July 2023

Clark Capital MANAGEMENT GROUP

Monthly Moves

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Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Second quarter earnings have supported the market rally and broader market participation since May. The Dow Jones Industrial Average had its longest winning streak since 1987, moving higher for 13 consecutive days.

The S&P 500 Index's second quarter earnings projections were cut significantly ahead of the reporting season providing support for the market. So far, 83% of U.S. companies reporting have beaten earnings estimates. On a sector basis, much of the earnings strength has been in Consumer Discretionary and Technology, which have outperformed this year.

The Federal Reserve restarted the hiking cycle after pausing in June, hiking 0.25% at the July FOMC meeting. They remained data dependent on the pace and number of hikes moving forward. Treasury yields have crept higher into the top end of their recent range with the 10-year Treasury hovering around 4.0%.

During July, municipal bonds outperformed most fixed income indices, including the Bloomberg U.S. Aggregate Index and the U.S. Treasury Index. Looking ahead, August is typically seasonally positive for municipal bonds with reinvestment from July's called and matured bonds normally providing a strong demand tailwind.

Below are strategy updates from July:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 67.6% 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 a composite materials company and a multinational pharmaceutical company. We exited our position in a consumer goods packaging manufacturer.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 22.9%.

High Dividend Equity

- Large-cap companies represent 91.2% of the portfolio, 7.0% is in mid-cap, and the remainder is in cash.
- Financials represent the largest sector weight at 20.5%, which is below the benchmark weight 20.7%. The next three largest sector weights are Healthcare, Industrials, and Information Technology at 15.6%, 12.5%, and 11.0%, respectively.
- On a relative basis, our positioning in Consumer Discretionary and Consumer Staples helped relative performance while Financials and Energy underperformed.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 12.3% 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,

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we added a Chinese multinational technology and entertainment conglomerate to the portfolio. The three most recent exits were a Chinese internet company, a Canadian bank, and a Canadian freight railway company.

- The strategy's exposure to China is now ~6.1% and below its ~7.8% weighting in the All-Country World less U.S. benchmark.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology are our largest sector weights.

Taxable Fixed Income

- Within the portfolio, the focus was on taking advantage of moves in credit spreads to rotate out of companies that had outperformed the overall market and into names that had lagged, but reported solid earnings and had a positive outlook toward next year's earnings.
- During the month, we sold a multinational Technology company and two regional bank holdings. On the buy side, we added a Telecommunications company.
- The other theme in the portfolio was to move into bonds that mature in 2029-2031 as this portion of the yield curve has underperformed. These bonds are cheaper than longer bonds and do not sacrifice yield.

Tax-Free Fixed Income

- As an asset class, municipal bonds outperformed most fixed income indices, including the U.S. Aggregate Index and U.S. Treasury Index.
- Tax-exempt issuance for the month was steady compared to the prior month. Flow as reported by the Investment Company Institute (ICI), turned positive, with investors depositing over $540 million into the municipal bond asset class during July (as of 07/19/2023).
- During the spring, we started investing excess cash, taking advantage of seasonal market weakness, not only to benefit from higher rates, but to also negotiate better coupons.
- More recently, we've selectively added to credits in sectors that we believe have strong upgrade potential and away from those that we view as troubled credits with higher downgrade risk.

Clark Capital's Top-Down, Quantitative Strategies

The march higher for the market has been relentless with the S&P 500 hitting new bull market highs in July, albeit still about 5% below its all-time high. Second quarter GDP surprised to the upside, with the economy expanding at a 2.4% annualized growth rate. Recent data on the overall economy, and particularly the labor market, has eased fears over a hard landing. A resilient economy, strong labor market, declining inflation, and rising stocks… it sounds like Goldilocks!

Our tactical portfolios remain fully invested in risk-on vehicles and are allocated to high yield and global equity; in addition, they are overweight growth versus value. Credit has performed well even as Treasuries have declined. The benign credit environment has been supportive of risk assets. However, seasonality is now likely to provide a modest headwind as we enter the weakest seasonal period of the year.

Navigate Your Future. Enjoy the Journey.

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Alternative

- The portfolio has been reducing risk slowly as markets have advanced, selling growth stocks and establishing positions in short-term fixed income, gold, and silver miners.
- We expect to add to precious metals in the coming months, and eventually would like to re-enter equity positions after a potential correction.

Fixed Income Total Return

- High yield credit spreads have slowly and steadily contracted, hitting the their lowest levels since April 2022, indicating a robust demand for high yield corporates. That demand has been magnified by limited issuance.
- Our models continue to favor a risk-on position in high yield, which should continue for the foreseeable future.

Global Tactical

- Our credit-based models indicate a solid underlying economic backdrop that is driving 2023's equity rally.
- Our risk-on positions are backed by our model indications. We have moved to neutral with regard to international equity versus U.S. equity.

Sector Opportunity

- Favored sectors include Industrials, Discretionary, and Technology, but we have been reducing our Technology bias.
- We recently added regional banks to the portfolio, which represents our first foray into the value area in many months. Defensive sectors including Utilities, Healthcare, and Staples are least favored in our rankings.

Style Opportunity

- Our style and factor-driven models have been stable, favoring mega-cap growth names via the NASDAQ 100 and Russell Top 200 Growth.
- The S&P 500 itself continues to rank highly and is well represented in our models.
- Small-cap performance has improved since June, but the trend strength has not been impressive enough to drive them higher in our rankings.

U.S. Strategic Beta

- The portfolio had been overweight growth for much of 2023, but trades in early July shifted to a modest value bias, with a position in minimum volatility.
- Technical and seasonal indicators point towards a one to three month consolidation— a move that if it occurs, would present a buying opportunity for growth stocks.

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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 of an investment), credit, payment, 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).

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. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations. Looked at another way, the Treasury yield is the effective interest rate that the U.S. government pays to borrow money for different lengths of time

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 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 Dow Jones Industrial Average, is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period by a country or countries.

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.

The iShares Russell Top 200 Growth ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit growth characteristics.

The Bloomberg US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

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.

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