

Monthly Moves

Charting Our Strategies

Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

The markets powered ahead in June, ignoring persistent concerns about inflation with 14 consecutive months of declining Leading Economic Indicators and an inverted yield curve. Since the October 12th, 2022 low, the broad Russell 3000 Index has advanced 24.5%. The major indices have also now put in three consecutive quarters of gains.

Across the bottom-up equity strategies, we continue to balance portfolio holdings between dominant large-cap growth companies and those anti-fragile large, small, and mid-cap companies that we believe continue to see strong business momentum.

After a strong performance in 2022, low beta dividend stocks underperformed in the first half, posting their worst performance versus non-dividend paying companies since 2009, according to Ned Davis Research.

While the Federal Reserve paused and didn't hike interest rates for the first time this year, they also continued to emphasize that they are data dependent and concerned about inflation. This rhetoric drove interest rates higher on the month and increased the likelihood of further rate increase later this year. The market is now pricing in a greater than 80% chance that the Fed begins to hike again in July.

Within the bottom-up fixed income portfolios, the focus continued to be on improving liquidity and credit quality while also increasing the yield on the portfolio. Dislocations in the market have continued, especially with the move in interest rates and the further inversion of the Treasury yield curve.

Below are strategy updates from June:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 69.2% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, we added an investment banking company, an aerospace company, and an energy company. We exited an insurance company and a hydrocarbon exploration company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 23.1%.

High Dividend Equity

- The Navigator® High Dividend Equity has 92.1% positioned in large-cap stocks, 5.9% in mid-cap stocks, 0.9% in small-cap stocks, and the remainder in cash.
- Financials is the largest sector weight at 17.9%, which is underweight the benchmark at 20.1%.
- The next three largest portfolio weights are Healthcare, Information Technology, and Industrials at 15.5%, 13.1%, and 12.5%, respectively.
- During the month of June, we sold our position in an American technology and specialty materials company. We started a new position in a rail transportation and real estate company.

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- On a relative basis, our positioning in Consumer Staples and Healthcare helped relative performance while our positioning in Energy and Communication Services lagged.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 13.6% in emerging markets with the balance in developed economies and cash. Britain, France, Japan, and Switzerland are the strategy's largest country weights, all ranging between 8% and 13%.
- During the month, to benefit from improving business fundamentals, we added an American-Israeli software company, a Chinese internet technology company, and a Switzerland-based luxury goods holding company. We exited a German telecommunications company and an American-owned Canadian manufacturer of activewear.
- ADR's exposure to China is now ~7% and below its ~7.5% weighting in the All-Country World less US benchmark.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology are our largest sector weights.

Taxable Fixed Income

- Within the portfolio, the focus continued to be on improving the liquidity and credit quality while also increasing the yield on the portfolio. There continued to be dislocations in the market, especially with the move in interest rates and the further inversion of the yield curve.
- Two holdings in the Financials sector were areas where the portfolio was able to increase yield, while keeping duration and risk neutral.
- The portfolio also sold a few positions where we believed the yield/total return profile was no longer attractive.
- The portfolio will continue to look for trades like this where the yield is increased, while also seeking to improve credit quality, liquidity and/or spending fewer dollars.

Tax-Free Fixed Income

- Flows, as reported by Investment Company Institute (ICI), turned positive for the month with investors depositing over \$840 million into asset class during June (as of 06/21/2023). Trading flows showed a modest improvement over the prior month, with solid customer buying across the curve- 60% or more of all trades being customer buys (Bloomberg data).
- While supply constraints have made structure negotiations more intensive, we continue to try to maximize our coupon income and search for opportunities for larger coupons in our index-related duration buckets.
- We did participate, in moderation, in the FDIC muni portfolio liquidation sale. We believe it creates a nice barbell to our full coupon positions, as most of the auctioned bonds were longer low coupon high grades. Bonds originally sold at par or slight premiums could be had between 90 to 95 cents on the dollar at yields approaching 100% of the Treasury 10-year.

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Clark Capital's Top-Down, Quantitative Strategies

Strong gains during the month of June capped a historic rally with one of the best first halves for the market on record. During the first half of the year, the S&P 500 jumped 16.9%, the best since 2019, second best this century, and 12th-best since 1926. The tech-heavy Nasdaq Composite soared 32.3%, its strongest start since 1983 and third best since data began in 1972.

Technology and Communications sectors led gains while defensive sectors such as Utilities, Staples, and Real Estate lagged. Historically, momentum begets more momentum. When the S&P 500 rose at least 10% over the first six months, the index rose in the following six months 75% of the time by a median 9.7%.

Strong credit conditions, record amounts of cash sitting in money market funds, and declining inflation remain some of the underpinnings of this market. Our tactical portfolios remain fully invested in risk-on vehicles with allocations to high yield and global equity. The portfolios are overweight growth versus value.

Below are strategy updates from June:

Alternative

- We believe managed futures and options-based funds helped the portfolio's mutual fund core, while long-short commodity and alternative credit lagged.
- As the rally has become more extended, the portfolio has shifted its equity exposure into more beaten down real estate, and has added fixed income via emerging markets local currencies and a muni closed-end fund ETF at a historically high discount.

Fixed Income Total Return

- The models that drive the portfolio continue to favor high yield and persist in strongly favoring credit.
- Despite an inverted yield curve and pervasive recession fears, the economy has continued to deliver as the jobs market remains robust, and earnings expectations have turned around.
- Cash remains quite competitive, and would likely be our defensive vehicle of choice, but credit remains in the driver's seat.

Global Tactical

- The credit-based models that drive the strategy have maintained a bullish stance since mid-April, and as a result, the portfolio has been 100% invested in broad equities.
- U.S. markets, led by mega-cap Technology companies, have dominated; however, even U.S. small-caps are up 4% since we re-entered a risk-on stance.
- International equities have been flat since mid-April, but they continue to exhibit dramatically cheaper valuations.

Sector Opportunity

- The portfolio maintained an overweight to Technology through the

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quarter, while Consumer Discretionary and Homebuilders were also featured.

- Industrials and Transports were recently added, completing a strong cyclical bias.
- Not surprisingly, defense-oriented Staples, Utilities, and Healthcare are least favored, and we have actively avoided those areas.

Style Opportunity

- The portfolio favors large-cap growth and the NASDAQ 100 while the remainder of the portfolio is indexed to the S&P 500.
- Mega-cap stocks have powered a concentrated market higher. While market breadth did improve in June, large-cap growth's relative strength continues to be leadership.
- Mid-cap and small-cap growth are closest to rising into the portfolio, while mid-cap and small-cap value are least favored.

U.S. Strategic Beta

- The portfolio came into the quarter slightly favoring growth, and as the rally grew in scope, we neutralized the portfolio's growth vs. value weightings and added a small position in minimum volatility.
- Small-caps and mid-caps continue to be a modest overweight, as we believe their valuations are relatively compelling.
- Market breadth improved in June, and the rally has begun to expand beyond cyclical sectors.

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The Leading Economic Index provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term.

The Russell 3000 Index is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market.

The 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance.

The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed stock market indices in the United States.

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.

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