Clark Capital Management Group

Benchmark Review
& Monthly Recap

Highlights

Following sharp declines in September, the stock market has mounted a solid comeback so far in the fourth quarter with gains in October and November. Additionally, international stocks rebounded sharply during the month.

Bonds, which did not participate in the equity rebound in October, staged a strong bounce in November as yields declined.

The 10-year U.S. Treasury yield closed November at 3.68% compared to the October close of 4.10%.

As expected, the FOMC raised its policy rate by another 75-basis points in November. The debate in the market is whether the Fed raises rates by a less aggressive amount at its final FOMC meeting in mid-December and into 2023.

The economy continues to slow under the pressure of higher interest rates. However, the second reading of U.S. GDP for the third quarter of 2022 was revised higher to a 2.9% annualized growth rate, reinforcing our belief that we are not currently in a recession, but the odds of a mild recession later next year are rising.

Stock Rally Continues and Bonds Join the Party in November

Equity Markets

Equity index returns for November were as follows: The S&P 500 gained 5.59%, the Dow Jones Industrial Average rallied 6.04%, the Russell 3000 advanced 5.22%, the NASDAQ Composite rose by 4.51%, and the Russell 2000 Index, a measure of small-cap stocks, increased by 2.34%. Like the general trend in 2022, large, value-oriented companies fared relatively better during the month compared to growth and smaller-cap stocks. Year to date, these indices are down -13.10%, -2.89%, -14.18%, -26.13% and -14.91%, respectively.

The month started choppy after the early November FOMC meeting, which saw the Fed raise rates by 75 basis points and the continuation of the Fed's hawkish stance toward monetary policy. However, stocks enjoyed a rather steady run from that point for the balance of the month. The VIX Index marched lower for most of the month as stocks rose and it broke below 20 in early December for the first time since August as volatility eased.

Equity strength was widespread in November, but there was some dispersion of returns. The tech-heavy NASDAQ Composite saw relative returns surpassed by most other major indices except for small-cap measures as growth remained an underperformer. The Russell 1000 Growth Index gained 4.56% for the month but is still off -23.26% for the year to date. In contrast, the Russell 1000 Value Index advanced 6.25% in November and is down a more modest -3.65% so far this year – just under 2000 basis points of better relative performance. After better relative gains in October, small caps underperformed in November, but value still outpaced growth. The Russell 2000 Growth Index rose just 1.63% in November while the Russell 2000 Value Index gained 3.06%. Year to date, those indices have declined -21.31% and -8.48%, 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 the real story in November with a sharp rebound in performance. As we have often discussed this year, the US Dollar Index (DXY) had broadly strengthened during most of 2022. However, it began to plateau over the last few months before dropping in November. Remember that an international stock loses value in dollar terms if the U.S. Dollar appreciates against that stock's home currency. The removal of that significant headwind of dollar strength in November contributed to the rally in international stocks. The MSCI ACWI ex USA Index, a broad measure of international equities, gained 11.80% in November, while the MSCI Emerging Markets Index rallied 14.83%. On a year-to-date basis, these indices are down -15.37% and -18.95%, respectively.

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

Fixed Income

Fixed income returns were as follows for November: the Bloomberg U.S. Aggregate Bond Index gained 3.68%, the Bloomberg U.S. Credit Index rallied 4.97%, the Bloomberg U.S. Corporate High Yield Index advanced 2.17% and the Bloomberg Municipal Index improved by 4.68%. As would be expected, the 30-year U.S. Treasury Index had some of the best results, gaining 7.19% for the month as rates dropped, while the general U.S. Treasury Index advanced 2.68%. For the year to date, the returns for these indices in the same order were as follows: -12.62%. -14.89%, -10.63%, -8.79%, -31.59% and -12.01%, respectively.

The 4% level on the 10-year U.S. Treasury was breached in October and closed on 10/24 at a more than 10-year high of 4.25% - a level not seen since the credit crisis. The yield closed the month at 4.10% and continued to move lower in November, closing at 3.68%. Clearly, the overall increase in interest rates this year has put significant pressure on the bond market and returns have suffered. While short-term returns are negatively impacted by the Fed raising rates, future potential returns for bonds have become more attractive with the higher yields available making bonds a more attractive asset class. As we have previously stated, we believe the move higher in rates in 2022 has run its course at the longer end of the yield curve and we expect the 10-year yield to move lower over the balance of the year. Since that high mark on the 10-year yield in late October, longer rates have come down and created a better backdrop for bond returns, which resulted in solid gains in November – while still acknowledging that results overall in 2022 have been challenging to say the least.

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.

