ClarkCapital MANAGEMENT GROUP

Benchmark Review
& Monthly Recap

Highlights

The equity rally that marked the first half of the third quarter failed in the second half and stocks hit new 2022 lows to close out September.

Bond prices suffered a similar fate as yields hit new highs for the year in September. The hawkish Fed pushed yields higher and the 10-year U.S. Treasury rose to 3.83% by month-end after touching 4% late in the month.

Chairman Powell's actions were in line with recent hawkish talk as the Fed raised rates by 75 basis points for the third consecutive meeting.

Tighter monetary conditions are slowing economic growth. The Fed's clear determination to bring down inflation by aggressively raising rates is having a rippling effect on the economy and capital markets as volatility reigns.

Stocks & Bonds Slump in September to Close Out Tough Q3

Equity Markets

Equity index returns for September were as follows: The S&P 500 fell -9.21%, the Dow Jones Industrial Average declined -8.76%, the Russell 3000 slid -9.27%, the NASDAQ Composite slumped -10.44%, and the Russell 2000 Index, a measure of small-cap stocks, declined -9.58%. The declines in September wiped out what had been a solid equity market rally from mid-June through mid-August. Third quarter returns in the same order were as follows: -4.88%, -6.17%, -4.46%, -3.91%, and -2.19%, respectively. Year to date, these indices are down -23.87%, -19.72%, -24.62%, -32.00% and -25.10%, respectively.

The weakness in the latter part of August continued in September as the retest of the June lows failed and lower lows were put in for the S&P 500 Index. The recent bout of weakness in the stock market coincided with a more hawkish tone by the Fed epitomized by Chairman Powell's address at the Jackson Hole, Wyoming symposium in August. He made clear, as have other Fed officials, that taming inflation is their goal and if that means a recession or rising unemployment, so be it. As would be expected, the VIX Index continued higher amidst stock market weakness. The VIX Index dipped below 20 in the middle of August for the first time since April, but it rose rather steadily from that point to end September at 31.62 – a level not seen since the prior stock lows in mid-June. Ongoing concerns of elevated inflation and the Fed's aggressive response of raising rates continued to weigh on the market and create a more volatile period for stocks during the month.

Equity weakness was widespread in September. As an example, the large-cap, tech-heavy NASDAQ Composite was hardest hit during the month, off -10.44%. Coming in with the second weakest results was small-cap value with the Russell 2000 Value Index down -10.19%. Growth got a modest reprieve in the third quarter on a relative basis, but it has still struggled compared to value year to date. The Russell 1000 Growth Index was down -9.72% for the month, off -3.60% for the quarter and declined by -30.66% through three quarters of 2022. The Russell 1000 Value Index was down -8.77%, -5.62%, and -17.75% for those same periods, respectively. Small-caps had a similar experience with the Russell 2000 Growth Index down -9.00% in September, up (yes, positive) 0.24% for Q3, but down -29.28% year to date. The Russell 2000 Value Index was down -10.19%, -4.61% and -21.12%, for those same time periods, respectively. Growth stocks are sensitive to interest rate moves and higher interest rates this year have led to underperformance of growth stocks in 2022.

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, and those companies can be found in both the value and growth universe.

International stocks were hard hit in September as well, with the unrelenting strength of the U.S. Dollar causing much of the damage. The U.S. Dollar Index (DXY) was +3.1% in September, +7.1% for the quarter, and 16.8% for the year. Remember that an international stock loses value in dollar terms if the U.S. Dollar appreciates against that stock's home currency. As a result, the MSCI ACWI ex USA Index, a broad measure of international equities, fell -9.99% for the month, was off -9.91% for the quarter, and declined -26.50% so far this year. The MSCI Emerging Markets Index posted some of the weakest results, down -11.72% for September, off -11.57% for Q3, and lower by -27.16% year to date. Both U.S. and international equities have struggled this year with an aggressive Fed rate hike cycle, high inflation, and slowing economic growth. September provided no relief to U.S. or international stocks.

Fixed Income

Fixed income returns were as follows for September: the Bloomberg U.S. Aggregate Bond Index declined -4.32%, the Bloomberg U.S. Credit Index dropped -5.07%, the Bloomberg U.S. Corporate High Yield Index slid -3.97%, and the Bloomberg Municipal Index fell 3.84%. As would be expected, the 30-year U.S. Treasury Index had some of the worst results, dropping -8.69% for the month, while the general U.S. Treasury Index slumped -3.45%. For the third quarter, the returns for these indices in the same order were as follows: -4.75%, -4.95%, -0.65%, -3.46%, -10.36%, and -4.35%, respectively. For the first three quarters of 2022, the returns for these indices in the same order were as follows: -14.61%. -18.07%, -14.74%, -12.13%, -31.49% and -13.09%, respectively.

