Benchmark Review
& Monthly Recap

Highlights

Stocks and bonds both gained in January, a welcome beginning to the new year after a tough 2022 – a year that saw stocks have their worst results since 2008 and bonds have among their worst results ever.

As stocks advanced in January, volatility, as measured by the VIX Index, dropped lower – closing at a 52-week low of 17.97 on January 27th. It closed the month at 19.40 after ending 2022 at 21.67.

The 10-year U.S. Treasury yield ended 2022 at 3.88%. Continuing the general trend since its peak of 4.25% in late October, the yield moved lower in January and closed the month at 3.52%, creating a better backdrop for bonds.

The 10-year U.S. Treasury yield ended November at 3.68%, but rates rose to close out 2022 at 3.88%. As a reminder, the 10-year yield ended 2021 at 1.52%.

The FOMC raised rates at its first FOMC meeting of the year on February 1 by 0.25% as expected. The "step down" in rate hikes continues, and we believe we are in the late innings of this rate hike cycle.

Economic data continued to be mixed with continued solid job market data, but other areas of the economy showed signs of weakness. On a positive note, the initial estimate of Q4 GDP showed a gain of 2.9% on an annualized basis – supporting the idea that the economy rebounded in the second half of 2022.

Goodbye and Good Riddance to 2022; 2023 Starts Off on a Positive Note

Equity Markets

Equity index returns for January were as follows: The S&P 500 gained 6.28%, the Dow Jones Industrial Average rose by 2.93%, the Russell 3000 advanced 6.89%, the NASDAQ Composite rallied 10.72%, and the Russell 2000 Index, a measure of small-cap stocks, gained 9.75%. January was in many ways a mirror image of 2022 – growth stocks rallied sharply, and small-caps outpaced their large-cap counterparts to start 2023.

We will wait to see if this change in leadership develops into more of a trend after large-cap value stocks dominated on a relative basis last year. The VIX Index hit a 52-week low in late January (at 17.97 on January 27th), which came as equities enjoyed solid progress during the month. (A new 52-week low was put in on February 1 as markets rallied following the FOMC meeting with a rate increase of only 25 basis points). The VIX Index closed 2022 at 21.67.

Equity strength was widespread in January. However, showing the surge in growth stocks, the large-cap focused Russell 1000 Growth Index gained 8.33% for the month after it was off – 29.14% for 2022. The Russell 1000 Value Index advanced by 5.18% in January after being down a more modest –7.54% in 2022. Growth stocks are sensitive to interest rate moves and higher interest rates dominated most of 2022.

However, rates have moved lower in recent months, and they fell further in January, which helped growth stocks during January. Market cap size was more important than style (value versus growth) in the small-cap universe. The Russell 2000 Growth Index rallied 9.95% in January while the Russell 2000 Value Index advanced 9.54%. Growth had a modest edge to value in small-caps, but small-caps overall outperformed their large-cap counterparts in January.

We at Clark Capital continue to use our disciplined approach of seeking out 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 as well as various market cap levels.

International stocks continued their recent rebound in January. As we often discussed in 2022, the U.S. Dollar Index (DXY) broadly strengthened during most of the year, but it was relatively flat in December after declining sharply in November. The U.S. Dollar Index continued to slide lower in January, which again was a positive tailwind for international stocks. The MSCI ACWI ex USA Index, a broad measure of international equities, gained 8.11% in January, while the MSCI Emerging Markets Index rose by 7.90%. Reflecting their strength in recent months, these index returns for the last

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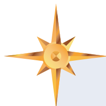

three months were 19.97% and 22.16%, respectively. As we have repeated many times, we believe international stocks are an important asset class for most high net worth investors.

Fixed Income

Following a dramatic year of interest rate increases, which led to one of the worst years for bond returns on record in 2022, yields continued their recent move lower in January. The 10-year yield closed 2022 at 3.88% and fell to 3.52% by the end of January. After closing on 10/24/22 at a more than 10-year high of 4.25% – a level not seen since the credit crisis – yields have moved lower.

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 as we go through 2023. While bond returns were negatively impacted by rising interest rates last year, future potential returns for bonds have become more attractive with the higher yields available. As has happened in previous Fed rate hike cycles, longer rates have started to come down before the Fed has stopped raising the federal funds rate.

Bonds struggled in 2022 as there was a repricing of interest rates across the yield curve and across bond sectors as inflation spiked and the Fed began its aggressive 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. Although 2022 was a struggle for bonds, the fourth quarter brought returns and 2023 has started out on a solid note across fixed income sectors.