Economic Data and Outlook

Recent job market strength continued in October. Non-farm payrolls increased by 261,000 in October when expectations called for only 193,000. Furthermore, the September reading was revised higher to show 315,000 additions compared to the prior estimate of 263,000. However, the unemployment rate did tick higher to 3.7% compared to estimates of 3.6% and September's mark of 3.5%. Fed action is expected to raise unemployment, but Fed rate increases so far have not resulted in significant weakness in the job market. We are at an interesting point where "good" news on the job front might be interpreted as "bad" news with the expectation that the Fed might need to stay more aggressive to rein in economic growth and inflation. Typically, the unemployment rate starts to rise heading into a recession, but there are currently millions more job openings than job seekers. However, based on the JOLTS reading of job openings, the number of openings has been moving lower. The openings in October stood at just over 10.33 million and this compares with the September level of just under 10.7 million. This might reflect businesses starting to slow hiring activity. Ultimately, the job market is important to track with about 70% of U.S. economic activity driven by consumer spending.

Housing continues to be impacted by higher mortgage rates and data was largely consistent with ongoing slowing in this sector. Interestingly, building permits, housing starts, existing and new home sales all surpassed expectations in October, but only new home sales were above the prior month's level. Clearly, the rise in mortgage rates overall in 2022 and still high home prices have taken some steam out of the housing market. As interest rates rose in October, the average 30-year mortgage moved above 7%. November saw some relief as interest rates generally moved lower. Home prices are still rising, but not at the same torrid pace seen earlier in the year. Recently, we have seen some monthly drops in home prices for the first time in years, but on an annual basis values are still climbing. Based on the year-over year reading of the S&P CoreLogic CS 20-City Index, home prices rose by 10.43% in September, but this continues the trend of slower price gains as the August increase had been 13.06% compared to the prior year. The housing market has been a source of strength in the economy and has historically been a good leading indicator as well. Higher mortgage rates, high home prices, and an aggressive Fed slowing general economic activity are all headwinds on housing and ultimately home activity will likely slow further as the broader economy slows down.

The steady move lower in the ISM Manufacturing Index continued in October as the reading dropped to 50.2, although this was modestly better than the 50.0 expectation. (The November reading, released the first day of December, saw this index drop below the important 50 level to 49.0 – its first sub-50 reading since May 2020 and below expectations of 49.7.) For the October reading, the New Orders component remained below 50 and Prices Paid were also under 50. Both of those component readings dropped further in November reflecting slower order activity, but also less pressure on pricing, which could bode well for inflation data continuing to moderate. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 54.4 in October, which missed expectations of 55.3 and was a drop from the prior month's 56.7. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so manufacturing has slipped into contractionary territory while services are still exhibiting growth albeit at a slower pace.

Retail sales (ex. auto and gas) rose well ahead of expectations by 0.9% in October, which was above estimates of 0.2%. Also, September's reading was revised to show 0.6% growth, double the prior estimate of 0.3%. However, the preliminary University of Michigan Sentiment reading for November dropped more than expected to 54.7 from the prior reading of 59.9 and expectations of 59.5. Importantly, despite saying they are less confident, consumers are still spending based on the retail sales data. The Conference Board's Leading Index declined in October by -0.8% – double the expected drop of -0.4%. The second reading of Q3 2022 GDP was revised higher to a 2.9% annualized growth rate compared to expectations of 2.8% and initial estimate for the quarter of 2.6%. Economic growth has weakened in 2022, but we do not believe we are currently in a recession and the third quarter GDP number supports that opinion. However, we acknowledge the risk of a mild recession, most likely in the latter part of next year, has increased, especially as the 3-month T-Bill and the 10-year U.S. Treasury inverted in late October – historically an indicator that the economy might be headed toward a recession. This inversion is now coupled with an ISM Manufacturing reading below 50.

We believe that we are in the later innings of this Fed rate hike cycle and the Fed's actions for the balance of the year and into 2023 will be a key driver of the market. There is some belief that the Fed will begin to become less aggressive in its rate hikes over the coming meetings. Chairman Powell has seemed to open the door to this possibility. However, we also believe that this rate hike cycle is ongoing, and another rate hike will likely come in December followed by additional rate hikes at least in the early part of 2023. Furthermore, the Fed continues to tell the market to expect rates to stay higher for longer. Inflation remains elevated, but progress on the inflation front has also become more of a trend in recent months. The headline Consumer Price Index dropped from 8.2% in September to 7.7% in October, which was better than expected. The core CPI reading dropped to 6.3% compared to expectations of 6.5% and September's level of 6.6%. The Producer Price Index fell to 8.0% in October from 8.4% in September. Recall that the Fed targets the core reading of the Personal Consumption Expenditures price index, and it met expectations in October dropping to 5.0% from a revised 5.2% the prior month. The Fed appears to have enough improvement occurring on the inflation front to at least throttle down the pace of rate hikes and the market will watch the Fed closely at its final FOMC meeting of 2022 in mid-December to see the course it takes.

