Clark Capital Management Group

Benchmark Review & Monthly Recap

Highlights

Just as the Omicron variant began to wane, the world's focus turned to the invasion by Russian forces into Ukraine. Market volatility surged following Russia's actions and the VIX Index closed February at 30.15.

Equities saw sharp swings during the month, but stock generally moved lower. In February, the S&P 500 officially entered correction territory, down 10% from its all-time high. The S&P 500 did recover somewhat from that closing low point of the year, which was recorded on 2/23/22.

The 10-year U.S. Treasury broke above 2% in February, closing at 2.05% in the middle of the month. This was the first move above 2% since 2019. However, the Russian invasion resulted in a flight to quality and Treasuries rallied and yields fell. The 10-year yield closed February at 1.83%.

The U.S. economy continued to show solid progress based on data released in February (primarily covering January), but some moderation in growth has occurred. Inflation data continued to rise in early 2022 to multi-decade highs.

There were no FOMC meeting in February, but the market is expecting the first rate hike by the Fed since 2018 to occur at the March meeting. Inflation has become the focus of the Fed following strong job market improvements and rate hikes appear to be on tap for much of the rest of 2022.

Volatility Reigns as the S&P 500 Enters Correction Territory

Equity Markets

Stocks were generally lower in February with some exceptions in the small and mid-cap space. Large-cap growth stock were once again the hardest hit pocket of the market and have recorded double-digit declines year to date. Small and mid-cap stocks, particularly in the value style, were among the best performers for the month. The CBOE Volatility Index, or VIX Index, hit its highest level since January 2021 in late January 2022 and approached that mark again in late February. (It surpassed that level on the first day of March as volatility continued.)

Overall, the VIX Index ended January at 24.83 and closed February at 30.15. Our expectation of more volatility as we moved into 2022 has occurred as the Omicron variant continued early in the year and the crisis in Ukraine developed in February. Furthermore, concerns about the Fed rate tightening cycle have ramped up volatility as well.

Size and style mattered once again in February. 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 has proved to be the case so far this year. We at Clark Capital continue to use our disciplined approach of seeking out what we believe are high-quality companies with improving business conditions at 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 February were as follows: The S&P 500 fell -2.99%, the Dow Jones Industrial Average slid -3.29%, the Russell 3000 declined by -2.52%, the NASDAQ Composite dropped by -3.35%, but the Russell 2000 Index, a measure of small-cap stocks, posted a gain in February of 1.07%.

Growth stocks lagged value stocks across the market cap spectrum in February for the second straight month. Looking closer at style, the Russell 1000 Index was off -2.74% for the month. The Russell 1000 Growth Index dropped -4.25%, while the Russell 1000 Value Index declined a more modest -1.16%. For the first two months of the year, the Russell 1000 Growth Index has dropped -12.47%, compared to its value counterpart off -3.46%. For small-caps, value continued to outperform growth on a relative basis in February as it did in January and for all of 2021. However, small-caps were higher in February regardless of style. The Russell 2000 Value Index gained 1.65%, while the Russell 2000 Growth Index increased by a modest 0.44%. Year to date, those two indices are down -4.27 and -13.03%, respectively.

Emerging markets were harder hit in February as the crisis between Russia and Ukraine developed. The MSCI Emerging Markets Index fell -2.99% in February.

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

(And as a side note, the MSCI Emerging Markets Eastern Europe Index fell -42.76% in February alone.) The MSCI ACWI ex USA Index, a broad measure of international equities, declined -1.98% for the month. Despite Eastern European emerging markets being particularly hard hit in February, both developed and emerging market stocks have fared better on a relative basis compared to the U.S. to begin 2022.

Fixed Income

The yield on the 10-year U.S. Treasury moved higher during much of February, breaking above the 2% mark, and hit a multi-year high on February 15 with a close of 2.05%. This was the highest yield level since prior to the pandemic in 2019. However, as Russia invaded Ukraine, a flight to quality occurred and U.S. Treasuries rallied, and yields dropped. The 10-year U.S. Treasury yield closed January at 1.79% and it closed February at 1.83%.

