Clark Capital
MANAGEMENT GROUP

Guide to the Gauges

Quarterly Economic and Capital Market Review

Fourth Quarter 2022

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Guide to the Gauges

Our Latest Assessment of Key Economic Indicators

We believe that over the long term, stock prices are driven by two things: earnings, and what people are willing to pay for those earnings. These five gauges relfect our outlook for the factors that we believe drive stock prices.

Each gauge is comprised of a number of individual indicators, which the Investment Team evaluates on an ongoing basis to determine if the gauge is neutral, positive, or negative.

Fourth Quarter Summary

After two quarters of negative GDP in the first half of 2022, the economy rebounded in the third quarter. The job market and consumer remain resilient, although other parts of the economy such as manufacturing and housing are beginning to contract. Inflation has shown signs of peaking.

The Fed aggressively raised interest rates in 2022, which has been a headwind for stocks and bonds. However, it's important to note that historically, both stocks and bonds have started to go up well before the final rate hike in prior cycles. We believe we are closer to the end of the rate hike cycle than the middle.

P/E multiples have contracted from peak levels. Stock prices were down significantly in 2022, but earnings were not. Wall Street analysts expect earnings growth of 12% in 2023, although we recognize the possibility of downward revisions to those projections. In fixed income, bonds are offering the highest yields seen in years. Overall, we observed less bearish investor sentiment and lower volatility in Q4, although overall sentiment remains negative.

The gauges represent the firm's expectations for the market, and how changes in the market will affect the strategy, but are only projections which assume certain economic conditions and industry developments and are subject to change without notice.

Moved Forward One Notch

Economy

This quarter, we moved the economy gauge forward one notch to neutral to reflect the rebound in Q3 GDP and resiliency of the labor market. Portions of the economy are beginning to contract, such as manufacturing and housing. We cannot say we are in a recession yet, although the possibility of a mild recession is rising.

Key Takeaways

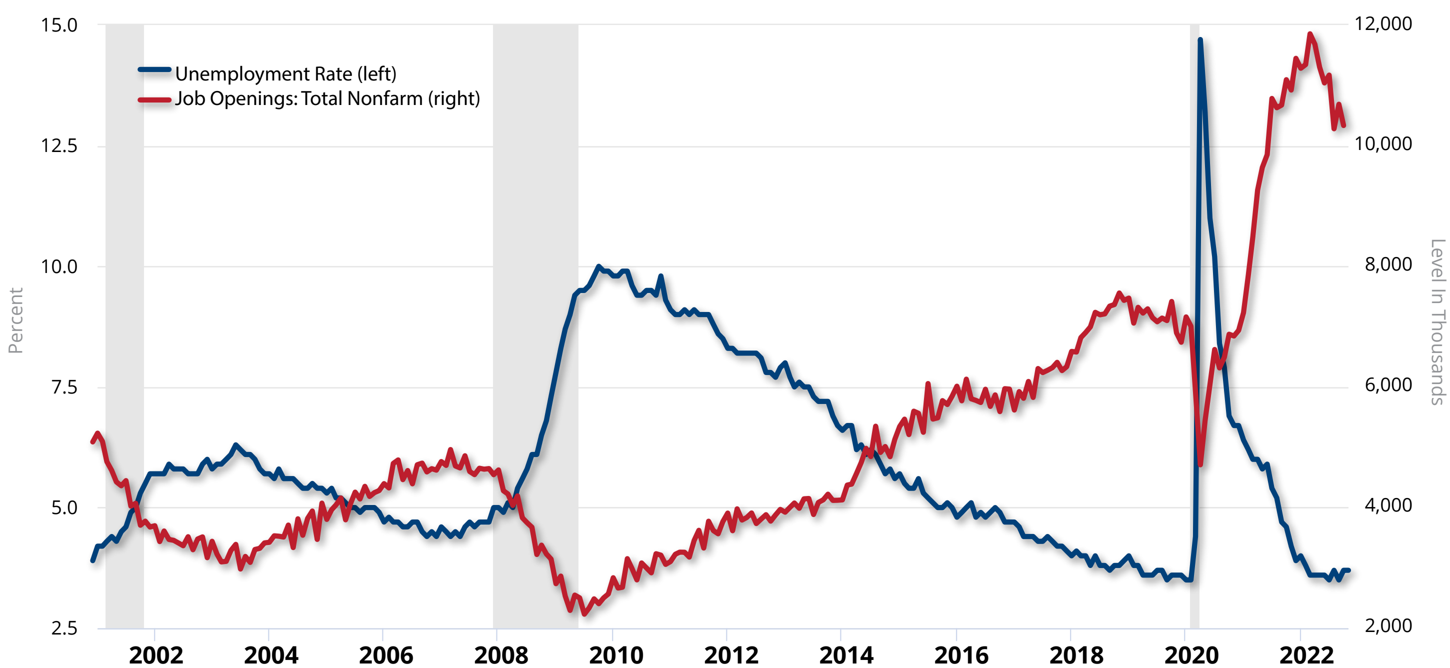
GDP
After negative GDP in the first half of 2022, GDP rebounded to 3.2% in Q3 and the Fed's GDPNow Q4 forecast is 3.9%.

