ClarkCapital MANAGEMENT GROUP

Monthly Moves

Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Declining inflation, leading economic indicators, and their associated impact on future Fed tightening helped equities firm up in January. Risk assets started the year strong with small-cap U.S. equities, large-cap U.S. equities and international equities all rallying more than 8% as lower goods inflation, easing home prices, current rent growth rates, less tight labor markets, and sub-50 Purchasing Manager Indices all point to a Fed that is likely to slow its pace of interest rate increases.

We expect the market to look past the current earnings recession to a stronger second half supported by a resilient consumer, lower inflation, and a potential pause in rate hikes. In our bottom-up strategies, we continue to seek out what we believe are undervalued, high-quality companies in both developed and emerging markets. Growth stocks may narrow the performance gap relative to value, but we expect traditional quality metrics including valuation, free cash flow, earnings growth, and revenue guidance to perform well.

Inflation has continued to moderate and interest rates have followed suit. The 10-year Treasury Note yield declined 35 basis points during the month as it looks increasingly likely that the Fed will pause rate hikes after March. Bonds have been well bid in this environment, with what we consider attractive yields supporting the asset class.

Below are strategy updates from January:

All Cap Core U.S. Equity

- The Navigator® All Cap strategy is positioned with approximately 68.4% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, we added a real estate company, a financial services company, and a streaming service to the portfolio. We exited our positions in a telecommunications company, a variety store chain, and a scientific instrumentation company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 19.7%.

High Dividend Equity

- Financials represent the largest sector weight at 19.9% and below the benchmark at 20.5%. The next two largest portfolio weights are Healthcare and Information Technology at 15.3% and 12.1%, respectively.
- The top performing sectors were Real Estate, Consumer Staples, and Industrials versus laggards Information Technology, Healthcare and Basic Materials.
- January sales included reducing companies that we believe have weak business momentum including a biotech company,

an insurance company, a beverage company, and a petroleum company. New positions included a chemical materials company, two financial services companies, and an industrial technology company.

International Equity ADR

- Britain, Canada, China, Japan and Switzerland are the strategy's largest country weights, all ranging between 8% and 14%.
- During the month we added a Japanese multinational conglomerate, a Chinese technology and entertainment conglomerate, and a Brazilian metals and mining company to the portfolio. We exited our positions in a Brazilian financial services company, a Canadian agriculture company, and a Dutch semiconductor company.
- ADR's exposure to China is now 9%, which is slightly more than its weighting in the All-Country World ex-US benchmark.
- Communication Services, Consumer Discretionary, Financials, Industrials and Information Technology are our largest sector weights.

Taxable Fixed Income

- Within the portfolio, the focus was once again on improving liquidity while also increasing the current yield in the portfolio. This was most prevalent in the banking sector as banks unexpectedly did not issue a large amount of new bonds.
- The portfolio also continued to add to the Utilities sector in the longer end of the as they had cheapened up recently.
- The market continues to discount the Fed and push higher beta names tighter as rates rally.

Tax-Free Fixed Income

- Tax-exempt issuance for the month increased compared to the prior month: $14.7 billion observed in December versus $23.2 billion in January.
- Despite strong market technicals and rich muni valuations benefitting issuers, higher rates and Fed uncertainty are keeping issuers at bay.
- During the prior month, our strategy continued to consolidate positions for better economies of scale, increase block size where possible, and aggressively manage duration and extension risk.
- Moving forward, we are repositioning portfolio exposures into a barbell-like structure. This includes being overweight maturities inside 3-years, underweight 4 to 9-year maturities, neutral weight in the 10 to 12-year maturity bucket, and overweight maturities greater than 12 to 16 years.

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Clark Capital's Top-Down, Quantitative Strategies

We believe the strength of the markets in January bodes well for continued gains. Our view has been that the October 2022 lows marked the cycle bottom and disinflation trends would provide a good backdrop for risk assets. After a near record year of greater than 1% moves in the S&P 500, volatility across both equities and fixed income fell sharply in January.

Our tactical strategies maintain their risk-on positioning with credit very firm as financial conditions ease in the face of Fed tightening. Market breadth has been strong with broad participation and leadership developing in small and mid-cap stocks.

We are also seeing strength across sectors that normally perform well in the early stages of bull markets including semiconductors, consumer discretionary, and homebuilders.

Below are strategy updates from January:

Alternative

- The portfolio enjoyed gains in its equity holdings, including growth stocks, copper miners, and natural resources. As a result, we slightly reduced some of that exposure.
- The tactical fixed income portion of the portfolio favors investment grade and high yield credit.
- Options-based, managed futures, and long-short equity led the core portion of the portfolio, while alternative credit and market-neutral real estate trailed.

Fixed Income Total Return

- Easing inflation concerns helped drive interest rates down and fixed income and credit in general higher.
- Our models were fairly close to turning defensive in mid-to-late December, but improving credit conditions drove our models to new highs in January. Our risk-on position in high yield is stable at this time.

Global Tactical

- Our credit-based models were fairly close to turning defensive in mid-to-late December, but easing inflation concerns drove rates lower and risk-on assets higher.
- Our credit models that drive the portfolio made new highs and are broadly positive.
- The S&P 500 ended January up 6.3%, and the portfolio's other three holdings in U.S. small-cap, broad international, and international small-cap, each outperformed the S&P 500 by at least an additional 2.0%.

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Author

K. Sean Clark, CFA®
Executive Vice President
Chief Investment Officer

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Sector Opportunity

- As the risk-on rally accelerated in January, the remainder of the portfolio's defensive-oriented holdings fell off in our rankings and exited the portfolio.
- Consumer Discretionary and Technology were big underperformers last year, but their relative breakouts during January were impressive.

Style Opportunity

- The portfolio continues to have a value-oriented bias, and mid and small-cap value have grown in emphasis as January moved forward, while buybacks and high dividend stocks were sold.
- Growth stocks' relative strength has neutralized, but there is zero evidence of a sustained trend.
- It is worth noting that value indexes now include some Technology, while growth indexes are overweight Energy versus the S&P 500.

U.S. Strategic Beta

- The portfolio favored growth stocks and U.S. mid and small-caps, each of which enjoyed strong months during the risk-on rally.
- September 2022 displayed the most extreme negative investor sentiment in many years, and since 6 to 12-month returns after such extremes are very positive, we expect to continue a risk-facing stance.

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The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

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