The multi-year high of 3.49% for the 10-year U.S. Treasury yield on June 14 did not last long. As the Fed became more hawkish in the third quarter, rates rose and the 10-year put in a new multi-year high in late September. The closing high was 3.97% on September 27, but intraday, the yield breached 4% before settling at 3.83% by quarter's end. That increase in interest rates put pressure on bond prices and returns suffered accordingly in September. While short-term returns are negatively impacted by rising rates, long-term returns for bonds have become more attractive with the higher yields being offered. We think the move higher in rates in 2022 has run its course and we expect the 10-year yield to move lower over the balance of the year.

Bonds have struggled this year as there has been a repricing of interest rates across the yield curve and across bond sectors under this Fed rate tightening cycle. 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 flows and to help offset the volatility of stocks in the long run, has not changed. In fact, bonds are offering higher yields than they have in a number of years and as a result, are becoming a more attractive asset class. Remember, that as the yield curve ultimately flattens it is a less positive signal for stocks and provides potential opportunities for active bond management.

Economic Data and Outlook

Job additions followed up a strong July with more solid gains in August. The change in non-farm payrolls surpassed expectations again with 315,000 additions in August compared to estimates of 298,000. This followed gains of 526,000 in July. The unemployment rate rose unexpectedly to 3.7%. Expectations were calling for the rate to remain at 3.5%, which matched the level from February 2020 prior to the pandemic. Close attention is being paid to the job market to see if Fed action results in the unemployment rate moving higher. Typically, one tends to see the unemployment rate start to rise heading into a recession, but there are currently millions more job openings than job seekers. Ultimately, the job market is important to track with about 70% of U.S. economic activity driven by consumer spending.

Housing continues to show a slowing trend, but a modest reprieve occurred in August. This was likely a result of interest rates declining from their elevated mid-June levels before rising in the second half of the third quarter. Housing starts and new home sales exceeded expectations in August and improved from July. Building permits fell short of estimates and declined from the prior month, while existing home sales beat expectations and were just fractionally lower than July's level. The rise in mortgage rates throughout 2022 and high home prices have taken some steam out of the housing market. As interest rates rose in September, the 30-year mortgage hit 7%, the high point of the year. Home prices are still rising, but not at the same torrid pace seen earlier in the year. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices rose by "only" 16.06% in July on a year-over-year basis,but did decline -0.4% for the month (the largest monthly decline in over a decade). This compares to expectations of 17.05% and the prior month's revised mark of 18.66%. The housing market has been a source of strength in the economy and has historically been a good leading indicator as well. However, the impact of higher mortgage rates, along with high home prices, is having a dampening effect on housing and activity will likely slow as the broader economy slows down.

The ISM Manufacturing Index beat estimates in August of 51.9 to remain at the same level as July at 52.8. (However, the September reading disappointed and was at 50.9, the lowest mark since May 2020.) The New Orders and Employment components for August rebounded into 50+ territory as New Orders rose to

51.3 and Employment increased to 54.2. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, improved again to 56.9 compared to expectations of 55.3 and July's level of 56.7. Manufacturing and service industries are still showing growth, but following the recent trend, moderation in the pace of growth has occurred, particularly in manufacturing. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so these current headline readings remain in growth territory.

Retail sales (ex. auto and gas) rose in August by 0.3%, but that was below expectations of 0.5%. Also, July's reading was revised to show 0.3% growth as well, a disappointing drop compared to the original release of 0.7%. It is important to note that higher prices, meaning inflation, can be a significant factor for this reading as the retail sales data is not inflation adjusted. The preliminary University of Michigan Sentiment reading for September improved to 59.5 – falling just short of expectations of 60.0, but ahead of the August mark of 58.2. The Conference Board's Leading Index declined again in August, this time by -0.3%, which was worse than the -0.1% expectation. The third reading of Q2 2022 GDP remained the same at a -0.6% annualized decline, which matched expectations. Economic growth has clearly weakened in 2022, but we do not believe we are currently in a recession. However, we acknowledge the risk of a mild recession, most likely next year, has increased.

Fed Chairman Powell's actions have matched the recent hawkish rhetoric as the FOMC raised rates by 75 basis points for the third consecutive time. The Fed has been trying to bolster their inflation-fighting credibility to the market and they have unequivocally stated they will bring inflation down even if that means a recession and higher unemployment. Many are waiting to see if the Fed blinks and does a so-called "Fed pivot", but there has been little from the Fed to indicate a change in policy direction in the near term. One key inflation data point has started to improve with the headline Consumer Price Index dropping to 8.3% in August from 8.5% in July compared to the 9.1% reading in June. The 8.3% was higher than expectations of 8.1%, however. Recall that the Fed targets the core reading of the Personal Consumption Expenditures Index and that was at 4.9% in August. Unfortunately, that was ahead of expectations of 4.7%, which was also the reading from the prior month. October will be the last month of 2022 without a FOMC meeting and expectations of more rates hikes remain for the November and December meetings.