Labor Market
The unemployment rate is historically low, and job openings are plentiful.

Corporate Earnings
While the risk of a mild economic recession has increased, corporate earnings are expected to rebound in 2023.

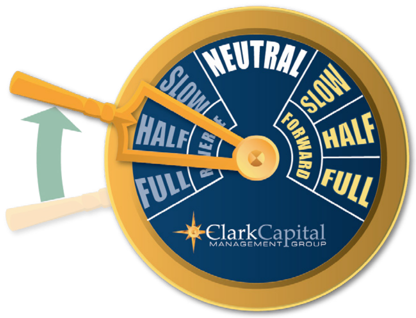
Unemployment Rate and Non-Farm Job Openings

The unemployment rate continues to be at historically low levels, while job openings remain abundant. Wage growth continues to be positive for workers, although the pace of wage gains has moderated (welcome news for the Fed).



Source: fred.stlouis.org

For illustrative purposes only. Past performance is not indicative of future results.



Moved Forward One Notch

Monetary Policy

This quarter, we moved the monetary policy gauge forward one notch to half reverse to reflect that the Federal Reserve has begun to "step down" the size of rate increases from 75 basis points to 50 basis points in December.

While Fed policy is still a headwind for risk assets, we believe that the Federal Reserve is closer to the end of the rate hike cycle than the middle.

Key Takeaways

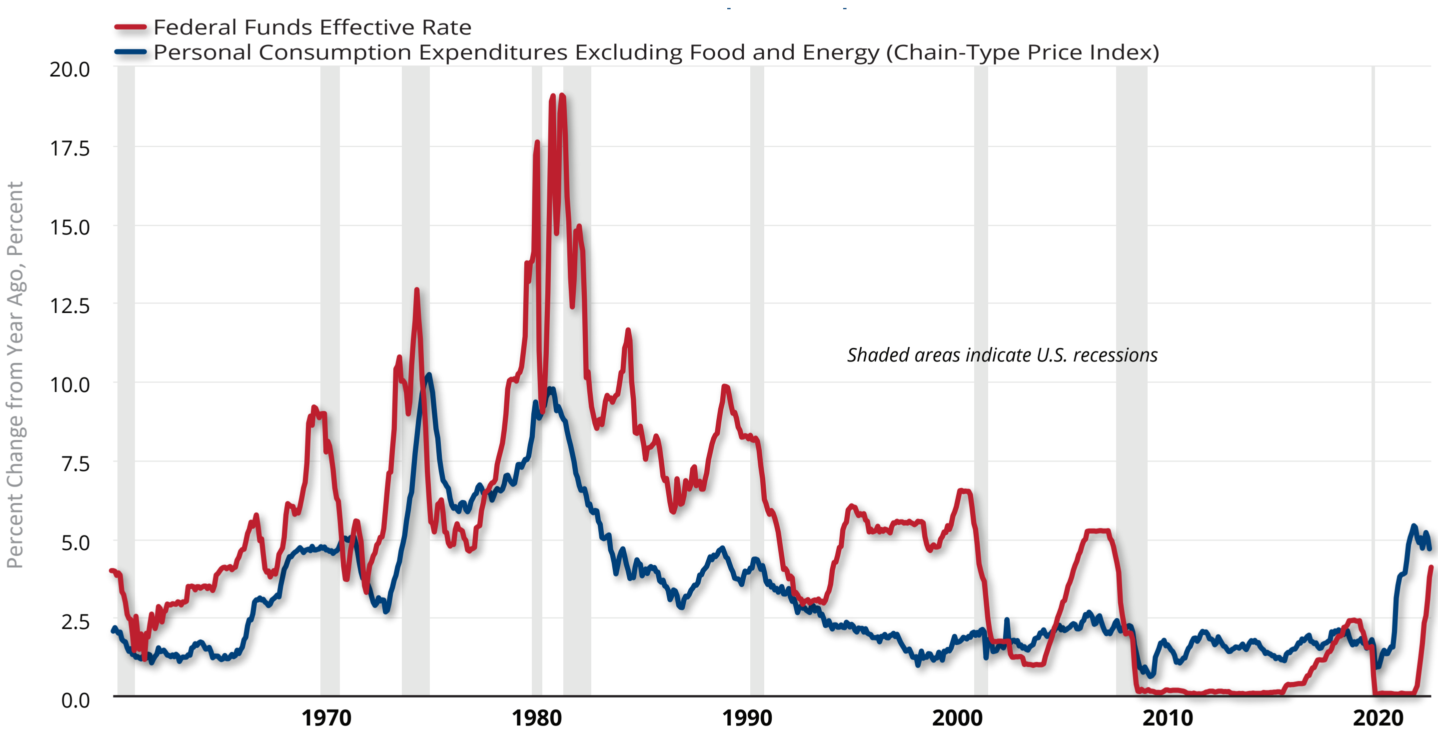
Rate Hikes
After four consecutive 75 basis point rate hikes, the Fed has begun to "step down" the size of their rate increases to 50 basis points.

