May 2023

Monthly Moves

Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Large-cap growth stocks continued their outperformance in May rising nominally by 4.5% and 8% ahead of large-cap value and small-caps to widen their year-to-date relative performance gains. Concerns of a slowing U.S. economy and pricing pressure were evident in cyclical themes like the Energy sector.

The Q1 earnings season is mostly complete, with results outpacing pre-season forecasts. According to FactSet, the blended earnings per share (EPS) growth rate for S&P 500 constituents stands at -2.1%, well ahead of the -6.7% expected at the end of the quarter. The proportion of companies posting earnings and revenue beats has been above both the one and five-year averages, with the magnitude of earnings beats also outstripping the latest trends.

The Federal Reserve hiked interest rates once again by 25 basis points during the first week of the month. At the time, markets expected this to be the last hike during the cycle as the Fed was expected to pause. However, this sentiment shifted as the month progressed and inflation data remained elevated and employment data remained strong. The market is now expecting at least one more hike in the fed funds rate and the expected cuts for the year have been priced out.

Below are strategy updates from May:

All Cap Core U.S. Equity

- The portfolio is positioned with approximately 69.4% in large-cap stocks and the remainder in mid-cap, small-cap, and cash.
- During the month, we added a beauty retail chain and a multinational technology company. We exited our positions in a multinational home improvement retail corporation and an American multinational semiconductor company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 23.0%.

High Dividend Equity

- The Navigator® High Dividend Equity strategy is positioned with approximately 98.5% in developed countries with the remainder in cash. The United States is the largest country weight at 90.1%, followed by Britain at 3.2% and Ireland at 2.2%.
- Large-cap represents 89.3% of the portfolio, with 8.3% in mid-cap, 0.9% in small-cap, and the remainder in cash.
- Financials represent the largest sector weight at 17.9%, which is below the benchmark at 20.3%. The next three largest portfolio weights are Healthcare, Information Technology, and Industrials at 16.0%, 13.2%, and 10.8%, respectively.
- During the month, we sold an oil producer and a freight-hauling railroad company. We increased our positions in a multinational energy company, a healthcare company for wholesale medical supplies and

equipment, pharmaceutical distribution, and healthcare technology solutions, a financial services company, and an American-based petroleum company.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 11.9% in emerging markets with the balance in developed economies and cash. Britain, Canada, France, and Japan are the strategy's largest country weights, all ranging between 8% and 13%.
- During the month, we added a Dutch semiconductor designer and manufacturer that we believe is benefitting from improving business fundamentals. We exited our positions in a semiconductor provider based in in Taiwan and a provider of optical packaging and precision optical, electro-mechanical and electronic manufacturing services to the original equipment manufacturers (OEMs).
- ADR's exposure to China is now around 5%, which is below the 7% weighting in the All-Country World less U.S. benchmark.

Taxable Fixed Income

- Within the portfolio, the focus continued to be upgrading the quality of our holdings. This included adding a technology company and pharmaceutical company when the companies came to the market with new bonds.
- The move in Treasuries during the month resulted in some dislocations in spread levels in the corporate bond market, which we believe the portfolio was able to take advantage of.
- During the month, bonds maturing in November 2027 were sold and bonds maturing in May 2028 were bought. By adding only 6 months in maturity, the portfolio increased current income by 54 basis points and the yield by 17 basis points.
- Once again, another name in the portfolio was upgraded from high yield to investment grade.

Tax-Free Fixed Income

- Municipal bond flows, as reported by Investment Company Institute (ICI), were negative for the month as investors withdrew over $1.6 billion from the asset class during April (as of 05/24/2023).
- During the spring, we started investing excess cash, taking advantage of seasonal market weakness, not only to benefit from higher rates, but also to negotiate better coupons on new issues, and thereby to increase our current yield.
- Since 2019, the coupon has been an integral part of return in munis, so we continue to be vigilant about maximizing income overall, and we believe our persistence has been successful.
- Recent sell-side reports predict a surge in negative net issuance (where demand exceeds supply) through August. If this view is correct, we believe munis could perform well throughout the summer, benefiting

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more from buying recent weakness. In addition, we believe recent oversold conditions and healthy valuations have munis positioned attractively going into the summer months.

Clark Capital's Top-Down, Quantitative Strategies

The S&P 500 has been trading within a range of 3850 – 4200 and has been resilient despite the potential risks and fallout from the regional bank turmoil and debt ceiling negotiations. Now that the debt ceiling drama is in the rearview mirror, we believe the Index is positioned to breakout to the upside.

Our credit-based risk management models have maintained their risk-on bias, which has kept our tactical models overweight in equity and credit. The strength to date in the markets has been focused in large-cap growth and Technology, while defensive and value oriented sectors have lagged. As a result, the Style Opportunity portfolio is overweight large-cap growth with the remainder of the portfolio indexed to the S&P 500 itself.

Below are strategy updates from May:

Alternative

- Within the mutual fund core, managed futures have improved their performance while merger arbitrage has suffered amidst bank lending stressors.
- Recently, we have added emerging markets local currency and added to fixed income, while increasing cash.
- We have been reducing commodities and commodity-related equity.

Fixed Income Total Return

- The portfolio remains 100% invested in high yield, as it has since mid-April.
- Amidst banking failures and continued rate volatility, credit markets and credit spreads have been very stable, providing a positive signal for risk assets that have been rewarded.
- Currently, cash would be our defensive vehicle of choice, but our risk-on stance is stable and unlikely to change very soon.

Global Tactical

- Our credit-based models maintain a risk-on stance as credit markets and spreads have been remarkably stable amidst fairly turbulent market headlines.
- The equity portfolio has enjoyed gains in U.S. large-caps and broad international, while domestic and international small-caps have trailed by a fairly large margin.
- If the market rally wishes to continue, we believe greater breadth and participation will be required.

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Sector Opportunity

- The narrow list of market leaders is reflected in the Sector portfolio, as it devotes 45% to Technology, with Telecom Services and Homebuilders as the only other holdings.
- As a result, 33% of the portfolio is indexed to the S&P 500, as most sectors have been unable to keep pace with the benchmark.

Style Opportunity

- The portfolio remains overweight in large-cap growth, with the remainder of the portfolio indexed to the S&P 500.
- Markets gains have been very concentrated in large-cap Technology, with Communications Services and Consumer Discretionary also modestly contributing.
- The larger effect has been persistently poor market breadth, causing mid-caps and small-caps to fade to new relative lows and to rank poorly in our matrix.

U.S. Strategic Beta

- After substantial outperformance by large-cap growth during the first five months of the year, we recently reduced large-cap growth, neutralizing our growth vs. value bets.
- We also added minimum volatility and maintained a slight overweight to mid-cap and small-caps, which have persistently lagged. However, we believe there is a benefit from a large valuation gap in their favor, which the market continues to not recognize.

Monthly Moves

Charting Our Strategies

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