Economic Data and Outlook

Job market strength continued in December. Non-farm payrolls increased by 223,000 in December when expectations called for only 205,000. The unemployment rate dropped unexpectedly to 3.5% when a reading of 3.7% was anticipated. This unemployment rate matches a post-pandemic low. Wages climbed as well by 4.6% on an annual basis, but this was not as much as anticipated with expectations calling for a 5.0% increase. Fed action is expected to raise unemployment, but Fed rate increases so far have not resulted in significant weakness in the job market. With the pace of wage growth slowing, that is likely being viewed positively by Fed officials.

Typically, the unemployment rate starts to rise heading into a recession, but there continues to be millions more job openings than job seekers – a key driver of wage increases. Although job openings had been moving lower, the JOLTS reading on job openings surprised to the upside in December. Over 11 million job openings were reported in December, when only 10.3 million openings were expected. Technology companies have made a lot of noise lately with their layoffs, but that trend does not seem to be spreading more broadly into other areas of the economy at this point. Ultimately, the job market is important to track with about 70% of U.S. economic activity driven by consumer spending, which remained resilient during most of 2022.

Housing continues to be impacted by higher mortgage rates and data reflected this general slowing theme. Building permits, considered a leading indicator for housing, declined in December. The reading showed an annualized pace of 1.33 million permits, but that was below expectations of a 1.365 million rate and the prior month of 1.351 million. Housing starts and existing home sales surpassed estimates, but both came in below November's levels.

New home sales surpassed estimates and improved from a November number that was revised sharply lower. Recently, we have seen some monthly drops in home prices for the first time in years, but on an annual basis values are still higher. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices rose by 6.77% in November, but this continues the trend of slower price gains over the last several months.

Clearly, the rise in mortgage rates overall in 2022 and still high home prices have taken some steam out of the housing market. However, longer end interest rates have been coming down in recent months and home price increases have slowed dramatically, so hopefully those pressures will start to subside in 2023. The housing

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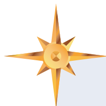

market has been a source of strength in the economy and has historically been a good leading indicator as well. Higher mortgage rates, high home prices, and an aggressive Fed slowing general economic activity are all headwinds to housing and home activity will likely slow further as the broader economy likely slows down in 2023.

December marked the second month in a row that the ISM Manufacturing Index was below 50. At 48.4, the reading was a slight miss from estimates at 48.5 and lower than the November mark of 49.0. This lower trend continued in January as this index dropped to 47.4 compared to expectations of 48.0. The new orders component of this reading continued to move lower to 42.5 in January compared to the prior month of 45.1.

The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, dropped sharply and surprisingly in December. Expectations were calling for a reading of 55.0, but instead, the number dropped to 49.6. This was such a sharp drop that we will monitor the next month's reading closely to see if the December number was "noisy" for some reason. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction.

Manufacturing had been moving rather steadily to contraction territory, but services had shown relative strength over the last several months until this dramatic drop in activity in December. In our opinion, one month is not a trend, so we want to see how the service data comes in over the next few months as well.

Retail sales (ex. auto and gas) showed weakness in December, dropping by – 0.7% for the month when no change was expected. The preliminary University of Michigan Sentiment reading for January was better than expected and improved from December – not too surprising with stock market strength in Q4 and January and ongoing moderation in inflation.

The Conference Board's Leading Index continued to decline and fell by – 1.0% in December, when the decline was expected to be – 0.7%. The first reading of Q4 2022 GDP came in on a positive note at a 2.9% annualized pace when a 2.6% rate was expected. The economy weakened in the first half of 2022, but it rebounded solidly in the second half of the year. We believe that economic momentum will continue into the first part of 2023; however, we acknowledge the risk of a mild recession has increased and believe it is about as likely as a soft landing.

The strength in the labor market and improvements on the inflation front balance out the negative of the 3-month T-Bill and the 10-year U.S. Treasury rate inversion that occurred in late October – historically an indicator that the economy might be headed toward a recession. This inversion is now coupled with ISM readings below 50 and leading economic indicators that continue to weaken.

We believe that we are in the later innings of this Fed rate hike cycle and the Fed slowed the pace of rate increases once again at the February 1 meeting to a 25-basis point hike. The Fed continues to tell the market to expect rates to stay higher for longer, but following the February 1 meeting, the tone of Chairman Powell seemed less hawkish.

