of 2020. The year-to-date numbers now favor growth stocks in the large-cap space, but value still rules in the mid and small-cap universe.

The VIX Index closed September at 23.14, but that dropped significantly to 16.26 by the end of October. Our expectation of a more volatile second half of 2021 started to materialize in September, but October proved to be much less so. We believe investors should be prepared for ongoing periods of volatility over the next several months with stocks at all-time highs, supply chain issues pushing prices higher, and a Fed likely to announce and begin its tapering of bond purchases in November.

Size and style mattered once again in October, but all major categories of equities advanced during the month. 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.

The numbers for October were as follows: The S&P 500 gained 7.01%, the Dow Jones Industrial Average rose 5.93%, the Russell 3000 advanced by 6.76%, the NASDAQ Composite rallied 7.29%, and the Russell 2000 Index, a measure of small-cap stocks, improved by 4.25%. Through ten months of 2021, returns in the same order were as follows: 24.04%, 18.77%, 22.77%, 20.88%, and 17.19%, 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. September saw value and small-cap stocks perform relatively better than large-cap growth, but that shifted once again in October with large-cap growth leading the way.

Looking closer at style, the headline Russell 1000 Index gained 6.94% for the month with a year-to-date gain of 23.18%. The Russell 1000 Growth Index rallied by 8.66% in October and is up 24.20% year to date. The Russell 1000 Value Index relinquished its leadership position by gaining "only" 5.08% in October, which put the year-to-date total at 22.03%. For small-caps, value continued to outperform

growth on a relative basis. The value/growth disparity is much more pronounced in small-caps for the year to date with the Russell 2000 Value Index up 27.60%, while the Russell 2000 Growth Index has gained a mere 7.64% during the same timeframe.

International markets lagged U.S. stocks in October, but developed markets were able to recover some of the weakness in recent months. The MSCI Emerging Markets Index gained only 0.99% in October, which keeps this index in negative territory (down -0.27%) for the year to date. The MSCI ACWI ex USA Index, a broad measure of international equities, gained 2.39% in October, which pushed year to date results to 8.43%. Following the trend of recent years, U.S. stocks have continued to outperform their international counterparts. Within international markets, developed countries have done better than emerging markets, which have been weighed down by China.

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 and that move higher continued in September. October saw a modest continuation in this trend. The yield closed the month of September at 1.52% and it rose to 1.55% by the end of October. Bond sector results were rather mixed with this modest increase in rates.

Fixed income returns were as follows for October: the Bloomberg Barclays U.S. Aggregate Bond Index slipped -0.03%, the Bloomberg Barclays U.S. Credit Index gained 0.22%, the Bloomberg Barclays U.S. Corporate High Yield Index was off by -0.17% and the Bloomberg Barclays Municipal Index dropped -0.29%. For the year to date, those index returns in the same order were as follows: -1.58%, -1.09%, 4.36%, and 0.50%, respectively.

High yield bonds remained the clear leader year to date and municipals have been able to sneak out a slight gain as well. The 30-year U.S. Treasury Index gained 3.42% for the month, as the 30-year yield dropped during the month, but it is still off by -5.78% year to date. The general U.S. Treasury Index fell by -0.07% in October and is down -2.56% 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 data for September was mixed when released in early October. Expectations were calling for 500,000 non-farm payroll additions to be reported for September, when a mere 194,000 jobs were created. However, prior month data improved from a previously reported 235,000 jobs to 366,000. Although payroll data disappointed, the unemployment rate fell more than expected to 4.8% compared to expectations of 5.1% and the prior month's mark of 5.2%. This unemployment rate is a pandemic-period low.

Job openings continued to be plentiful in August at 10.439 million, but that was below expectations and the prior month's level. Jobs continue to be available and unemployed workers are available as well, but the job market recovery has been slower than expected 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, supply chain issues, ongoing pandemic concerns by workers, as well as childcare challenges.

We reiterate our belief that more workers will move back into the job market as many extended benefits have now to expired, kids have started going back to in-person school, and the economic recovery continues. However, we feel the slow economic growth in the third quarter impeded a stronger job market recovery during that period. 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 and low inventories have continued to push home prices higher, and in August, prices soared once again. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 19.66% in August – remarkably, that was less than the revised annual price increase in home prices in July of 20.02%. 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. Housing starts and building permits both missed expectations in September and both were below August levels.

Existing home sales were strong at a 6.29 million annual pace, potentially driven by consumers wanting to lock in mortgage rates before interest rates moved even higher. Likewise, new home sales in September were ahead of estimates (800K vs. 756K) and improved from August's annualized mark of 702,000. We will continue to monitor how rising home prices and low supply impact housing market progress as we head toward the end of 2021 and into 2022.

The movement of interest rates also impacts the housing market in relation to the cost of a mortgage and with rates moving higher recently, this will be important to monitor as well. 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 September was at 61.1, surpassing estimates of 59.5 and improving from August's mark of 59.9. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 61.9 – also surpassing estimates of 59.9 and inching ahead of the prior month's 61.7. Manufacturing and service industries are still showing strong levels of growth. We will continue to monitor supply chain issues as they might hit the manufacturing sector particularly hard. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so these current readings remain in very strong growth territory.