The rise in interest rates for most of February put pressure on bond prices and most segments of the bond market declined for the second month in a row. Fixed income returns were as follows for February: the Bloomberg U.S. Aggregate Bond Index fell -1.12%, the Bloomberg U.S. Credit Index slipped -1.89%, the Bloomberg U.S. Corporate High Yield Index declined -1.03% and the Bloomberg Municipal Index dropped by -0.36%. The 30-year U.S. Treasury Index fell -1.39% for the month and the general U.S. Treasury Index declined -0.66%. TIPS were one of the few areas with gains and that index rose 0.85%, but all major bond indices are down year to date.

Recall 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 has continued to begin 2022. We maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment. We also believe that the role bonds play in a portfolio, to provide stable cash flow and to offset the volatility of stock, has not changed.

Economic Data and Outlook

Job market data was surprisingly strong in January. Nonfarm payroll additions were expected to be a modest 125,000. Expectations of strong job creation were low as the omicron surge was still being felt early in the new year. However, a total of 467,000 jobs were created and a sizable revision was made to December 2021 data with 510,000 new jobs compared to the prior estimate of 199,000.

The unemployment rate moved modestly higher to 4.0% in January compared to expectations and the prior month's level of 3.9%. However, some good news can be gleaned from the slightly higher unemployment rate as the labor force participation rate went up as well to 62.2% from 61.9%. Job openings remained abundant in December with over 10.9 million open positions, which was higher than estimates and November's level.

There are still millions more jobs available than those currently searching for work, so this mismatch in the labor market continues. However, job gains were strong in January and more people moved back into the labor force, which are both positive developments. 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 data was a bit more mixed in January. Strong demand and low inventories have resulted in home prices that continue to rise dramatically. Based on the year-over year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 18.56% in December. This broke a fourth-month streak when home prices had risen at a slower rate than the prior month as this was an increase from November's level (18.35%).

Housing starts were below expectations in January and lower than the prior month, but building permits were higher than expected and above the prior month, which should bode well for future housing starts. New home sales at an 801,000 annualized rate were just below expectations and lower than December's mark of 839,000. Existing home sales surged to a 6.5 million annualized pace, which easily surpassed estimates of 6.1 million and the prior month of 6.09 million. Often, during times when interest rates rise sharply (as was the case in January), home purchases can increase as buyers want to lock a mortgage and a home before rates go even higher (as the thinking goes). 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 January dropped once again from the prior month to 57.6, but that was slightly ahead of expectations of 57.5. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, declined to 59.9. This was lower than the prior month's revised mark of 62.3, but ahead of expectations of 59.5. Manufacturing and service industries are still showing strong levels of growth, but following the recent trend, both showed some moderation in growth in January. 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) rose by 3.8% in January, which was much stronger than the 1.0% anticipated increase. However, it is important to note that higher prices, meaning inflation, can be a significant factor for this data as it is

not inflation adjusted. Consumer confidence, based on the preliminary University of Michigan Sentiment reading for February, showed a sharp drop to 61.7 compared to the prior reading of 67.2 and expectations of 67.0. Concerns about inflation and ongoing pandemic issues continue to weigh on consumer sentiment.

The Conference Board's Leading Index fell by -0.3% in January when a 0.2% increase was anticipated. The second reading of Q4 2021 GDP increased modestly as expected to a 7.0% annualized growth rate compared to the initial estimate of 6.9%. This was a solid improvement from third quarter 2021 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 March Federal Open Market Committee meeting (3/15-3/16) is shaping up to be one of the most important Fed meetings in years. The Fed's bond-buying program is expected to conclude in March and the first rate hike since 2018 is widely expected to be announced in March as well. The tide has changed regarding monetary policy. Inflation has become much more problematic for the Fed and, while the job market recovery has been strong from the pandemic shut down period, inflation has surged to generational highs. Success can clearly be seen on one side of the Fed's mandate, full employment, but significant work is yet to be done on the other side of the mandate, price stability.

The Consumer Price Index (CPI) rose more than expected by 7.5% on a year-over-year headline basis in January – the largest annual increase since the early 1980s – and 6.0% 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. To complicate matters further, the Fed will need to negotiate this new rate hike cycle in the context of the Russian invasion of Ukraine and whether that will have any significant impact on global and U.S. economic growth in the months ahead.

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 has peaked, and case numbers have improved dramatically in recent weeks. The U.S. seems to be moving toward treating the coronavirus as endemic versus a pandemic at this point.