Inflation remains elevated, but progress on the inflation front has been made. The headline Consumer Price Index dropped to 6.5% in December on an annual basis from 7.1% in November, well off its high of 9.1% last summer. The core CPI reading dropped from 6.0% to 5.7%. The headline Producer Price Index dropped to 6.2% in December, below estimates of 6.8% and the revised lower reading of 7.3% in November. The Fed has seen enough improvement occurring on the inflation front to at least throttle down the pace of rate hikes. The course of Fed action in 2023 will still be of critical importance to the market, but the first meeting in 2023 with a 25-basis point increase (and a less hawkish Chairman Powell) was at least initially well received by the market.

The Fed's aggressive rate hikes clearly impacted capital markets and the economy last year. Markets reset valuations based on higher interest rates and lower corporate earnings expectations in this rate-tightening cycle. However, we believe we are in the late innings of this rate hike cycle and we expect the Fed will likely raise rates one more time in March before pausing.

Although economic growth picked up in the second half of 2022, we expect growth to continue early in the new year and slow later in 2023. We also believe the odds of a mild recession are about 50/50. However, the job market has remained resilient and is a critical component of our overall economy, leading us to the conclusion that any economic slowdown would be modest.

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 and we believe those last rate hikes are coming soon. 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.

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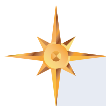

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

Our tactical top-down 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.

Clark Capital's Bottom-Up, Fundamental Strategies

In our bottom-up portfolios, 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.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Dec	48.5	48.4	49.0	—
ISM Services Index	Dec	55.0	49.6	56.5	55.5
Change in Nonfarm Payrolls	Dec	205k	223k	263k	256k
Unemployment Rate	Dec	3.7%	3.5%	3.7%	3.6%
Average Hourly Earnings YoY	Dec	5.0%	4.6%	5.1%	4.8%
JOLTS Job Openings	Dec	10300k	11012k	10458k	10440k
PPI Final Demand MoM	Dec	-0.1%	-0.5%	0.3%	0.2%
PPI Final Demand YoY	Dec	6.8%	6.2%	7.4%	7.3%
PPI Ex Food and Energy MoM	Dec	0.1%	0.1%	0.4%	0.2%
PPI Ex Food and Energy YoY	Dec	5.6%	5.5%	6.2%	—
CPI MoM	Dec	-0.1%	-0.1%	0.1%	—
CPI YoY	Dec	6.5%	6.5%	7.1%	—
CPI Ex Food and Energy MoM	Dec	0.3%	0.3%	0.2%	—
CPI Ex Food and Energy YoY	Dec	5.7%	5.7%	6.0%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	Dec	0.0%	-0.7%	-0.2%	-0.5%
Industrial Production MoM	Dec	-0.1%	-0.7%	-0.2%	-0.6%
Building Permits	Dec	1365k	1330k	1342k	1351k
Housing Starts	Dec	1358k	1382k	1427k	1401k
New Home Sales	Dec	612k	616k	640k	602k
Existing Home Sales	Nov	4.20m	4.09m	4.43m	—
Leading Index	Dec	-0.7%	-1.0%	-1.0%	-0.8%
Durable Goods Orders	Dec P	2.5%	5.6%	-2.1%	-1.7%
GDP Annualized QoQ	4Q A	2.5%	5.6%	-2.1%	-1.7%
U. of Mich. Sentiment	Jan P	60.7	64.6	59.7	—
Personal Income	Dec	0.2%	0.2%	0.4%	0.3%
Personal Spending	Dec	-0.2%	-0.2%	0.1%	-0.1%
S&P CoreLogic CS 20-City YoY NSA	Nov	6.80%	6.77%	8.64%	—

Source: Bloomberg: P=Preliminary, A=Advanced Reading

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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.

JOLTS is a monthly report by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor counting job vacancies and separations, including the number of workers voluntarily quitting employment.

30-year Treasury is a debt obligation backed by the U.S. Treasury that matures after 30 years. Thirty-year treasury bonds are among the world's most widely followed fixed-income assets. Thirty-year treasury yields fluctuate based upon market demand and the general outlook for the economy.

The 3-Month Treasury bill (T-Bill) is a short-term U.S. government security with a constant maturity period of 3 months.

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 Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

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.

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.

In the United States, the Core Personal Consumption Expenditure Price (CPI) Index provides a measure of the prices paid by people for domestic purchases of goods and services, excluding the prices of food and energy.

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.

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