The shift in the Fed's stance to more restrictive monetary policy in 2022 as it battles inflation 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 general 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 chances of the Fed pushing us into a mild recession later next year, due to their aggressive rate hikes, have risen. However, the job market has remained resilient and is a critical component of our overall economy leading us to the conclusion that any slowdown will be modest. 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. Importantly, stocks and bonds have historically hit their lows early in the rate hike cycle, well before the Fed has made its final rate hikes. Additionally, we anticipate stocks should be entering a more constructive period as we move through the fourth quarter and into next year from both a calendar and four-year presidential cycle perspective.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Tactical strategies, including Fixed Income Total Return and Global Tactical remain risk-on, invested in high yield and global equity, respectively. The credit based risk management models that drive those allocations remain bullish on risk as we enter the home stretch of the year.

In the Style Opportunity portfolio, the strategy currently favors value, particularly mid-cap and large-cap value.

Clark Capital's Bottom-Up, Fundamental Strategies

Catalysts for the recent strength in stocks include peak inflation, a weakening U.S. dollar, lower yields and commodity prices, and a cooling labor market. Dividend growers have performed well in this environment, and historically provide favorable market returns before and after recessions. Across our equity strategies, we continue to seek out companies that we believe have the ability to beat on the top-and bottom-line with improving business momentum.

In fixed income, the investment grade markets participated in the risk-on rally with credit spreads tightening throughout the month. Within the portfolios, the emphasis shifted to taking advantage of the rally and moving into higher quality names while still increasing the coupon and current yield.

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Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Oct	50.0	50.2	50.9	—
ISM Services Index	Oct	55.3	54.4	56.7	—
Change in Nonfarm Payrolls	Oct	193k	261k	263k	315k
Unemployment Rate	Oct	3.6%	3.7%	3.5%	—
Average Hourly Earnings YoY	Oct	4.7%	4.7%	5.0%	—
JOLTS Job Openings	Oct	10250k	10334k	10717k	10687k
PPI Final Demand MoM	Oct	0.4%	0.2%	0.4%	0.2%
PPI Final Demand YoY	Oct	8.3%	8.0%	8.5%	8.4%
PPI Ex Food and Energy MoM	Oct	0.3%	0.0%	0.3%	0.2%
PPI Ex Food and Energy YoY	Oct	7.2%	6.7%	7.2%	7.1%
CPI MoM	Oct	0.6%	0.4%	0.4%	—
CPI YoY	Oct	7.9%	7.7%	8.2%	—
CPI Ex Food and Energy MoM	Oct	0.5%	0.3%	0.6%	—
CPI Ex Food and Energy YoY	Oct	6.5%	6.3%	6.6%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	Oct	0.2%	0.9%	0.3%	0.6%
Industrial Production MoM	Oct	0.1%	-0.1%	0.4%	0.1%
Building Permits	Oct	1514k	1526k	1564k	—
Housing Starts	Oct	1410k	1425k	1439k	1488k
New Home Sales	Oct	570k	632k	603k	588k
Existing Home Sales	Oct	4.40m	4.43m	4.71m	—
Leading Index	Oct	-0.4%	-0.8%	-0.4%	-0.5%
Durable Goods Orders	Oct P	0.4%	1.0%	0.4%	0.3%
GDP Annualized QoQ	3Q S	2.8%	2.9%	2.6%	—
U. of Mich. Sentiment	Nov P	59.5	54.7	59.9	—
Personal Income	Oct	0.4%	0.7%	0.4%	—
Personal Spending	Oct	0.8%	0.8%	0.6%	—
S&P CoreLogic CS 20-City YoY NSA	Sept	10.55%	10.43%	13.08%	13.06%

Source: Bloomberg: P=Preliminary, S=Secondary

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Clark Capital utilizes a proprietary investment model to assist with the construction of the strategy and to assist with making investment decisions. Investments selected using this process may perform differently than expected as a result of the factors used in the model, the weight placed on each factor, and changes from the factors' historical trends. There is no guarantee that Clark Capital's use of a model will result in effective investment decisions.

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.

A Treasury Bill (T-Bill) is a short-term debt obligation backed by the U.S. Treasury Department with a maturity of one year or less.

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.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

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.

DXY is the symbol for the US dollar index, which tracks the price of the US dollar against six foreign currencies, aiming to give an indication of the value of USD in global markets. The index rises when USD gains strength against the other currencies and falls when the dollar weakens.

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 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.

Higher-order components or HOC is the advanced method of reusing the component functionality logic. It simply takes the original component and returns the enhanced component.

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.

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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