The shift in the Fed's stance to more restrictive monetary policy in 2022 is having a clear impact on the markets and economy. The Fed is focused on bringing inflation under control, but its primary tool in achieving that goal is raising interest rates, which is a headwind to economic activity. Markets are resetting valuations based on higher interest rates and lower corporate earnings expectations in this rate-tightening cycle. Growth has slowed and the chance of the Fed pushing us into a mild recession, due to their aggressive rate hikes, has risen. However, the job market has continued to be an area of strength and is a critical component of our overall economy. 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. Importantly, stocks and bonds historically have hit their lows early in the rate hike cycle, well before the Fed has made its final rate hikes. Furthermore, seasonally, both from a calendar and mid-term election cycle basis, stocks should be entering a more constructive period as we move through the fourth quarter and into next year.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Markets peaked in mid-August and declined relentlessly, with many indices making new yearly lows.

Our tactical strategies such as Fixed Income Total Return and Global Tactical have the ability to fully de-risk and were defensively positioned throughout the month as our credit based risk management models have been in a risk off position.

Clark Capital's Bottom-Up, Fundamental Strategies

The High Dividend Equity portfolio continues to invest in dividend growers in cyclical and growth sectors. In the current declining earnings growth environment, we believe dividend growers are better positioned to contribute positive relative performance.

All Cap, Small Cap and International ADR portfolios continue to seek to invest in undervalued, high-quality companies. International and small cap market P/E ratios have collapsed to what we believe are attractive valuations.

Within the fixed income portfolios, the emphasis has been on owning shorter duration, higher quality names, which continued throughout the month.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Aug	51.9	52.8	52.8	—
ISM Services Index	Aug	55.3	56.9	56.7	—
Change in Nonfarm Payrolls	Aug	298k	315k	528k	526k
Unemployment Rate	Aug	3.5%	3.7%	3.5%	—
Average Hourly Earnings YoY	Aug	5.3%	5.2%	5.2%	—
JOLTS Job Openings	July	10375k	11239k	10698k	11040k
PPI Final Demand MoM	Aug	-0.1%	-0.1%	-0.5%	-0.4%
PPI Final Demand YoY	Aug	8.8%	8.7%	9.8%	—
PPI Ex Food and Energy MoM	Aug	0.3%	0.4%	0.2%	0.3%
PPI Ex Food and Energy YoY	Aug	7.0%	7.3%	7.6%	7.7%
CPI MoM	Aug	-0.1%	0.1%	0.0%	—
CPI YoY	Aug	8.1%	8.3%	8.5%	—
CPI Ex Food and Energy MoM	Aug	0.3%	0.6%	0.3%	—
CPI Ex Food and Energy YoY	Aug	6.1%	6.3%	5.9%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	Aug	0.5%	0.3%	0.7%	0.3%
Industrial Production MoM	Aug	0.0%	-0.2%	0.6%	0.5%
Building Permits	Aug	1604k	1517k	1674k	1685k
Housing Starts	Aug	1450k	1575k	1446k	1404k
New Home Sales	Aug	500k	685k	511k	532k
Existing Home Sales	Aug	4.70m	4.80m	4.81m	4.82m
Leading Index	Aug	-0.1%	-0.3%	-0.4%	-0.5%
Durable Goods Orders	Aug P	-0.3%	-0.2%	-0.1%	—
GDP Annualized QoQ	2Q T	-0.6%	-0.6%	-0.6%	—
U. of Mich. Sentiment	Sept P	60.0	59.5	58.2	—
Personal Income	Aug	0.3%	0.3%	0.2%	0.3%
Personal Spending	Aug	0.2%	0.4%	0.1%	-0.2%
S&P CoreLogic CS 20-City YoY NSA	July	17.05%	16.06%	18.65%	18.66%

Source: Bloomberg: P=Preliminary, T=Third

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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.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors.

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 80% of U.S. equities.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

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.

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 New Orders Index shows if businesses in the sector are growing with new customers or orders. An index value above 50 percent indicates a positive development in the service sector new orders, whereas a value below 50 percent indicates a negative situation.

Employee Component means, collectively, those provisions of the Plan under which Awards may be granted to Employees that are intended to satisfy the requirements of an "employee share scheme" within the meaning of section 1166 of the Companies Act 2006.

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 "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX℠) call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

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.

Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

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.

The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

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