Terminal Rate
The Fed raised rates by 425 basis points (4.25%) in 2022 and is expected to reach 5%-5.25% early in 2023.

Balance Sheet
The Fed has started to slowly shrink its balance sheet and will continue that process in 2023.

Federal Funds Effective Rate and Personal Consumption Expenditures Price Index (Core)

The Fed has made progress in its battle with inflation as price levels have moved lower in recent months. However, we believe that more work must be done for the Fed to achieve its target level of inflation of around 2% on a Core PCE basis. The Fed will be continuing this fight over the course of 2023.



Source: Board of Governors of the Federal Reserve System (US)

For illustrative purposes only. Past performance is not indicative of future results.

Valuations

This quarter, we moved the valuations gauge back one notch to neutral to reflect that P/E multiples have moved higher from the end of Q3. We now view stocks as "fairly valued" at the index level.

Moved Back One Notch

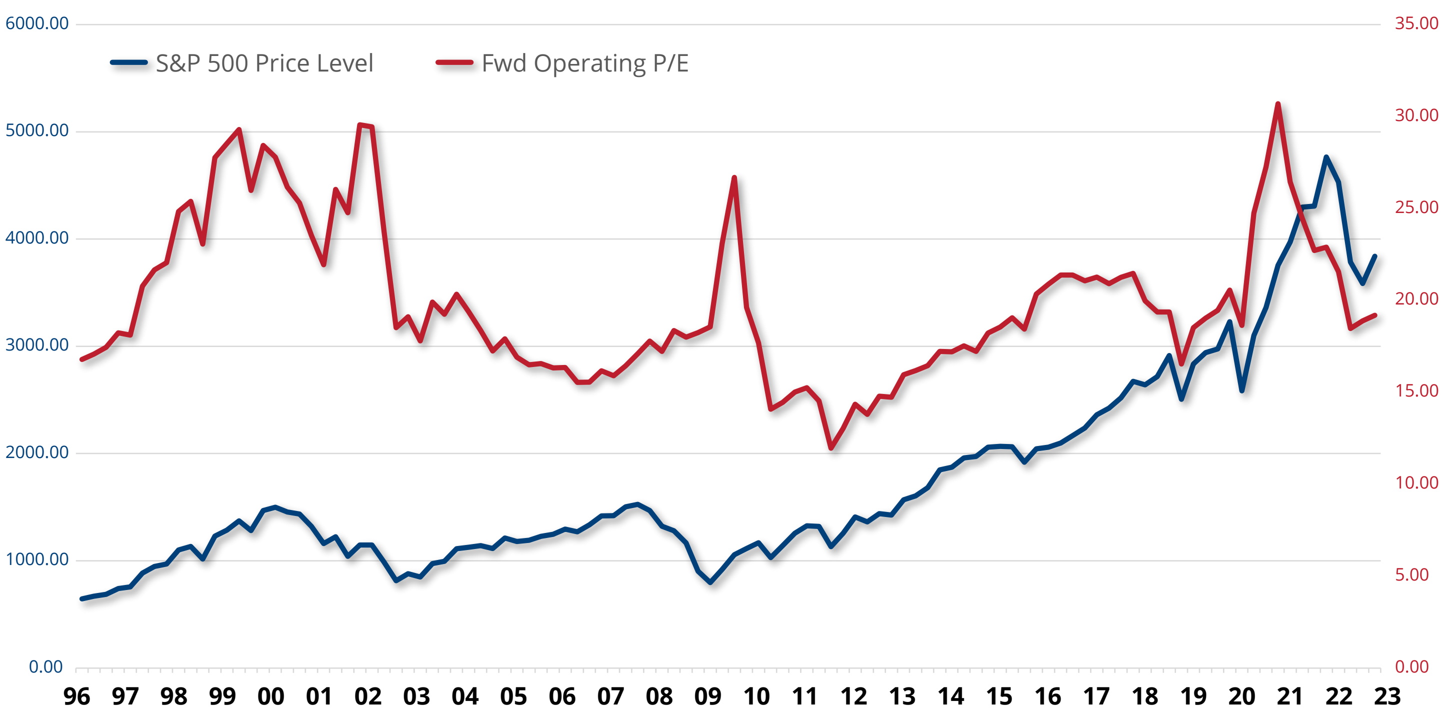
Key Takeaways

P/E Multiples
After reaching slightly undervalued levels at the end of Q3, stocks have returned closer to "fair value" range.

Earnings
While operating EPS declined slightly in 2022, Wall Street analysts expect a rebound in 2023.

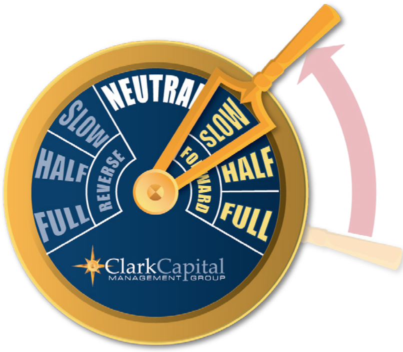
S&P 500 Price Level and Foward Operating P/E

In 2022, stock prices were down significantly while earnings were not. For 2023, Wall Street analysts are expecting earnings to rebound by 12%. However, we recognize the possibility of downward revisions to those projections.



