Clark Capital Management Group

Benchmark Review & Monthly Recap

Highlights

After the S&P 500 and Dow Jones Industrial Average hit new all-time highs at the start of the month, equities moved downward and were under pressure for most of January. Equities struggled in the face of the new Omicron variant (which appeared to peak during the month) and a Fed reversing course on monetary accommodation.

At the same time, yields moved higher, and bonds fell in January. The yield on the 10-year U.S. Treasury ended 2021 at 1.52%, but it rose to 1.79% by the end of the month. As rates rose, bonds were lower across the board.

The U.S. economy continued to show solid progress based on data released in January (primarily covering December), but some moderation in growth has occurred. Furthermore, inflation readings continued to hit generational highs as 2021 concluded.

At the January FOMC meeting, the Fed indicated it would likely end the bond purchase program in March and it signaled that the first rate hike would likely occur in March as well. Inflation has become the focus of the Fed following strong improvements in the job market over the last almost two years.

Volatility returned with a vengeance in January. The VIX Index rose to just below 32 as volatility peaked in late January – its highest level since January 2021 after closing December at 17.22. By month's end, the VIX settled at 24.83.

Equities Stumble to Begin 2022; Bonds Drop Sharply as Yields Rise

Equity Markets

Stocks were generally on a downward slide in January. Despite the S&P 500 and Dow Jones Industrial Average closing at new highs at the very beginning of the month, stocks moved lower until a modest late-month bounce. The NASDAQ Composite was among the hardest hit indices as growth stocks, particularly some areas in technology, were down sharply in January. Small and mid-cap growth stocks were particularly hard hit as well. Large-cap value stocks fared better for the month on a relative basis, but still declined. The CBOE Volatility Index, or VIX Index, hit its highest level since January 2021 late in the month as fear clearly moved back into the market. The VIX Index ended January at 24.83 after closing December at 17.22. Our expectation of more volatility as we moved into 2022 came early in the new year with the market action in January.

Size and style mattered once again in January. We still believe that the value/growth disparity that reached a peak in 2020 will likely continue to shift as we move into 2022 with value improving on a relative basis. That proved to be the case to start the new year. 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 with value stocks improving over the last year or so, that has benefitted our approach.

The numbers for January were as follows: The S&P 500 fell -5.17%, the Dow Jones Industrial Average slid -3.24%, the Russell 3000 declined by -5.88%, the NASDAQ Composite dropped by -8.96%, and the Russell 2000 Index, a measure of small-cap stocks, was the hardest hit of these indices, falling -9.63%.

Growth stocks lagged value stocks across the market cap spectrum in January – although both styles declined for the month. Looking closer at style, the headline Russell 1000 Index was off -5.64% for the month. The Russell 1000 Growth Index dropped -8.58%, while the Russell 1000 Value Index declined a more modest -2.33%. For small-caps, value continued to outperform growth on a relative basis in January as it did in 2021. The value/growth disparity was clear in small-caps in January with the Russell 2000 Value Index down -5.83%, while the Russell 2000 Growth Index declined -13.40%. On a relative basis, large-cap and value focused stocks did better than small-cap and growth focused equities to begin 2022.

International developed markets started the year on a negative note as well; however, emerging markets were among the best pockets of equities on a relative basis. The MSCI Emerging Markets Index fell only -1.89% in January. The MSCI ACWI ex USA Index, a broad measure of international equities, declined -3.69% for the month. While one month is not a trend, international equities

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started 2022 on a relatively better note than U.S. stocks.

Fixed Income

The yield on the 10-year U.S. Treasury moved higher during much of January before coming down modestly late in the month driven by a flight to quality. At its high in January, the 10-year yield was at 1.87% on a closing basis. Overall, the 10-year U.S. Treasury yield closed January at 1.79% after it had closed 2021 at 1.52%.

The rise in interest rates in January put pressure on bond prices during the month as most segments of the bond market declined to begin the new year. Fixed income returns were as follows for January: the Bloomberg U.S. Aggregate Bond Index fell -2.15%, the Bloomberg U.S. Credit Index slipped -3.21%, the Bloomberg U.S. Corporate High Yield Index declined -2.73% and the Bloomberg Municipal Index dropped by -2.74%. The 30-year U.S. Treasury Index fell -4.73% for the month and the general U.S. Treasury Index declined -1.89% in January.

