August 2023

Monthly Moves

Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Equity markets reversed course in August, posting small declines, as a U.S. debt downgrade by Fitch Investors brought to light how fiscal spending during and after the Pandemic has increased U.S. government interest expense as a percentage GDP to uncomfortable levels.

While the broad Russell 3000 only declined 2% for the month, the decline in small-cap stocks (those most susceptible to higher short-term rates) fell by nearly 8% by August 24th. S&P 500 earnings have more than likely troughed, with the second quarter marking the fourth consecutive quarter of declining profits. Consensus estimates continued to discount a potential U.S. recession as earnings estimates move higher over the next three years.

The equity portfolios continue to balance portfolio holdings between dominant large-cap growth companies and those anti-fragile companies which we believe will continue to see strong business momentum despite sticky services inflation.

The bottom-up fixed income portfolios focused on taking advantage of the move higher in yields and beginning to extend duration. The Taxable Fixed Income portfolio accomplished this by swapping out of 5-year bonds and moving into 10-year bonds (or by reinvesting maturities into 10 year bonds). The Tax-Free Fixed Income portfolio capitalized on seasonal weakness by adding outsized coupons of 6% or greater on new issues and adding to current yield.

Below are strategy updates from August:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 72.3% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- The portfolio continues to balance portfolio holdings between dominant large-cap growth companies and those anti-fragile companies which we believe continue to see strong business momentum despite sticky services inflation.
- During the month, to benefit from improving business fundamentals, the three most recent additions to the portfolio were a healthcare facilities operator, a motion and control technologies company, and a mobile telecommunications company. The most recent exits were a pharmaceutical company, an advertising company, and a farm supply retail chain.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 24.1%.

High Dividend Equity

- The United States is the largest country weight at 88.6%, followed by Britain at 3.4% and Ireland at 2.9%. Large cap represents 91.1% of the portfolio, 6.1% is mid cap, with the remainder is in cash.
- The Financial sector is the largest weight at 19.9%, which is slightly below the benchmark at 20.4%. The next three largest portfolio weights are Healthcare, Industrials, and Information Technology at 16.1%, 12.7%, and 11.3%, respectively.

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Monthly Moves

Charting Our Strategies

- On a relative basis, our positioning in Healthcare and Information Technology helped relative performance versus detractors Communication Services and Financials.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 13.6% in emerging markets with a balance in developed economies and cash. Britain, France, Japan, and Switzerland are the strategy's largest country weights, all ranging between 9% and 15%.
- During the month, to benefit from improving business fundamentals, we added a Japanese car maker to the portfolio. We exited our position in a Dutch multinational brewing company.
- ADR's exposure to China is now ~7.5% and is approximately in line with its 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 was to take advantage of the move higher in yields and begin to extend the duration of the portfolio slightly by adding bonds maturing in 7-10 years. This was accomplished by swapping out of 5-year bonds and moving into 10 year bonds (or by reinvesting maturities into 10-year bonds).
- The theme of moving into 2029-2031 maturity bonds, which began in July, continued as we added names to the portfolio in this maturity bucket.
- We believe this part of the yield curve continues to trade cheaply compared to the rest of the curve and exhibits the largest total return potential.

Tax-Free Fixed Income

- Flows, as reported by the Investment Company Institute (ICI), were negative for August. Through August 23, there were 4 weeks of negative outflows totaling $967 million. While the outflows are disconcerting, the surging popularity of SMAs are supplanting traditional fund investing, as retail seeks more bespoke options in the asset class.
- We used seasonal weakness to our advantage and secured outsized coupons of 6% or greater on new issues to bolster our defense and to add to our current yield profile.
- As coupon income is a large component to overall muni performance, we remain dialed in on maximizing current yield provided we do not have to sacrifice overall yield or credit quality.

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Monthly Moves

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Clark Capital's Top-Down, Quantitative Strategies

The broad equity markets began a short-term correction on July 31st, with most of the major equity indices declining modestly during the seasonally weak month of August. Yields backed up across the curve with the 10-year Treasury reaching a new cycle high in yield and the 2-year yield reaching 5.08%, its highest level in 7 years.

The tactical model allocations held steady during the month. High yield bonds continued to perform well, and credit spreads remained tame, as the economy continued to post stronger growth than the consensus expected.

The Fixed Income Total Return and Global Tactical portfolios remain risk-on and are fully invested in high yield bonds and global equity, respectively. The Style Opportunity portfolio continues to favor large-cap growth and has recently added a position in value-oriented buybacks.

Below are strategy updates from August:

Alternative

- Options-based, equity long-short, and market neutral income are strongest within the portfolio's liquid alternatives core, while managed futures have lagged after a strong 2022.
- Recently, the portfolio has added commodity equity, gold, silver, and precious metals miners, while reducing exposure to U.S. equity.

Fixed Income Total Return

- The strong economy and job market are being reflected in credit markets.
- High yield bonds continue to perform well and credit spreads remain tame and under control. As a result, our models are rock solid.
- We would expect to continue our risk-on stance over the intermediate term.

Global Tactical

- Our credit-based models continued to strongly favor risk-on, and thus the portfolio continued to own equity, as it has since mid-April.
- The portfolio now has a 60% U.S. and 40% international equity mix, which is roughly in line with its benchmark.

Sector Opportunity

- The portfolio reduced its position in Technology after it peaked in late July, but its rebound drove our models back to market weight.
- Energy, Homebuilders, Industrials, and Banks are major holdings—all cyclically biased.
- Defensive sectors including Staples, Utilities, Healthcare, and Real Estate are least favored in our rankings.

Style Opportunity

- The Style portfolio added buybacks to the portfolio; however, large-cap growth, via the NASDAQ 100 and S&P 500 growth remain our top style

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and factor weighting.

- Mid-cap and small-cap stocks rank lowest in our matrix and are least favored.

U.S. Strategic Beta

- After favoring growth for much of the year, the portfolio is now neutral with regard to value vs. growth.
- The portfolio continues to be modestly overweight mid-cap and small-cap stocks, primarily because they maintain a large valuation advantage.

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Monthly Moves

Charting Our Strategies

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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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