Source: www.spglobal.com

1/1/1996 to 12/31/2022. For illustrative purposes only. Past performance is not indicative of future results.



Moved Back Two Notches

Investor Sentiment

This quarter, we moved the investor sentiment gauge back two notches to the slow forward position to reflect that investor sentiment became less negative by the end of Q4. We also observed that stock volatility, as measured by the VIX Index, became more subdued.

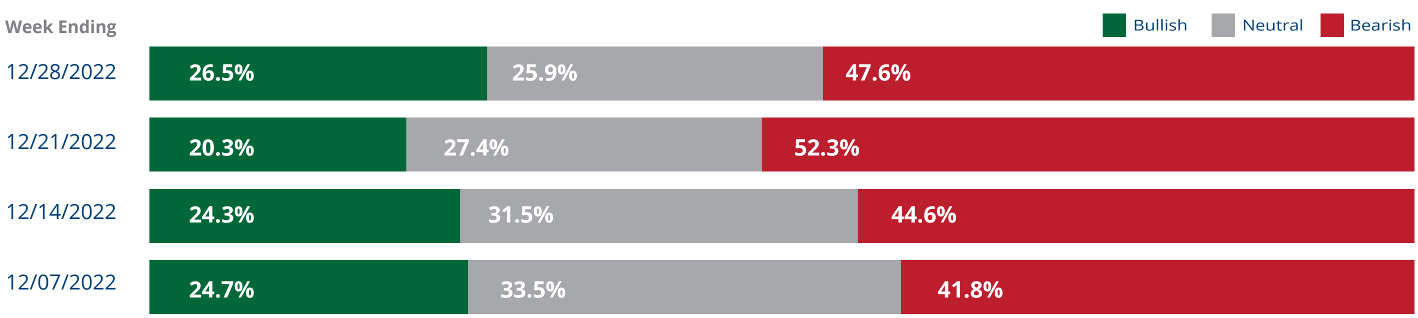
Key Takeaways

AAII Survey
After reaching historically high levels of bearishness at the end of Q3, the AAII Survey saw an increase in bullishness in December, but remains firmly bearish overall.

VIX Index
After reaching levels above 30 in Q3 and early Q4, the VIX Index retreated to the low 20s by the end of December.

Sentiment Votes

Since its inception in 1987, the AAII Survey has been a useful contrarian indicator. In the past, when the survey has reached extreme levels of bullishness or bearishness, a change in direction for the market often followed.



Source: American Association of Individual Investors

For illustrative purposes only. Past performance is not indicative of future results.

No Change in Position

Interest Rates

This quarter, we held the interest rates gauge in the slow reverse position to reflect that both the level of interest rates and shape of the yield curve remain a headwind for risk assets.