It is worth noting that in 2021 the Bloomberg U.S. Aggregate Bond Index recorded only its fourth annual decline since its inception in 1976. Clearly, 2021 was a challenging year for investment grade bonds, particularly for U.S. Treasuries, as yields moved higher. Unfortunately, that trend continued to begin 2022. 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 data continued to be mixed in December. Nonfarm payroll additions disappointed once again by adding only 199,000 jobs for the month when 450,000 gains were expected. However, the unemployment rate dropped more than anticipated in December to 3.9% compared to estimates of 4.1% and the prior month's mark of 4.2%. The unemployment rate is at its best (lowest) level since the pandemic began. Job openings continued to be high, but some moderation occurred in November. Over 11 million job openings were reported in October and more than 11 million were expected to continue to exist in November. However, the actual job openings number came in at just over 10.5 million for the month.

To be clear, there are still millions of more jobs available than those currently searching for work, so that mismatch in the labor market continues. We reiterate our belief that more workers will move back into the job market as many extended benefits have now expired, kids are back to school in person, and the economic recovery continues. However, the drop in labor force participation that occurred at the beginning of the pandemic has not fully recovered. The Omicron variant likely impeded some job market progress late in 2021, but with cases appearing to have peaked, hopefully it will be less of a headwind moving further into 2022. Ultimately, the job market is important to monitor with about 70% of U.S. economic activity driven by consumer spending.

The housing market is still posting strong numbers, but supply and demand imbalances remain. Strong demand and low inventories have resulted in home prices rising dramatically. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 18.29% in November. Although this is clearly a strong increase in home prices, it marks the fourth month in a row where home price increases have been less than the prior month. It is hard to say home prices are "cooling", but the rapid increase in prices seems to have plateaued.

Housing starts and building permits both remained strong and were above expectations in December and higher than November's levels. New home sales at an 811,000 annualized rate easily surpassed expectations (760k) and the prior month's sales (725k). Existing home sales at a 6.18 million annualized pace missed expectations of 6.42 million, but remained strong. We will continue to monitor how rising home prices, low supply, and higher mortgage rates (following a sharp increase generally in interest rates in January) impact housing market progress as we move into 2022. The housing market has been, and continues to be, a clear source of strength in the economic recovery and has historically been a good leading indicator for the economy.

The ISM Manufacturing Index for December dropped to 58.7 when a reading of 60.0 was expected. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, declined to 62.0. This was significantly lower than the prior month's revised mark of 68.4 and expectations of 67.0. Manufacturing and service industries are still showing strong levels of growth, but both showed some moderation in growth in December. 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) fell by -2.5% in December, which was a larger decline than the -0.2% anticipated drop. Consumer confidence, based on the preliminary University of Michigan Sentiment reading for January, showed a modest decline to 68.8 compared to the prior reading of 70.6 and expectations of 70.0. Concerns about inflation and ongoing pandemic issues continue to weigh on consumer sentiment.

The Conference Board's Leading Index gained 0.8% in December as expected after increasing a revised 0.7% in November. The first or advance reading of Q4 GDP was well ahead of expectations at a 6.9% annualized growth rate compared to estimates of 5.5%. This was a solid improve-

ment from third quarter GDP, which stood at only 2.3% growth. We at Clark Capital are expecting GDP growth to be around 3.5% to 4.0% in 2022, which is still above trend economic growth, but slower than the growth enjoyed over the last several quarters following the rebound in economic activity after the pandemic induced shutdown.

The tide has changed regarding monetary policy. The Fed had been unwavering in its commitment to support the proper functioning of the financial system since the onset of the pandemic. However, as the economy has recovered strongly (particularly the job market) and inflation has become more problematic than initially thought, the Fed has started to change the direction of monetary policy. At the January FOMC meeting, the Fed announced it would conclude its bond purchases in early March and a clear signal was given that the first rate hike would likely be at the March FOMC meeting as well. We will watch to see how aggressive the Fed becomes with rate hikes, but expectations have been increasing for more rate hikes to occur in 2022 than expected just a few months ago.

Recall that the Fed operates under a dual mandate of price stability and full employment. The Fed is now acknowledging that inflation might last longer than it initially expected, and it may not be as "transitory" as initially thought. Prices have increased at their fastest pace in decades with the year-over-year increase of the Consumer Price Index (CPI) at 7.0% on a headline basis in December and 5.5% on a core basis, which excludes food and energy prices. Inflation will likely remain elevated well into 2022, but we anticipate inflation will move closer to trend levels over the next few years. The Fed has clearly signaled to the market that inflation is its focus and it does not want higher inflation expectations to become rooted in our economy.