Clearly, the Russian invasion of Ukraine adds a significant geopolitical risk to the equation, but markets tend to look beyond these types of events after an initial negative reaction and elevated volatility. Looking beyond the humanitarian aspect, we do not believe the invasion of Ukraine will have much of an impact on earnings, which are the primary driver of stock prices over time. Our trade with Russia is about $28 billion, per year, which is less than the size of Vermont's economy. However, since we are still in the early stages of this event, we will need to monitor how widespread this situation becomes.

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 and inflation headlines roiled the market in February. The war in the Ukraine will likely cause volatility to remain elevated in advance of the Federal Reserve's FOMC meeting on 3/16 where they are expected to hike overnight rates by 0.25%. We believe our tactically allocated portfolios have been active in managing risk over the past number of weeks. On January 31st, the Fixed Income Total Return and Global Tactical portfolios de-risked by allocating 50% of the portfolios into cash equivalents.

Clark Capital's Bottom-Up, Fundamental Strategies

The market focus has shifted from growth and defensive stocks to companies that are less labor intensive and demonstrate strong operational efficiencies such as low capex to sales and inventory to sales growth. In the fixed income markets, the environment has turned from yields rising based on inflation pressures to risk-off with Treasuries well-bid and the 10-year Treasury yield falling sharply to end the month.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Jan	57.5	57.6	58.7	58.8
ISM Services Index	Jan	59.5	59.9	62.0	62.3
Change in Nonfarm Payrolls	Jan	125k	467k	199k	510k

Event	Period	Estimate	Actual	Prior	Revised
Unemployment Rate	Jan	3.9%	4.0%	3.9%	—
Average Hourly Earnings YoY	Jan	5.2%	5.7%	4.7%	4.9%
JOLTS Job Openings	Dec	10300k	10925k	10562k	10775k
PPI Final Demand MoM	Jan	0.5%	1.0%	0.2%	0.4%
PPI Final Demand YoY	Jan	9.1%	9.7%	9.7%	9.8%
PPI Ex Food and Energy MoM	Jan	0.5%	0.8%	0.5%	0.6%
PPI Ex Food and Energy YoY	Jan	7.9%	8.3%	8.3%	8.5%
CPI MoM	Jan	0.4%	0.6%	0.5%	0.6%
CPI YoY	Jan	7.3%	7.5%	7.0%	—
CPI Ex Food and Energy MoM	Jan	0.5%	0.6%	0.6%	—
CPI Ex Food and Energy YoY	Jan	5.9%	6.0%	5.5%	—
Retail Sales Ex Auto and Gas	Jan	1.0%	3.8%	-2.5%	-3.2%

Event	Period	Estimate	Actual	Prior	Revised
Industrial Production MoM	Jan	0.5%	1.4%	-0.1%	—
Building Permits	Jan	1750k	1899k	1873k	1885k
Housing Starts	Jan	1695k	1638k	1702k	1708k
New Home Sales	Jan	803k	801k	811k	839k
Existing Home Sales	Jan	1695k	1638k	1702k	1708k
Leading Index	Jan	0.2%	-0.3%	0.8%	0.7%
Durable Goods Orders	Jan P	1.0%	1.6%	-0.7%	1.2%
GDP Annualized QoQ	4Q S	7.0%	7.0%	6.9%	—
U. of Mich. Sentiment	Feb P	67.0	61.7	67.2	—
Personal Income	Jan	-0.3%	0.0%	0.3%	0.4%
Personal Spending	Jan	1.6%	2.1%	-0.6%	-0.8%
S&P CoreLogic CS 20-City YoY NSA	Dec	18.10%	18.56%	18.29%	18.35%

Source: Bloomberg P=Preliminary, S=Second Reading

Past performance is not indicative of future results. The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Investing involves risk, including loss of principal.

Clark Capital Management Group reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. It should not be assumed that any of the investment recommendations or decisions we make in the future will be profitable.

Clark Capital Management Group is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital Management Group's advisory services can be found in its Form ADV which is available upon request.

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 MSCI Emerging Markets (EM) Eastern Europe Index captures large and mid cap representation across 4 Emerging Markets (EM) countries* in Eastern Europe. With 47 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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.

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 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.

CCM-993