Key Takeaways

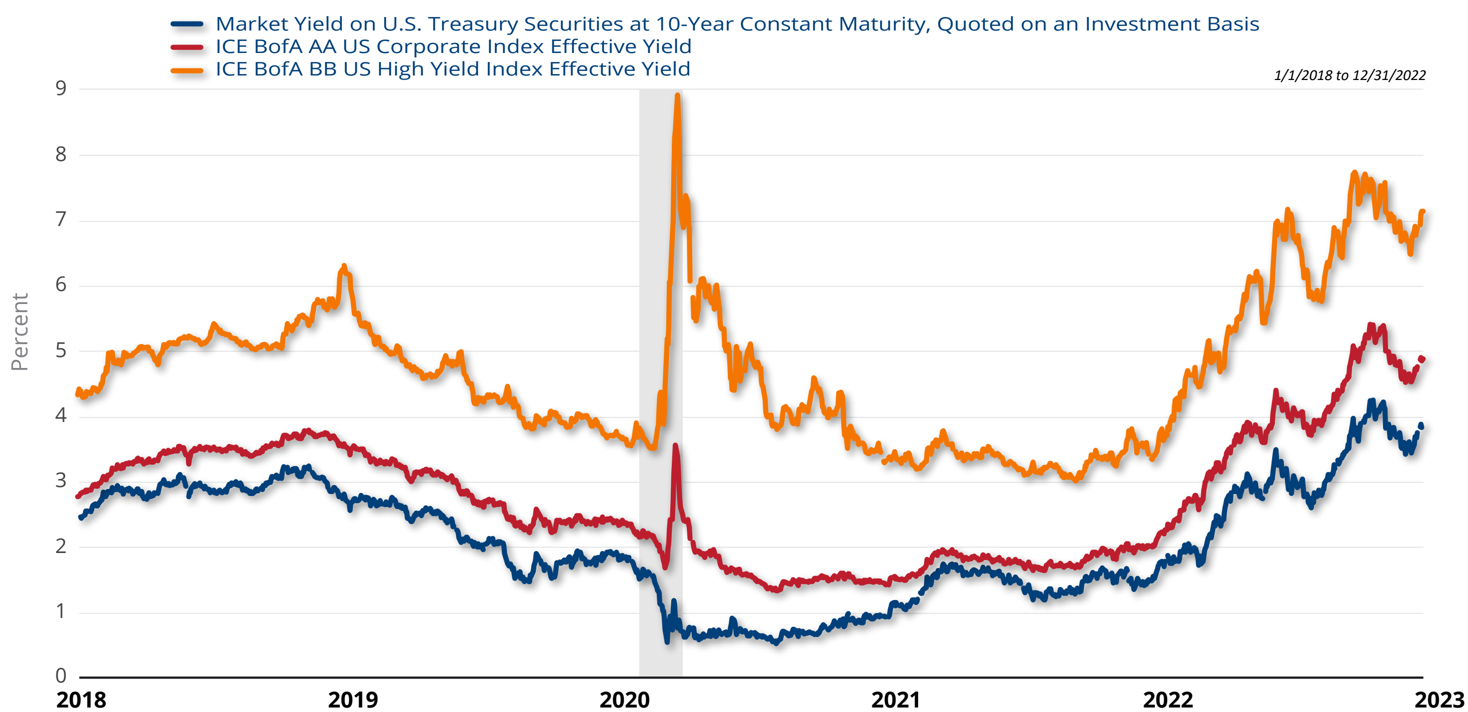
Change in Yields
Short-term rates have increased a bit and long-term rates have moved down from their late October peak in yields.

Yield Curve
The spread between the 3-month and 10-year Treasuries has inverted. This signal has preceded prior recessions, although it does not indicate the depth or duration of a potential recession.

Outlook
We expect that yields may have already peaked, or will peak, in early 2023 and will begin to move lower by the end of the year.

Bond Yields

Yields on corporate debt are at levels not seen in many years. While this may be a negative for issuers, it may create an opportunity for investors.



Source: Board of Governors of the Federal Reserve System (US)

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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 Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

The ICE BofA AA US Corporate Index is a subset of the ICE BofA US Corporate Master Index tracking the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market.

The ICE BofA US Corporate BB Index is a subset of the ICE BofA US High Yield Master II Index tracking the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market. This subset includes all securities with a given investment grade rating BB.

The AAII Sentiment Survey measures the percentage of individual investors who are bullish, bearish, and neutral on the stock market short term; individuals are polled from the AAII Web site on a weekly basis.

VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

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