Coming off a strong gain of 2.1% in August, retail sales (ex. auto and gas) continued to advance in September by 0.7%, which was better than expectations of 0.4% monthly increase. Consumer confidence, based on the preliminary University of Michigan Sentiment reading for October showed a modest drop to 71.4 compared to the prior reading of 72.8. This was below expectations as well, which stood at 73.1.

The Conference Board's Leading Index gained 0.2% in September, half of the expected increase of 0.4%. The advance reading of third quarter GDP reflected a 2.0% annualized pace of growth – the slowest growth since the decline in economic activity at the start of the pandemic. That compares to expectations of 2.6% and the Q2 mark of 6.7%.

Supply chain issues and a significant trade deficit were a major factor in the weakness. We anticipate that growth will improve in the fourth quarter as the Delta variant trends lower and some supply chain improvements might develop. Broadly speaking, the rate of change of economic growth 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. However, the massive monetary stimulus seems likely to slow before the end of the year and the Fed is widely expected to announce the tapering or slowing of its bond purchases at the November 2-3 FOMC meeting. The market will watch closely the timing and amount of the tapering from the current pace of bond purchases of $120B a month.

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. The year-over-year level of the Consumer Price Index (CPI) came it at 5.4% on a headline basis in September and 4.0% on a core basis, which excludes food and energy prices. 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 4.8% in September. Despite expectations of the announced taper in November, the Fed is not in a rush to reduce the monetary accommodation deployed since the pandemic began. However, we are likely shifting to that phase 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, but recent data shows that it looks like it has already peaked, which would be welcome news. The surge in Covid cases in the third quarter appeared to be one factor that slowed economic activity.

Overall, we believe that the economy and financial markets are heading in the right direction, but we are transitioning from a stimulus fueled period in the market to a more "normal" environment over the next several quarters. As always, we 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

We believe October was a very strong month for the markets following a brief correction in September, with most major indices posting new all-time highs. High yield credit declined marginally while the Bloomberg Barclays 7-10 Year Treasury index lost 0.44% as rates moved higher.

Our credit-based risk management models remained firmly entrenched in risk-on, and as such, our tactical portfolios participated in the advance. We believe the market right now has a tailwind of being in the strongest season period of the year.

Clark Capital's Bottom-Up, Fundamental Strategies

Thematically across the equity portfolios, we continue to balance holdings between the dominant large-cap growth theme with high-quality companies and those that we believe will benefit from an earnings snap-back associated with the continuing economic re-opening. The fixed income portfolios are playing a little defense as rates have risen with the yield curve flattening, and we are managing duration exposure and credit risk.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Sept	59.5	61.1	59.9	—
ISM Services Index	Sept	59.9	61.9	61.7	—
Change in Nonfarm Payrolls	Sept	500k	194k	235k	366k
Unemployment Rate	Sept	5.1%	4.8%	5.2%	—
Average Hourly Earnings YoY	Sept	4.6%	4.6%	4.3%	4.0%
JOLTS Job Openings	Aug	10954k	10439k	10934k	11098k
PPI Final Demand MoM	Sept	0.6%	0.5%	0.7%	—
PPI Final Demand YoY	Sept	8.7%	8.6%	8.3%	—
PPI Ex Food and Energy MoM	Sept	0.5%	0.2%	0.6%	—
PPI Ex Food and Energy YoY	Sept	7.1%	6.8%	6.7%	—
CPI MoM	Sept	0.3%	0.4%	0.3%	—
CPI YoY	Sept	5.3%	5.4%	5.3%	—
CPI Ex Food and Energy MoM	Sept	0.2%	0.2%	0.1%	—
CPI Ex Food and Energy YoY	Sept	4.0%	4.0%	4.0%	—
Retail Sales Ex Auto and Gas	Sept	0.4%	0.7%	2.0%	2.1%
Industrial Production MoM	Sept	0.1%	-1.3%	0.4%	-0.1%
Building Permits	Sept	1680k	1589k	1728k	1721k
Housing Starts	Sept	1615k	1555k	1615k	1580k
New Home Sales	Sept	756k	800k	740k	702k
Existing Home Sales	Sept	6.10m	6.29m	5.88m	—
Leading Index	Sept	0.4%	0.2%	0.9%	0.8%
Durable Goods Orders	Sept P	-1.10%	-0.40%	1.80%	1.30%
GDP Annualized QoQ	3Q A	2.6%	2.0%	6.7%	—
U. of Mich. Sentiment	Oct P	73.1	71.4	72.8	—
Personal Income	Sept	-0.3%	-1.0%	0.2%	—
Personal Spending	Sept	0.6%	0.6%	0.8%	1.0%
S&P CoreLogic CS 20-City YoY NSA	Aug	20.00%	19.66%	19.95%	20.02%

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 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.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years. The 30 year treasury yield is included on the longer end of the yield curve and is important when looking at the overall US economy.

The Bloomberg Barclays US Treasury: 7-10 Year Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity.

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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