Clark Capital Management Group

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Clark Capital's Bottom-Up, Fundamental Strategies

The collapse of Silicon Valley Bank likely serves as a watershed moment for both economic expectations and the Fed's policy reaction to it moving forward. The banking crisis was the first tangible evidence that the Fed's aggressive rate hike cycle is beginning to have a deleterious impact on pockets of the economy. Deposits continued to leave banks and move into money market and short duration funds to capitalize on the added yield that these products offer. This also led to a flight to quality where the 10-year Treasury yield declined from 3.92% at the start the month to 3.47% at the end of March.

The main priority in our fixed income portfolios last month was a focus on credit analysis. In particular, we were focused on ensuring that any banks held in the portfolios were not at risk of failing. Across our equity portfolios, we continue to focus on dividend growers and the quality factors that we believe can contribute to outperformance in the ongoing earnings downgrade cycle. Those factors include return on equity, profitability, earnings growth, and free cash flow.

Below are strategy updates from March:

All Cap Core U.S. Equity

- Navigator® All Cap is positioned with approximately 68.2% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, we added a computer software company, an advertising company, and a commercial foodservice equipment company.
- We exited a financial services company, a media company, and a technology company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 20.5%.

High Dividend Equity

- Navigator® High Dividend Equity is positioned with approximately 98.8% in developed countries with the remainder in cash. The United States is the largest country weight at 90.7%, followed by Britain at 3.1% and Germany at 1.5%.
- In March, we sold our positions in a multinational pharmaceutical and biotechnology company, a commercial bank and wealth management services provider, and a financial services company.
- We initiated positions in a paint and coating manufacturing company, a European industrial manufacturing company, and a petroleum company.

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- Financials represent the largest sector weight at 16.9% versus the benchmark weight of 20.1%. The next three largest portfolio weights are Healthcare, Industrials, and Information Technology at 14.3%, 12.9%, and 11.8%, respectively.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 18.3% in emerging markets with the balance in developed economies and cash.
- Britain, Canada, France, Japan and Switzerland are the strategy's largest country weights, all ranging between 8% and 12%.
- During the month the strategy added a Canadian multinational information technology consulting and systems integration company as well as increased the weights of multiple portfolio holdings.
- We exited a multinational fashion holding company, an IT firm, an Australian bank, and a Chinese multinational technology and entertainment conglomerate.
- ADR's exposure to China is now around 6.4%, which is below its 8.1% weighting in the All-Country World less US benchmark.
- Communication Services, Consumer Discretionary, Financials, Industrials and Information Technology are our largest sector weights.

Taxable Fixed Income

- The main priority during the month was to ensure that any banks held in the portfolio were solid credits in our view and not at risk of failing.
- This deep dive into the sector led to a few names being sold and the proceeds reinvested in names that we believe have stronger fundamentals.
- The other focus was to take advantage of the underperformance in the shorter end of the credit curve and add to the positions around the 5-year area.

Tax-Free Fixed Income

- We continued to consolidate positions and increase block size where possible for an enhanced liquidity profile and neutralized duration risk.
- Since late December, we have been repositioning portfolio exposures to be more in-line with benchmark weightings and will remain on this path.
- We began trimming exposures in the 1 to 3-year maturity buckets, and continue to opportunistically hold limited excess cash, as the municipal bond market enters a period of seasonal weakness.

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Clark Capital's Top-Down, Quantitative Strategies

It was an eventful first quarter with additional Fed rate hikes, inflation still higher than desirable, questions about the economy, and a banking crisis that threatened to roil the markets. Through it all, the markets have been very resilient. Unlike last year, both stocks and bonds are up on the year. During the first quarter, U.S. and broad international stock indices performed in line with each other. Growth outperformed value by over 1300 basis points, and Treasuries, high yield, investment grade corporate, and municipal bonds all posted gains.

Our tactical strategies, including Fixed Income Total Return and Global Tactical, were positioned in cash equivalents until mid-March. Our credit-based risk management models shifted toward favoring U.S. Treasuries, which regained relative strength as banking system stability came into question. Those strategies remained positioned defensively in U.S. Treasuries as the quarter ended.

Below are strategy updates from March:

Alternative

- The mutual fund core of the portfolio saw positive performance by hedged equity and long-short real estate, but managed futures funds lost ground after a very strong 2022.
- In February and March, we have slightly reduced equities and purchased commodities, natural resources, and a closed-end muni ETF.

Fixed Income Total Return

- Coming into the year, we owned high yield, but our models turned cautious in mid-February as interest rates moved higher. Between late February and mid-March, we were positioned maximally defensive in cash.
- By mid-March, relative strength in Treasuries moved us into U.S. Treasuries, where our models remain.
- Since exiting high yield, we have seen very modest spread widening, and noticeably poorer liquidity after the Silicon Valley Bank failure.

Global Tactical

- Driven by our credit-based models, our portfolios were bullish on equities to begin the year, but rising interest rates prompted us to become defensive and move from equities to cash by February 21st.
- We remained in cash until mid-March, when we shifted toward U.S. Treasuries, which regained relative strength as banking system stability came into question.

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- We expect U.S. Treasuries to consolidate after their recent gains, but we believe we are well-positioned if earnings or economic growth take a tumble.

Sector Opportunity

- The portfolio devotes over 50% of the portfolio to the Technology sector, with another 28% in the S&P 500 Index itself.
- Homebuilders and Aerospace round out the portfolio, and these areas have at least had neutral performance recently.
- We are avoiding Energy, Financials, Utilities, Consumer Staples, and Consumer Discretionary. Defensive stocks are rising in our ranks, but very modestly so far.

Style Opportunity

- The portfolio favored mid-cap and small-cap value during January and February, and enjoyed solid gains. However, the sudden Silicon Valley Bank failure quickly reversed relative trends, and mid-cap and small-cap value were punished as financials came under stress.
- As a result, our portfolio shifted emphasis to large-cap growth, but with few ETFs we believe are able to top the S&P 500, over half of the portfolio is indexed to the S&P 500 as we wait for a notable trend to emerge.

U.S. Strategic Beta

- The portfolio continues to overweight mid-caps, small-caps, and large-cap growth.
- We are underweight the momentum and low volatility factors, along with large-cap value, buybacks, and high dividend stocks.
- We expect to increase defensiveness if the seasonally strong April period provides an opportunity.

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