We remain resolute in our belief that the U.S. economy and corporate America will continue to recover as we progress through this ongoing pandemic period. The Omicron variant of the coronavirus is concerning, and has spread rapidly in the U.S., but cases also seem to have peaked recently. It is a clear reminder that the pandemic, as much as we wish it were over, is still ongoing.

Overall, we feel 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 from a policy perspective. This will likely usher in more market volatility than has been experienced since the pandemic began. 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

Geopolitical tensions, the highest inflation levels in 40 years, the end of Federal Reserve bond purchases, and upcoming interest rate hikes have resulted in market volatility and expectations of a hawkish Fed. Credit had remained very resilient in the face of rising interest rates, but it has recently weakened a bit as rising rates have begun to take a bite out of risk assets. Our credit-based risk management models that drive the allocation of our Fixed Income Total Return, Global Tactical, and Global Risk Managed strategies turned cautious at the end of the month. As a result, those strategies were reallocated, with half of their allocations de-risked into cash equivalents.

Clark Capital's Bottom-Up, Fundamental Strategies

Coming into the year, we expected 2022 to be a more volatile year with a correction in the first half of the year, and we certainly got that right off the bat. The recent decline could reset the market for a move higher, with the American Association of Individual Investors bears peaking at 52.9%, its highest level since April 2013. When the indicator is that bearish, it is often followed by strong returns. After 22 months focused primarily on price growth, we expect earnings to normalize at 10-12%.

We believe that tightening monetary policy and higher volatility may benefit lower beta dividend payers, reversing the trend of non-dividend payers and dividend cutters outperforming. We believe dividend growers may also drive performance with sustainable free cash flow and profitability as rates rise.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Dec	60.0	58.7	61.1	60.6
ISM Services Index	Dec	67.0	62.0	69.1	68.4
Change in Nonfarm Payrolls	Dec	450k	199k	210k	249k
Unemployment Rate	Dec	4.1%	3.9%	4.2%	—
Average Hourly Earnings YoY	Dec	4.2%	4.7%	4.8%	5.1%
JOLTS Job Openings	Nov	11079k	10562k	11033k	11091k
PPI Final Demand MoM	Dec	0.4%	0.2%	0.8%	1.0%
PPI Final Demand YoY	Dec	9.8%	9.7%	9.6%	9.8%

Event	Period	Estimate	Actual	Prior	Revised
PPI Ex Food and Energy MoM	Dec	0.5%	0.5%	0.7%	0.9%
PPI Ex Food and Energy YoY	Dec	8.0%	8.3%	7.7%	7.9%
CPI MoM	Dec	0.4%	0.5%	0.8%	—
CPI YoY	Dec	7.0%	7.0%	6.8%	—
CPI Ex Food and Energy MoM	Dec	0.5%	0.6%	0.5%	—
CPI Ex Food and Energy YoY	Dec	5.4%	5.5%	4.9%	—
Retail Sales Ex Auto and Gas	Dec	-0.2%	-2.5%	0.2%	-0.1%
Industrial Production MoM	Dec	0.2%	-0.1%	0.5%	0.7%
Building Permits	Dec	1703k	1873k	1712k	1717k
Housing Starts	Dec	1650k	1702k	1679k	1678k

Event	Period	Estimate	Actual	Prior	Revised
New Home Sales	Dec	760k	811k	744k	725k
Existing Home Sales	Dec	6.42m	6.18m	6.46m	6.48m
Leading Index	Dec	0.8%	0.8%	1.1%	0.7%
Durable Goods Orders	Dec P	-0.6%	-0.9%	2.6%	3.2%
GDP Annualized QoQ	4Q A	1.8%	2.5%	-0.4%	0.1%
U. of Mich. Sentiment	Jan P	70.0	68.8	70.6	—
Personal Income	Dec	0.5%	0.3%	0.4%	0.5%
Personal Spending	Dec	-0.6%	-0.6%	0.6%	0.4%
S&P CoreLogic CS 20-City YoY NSA	Nov	18.00%	18.29%	18.41%	18.46%

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.

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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