

Monthly Moves

Charting Our Strategies

Economic Gauges



Economy



Monetary Policy



Valuations



Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Despite strong economic growth, fears surrounding higher rates for longer, geopolitical events and a ballooning federal deficit plagued the market. In October, the S&P 500 posted its third month of negative returns, its longest stretch since March 2020. The Federal Reserve did not meet during October, but they continued their higher for longer rhetoric in speeches throughout the month.

This, combined with inflation staying flat to only slightly lower (CPI was flat at 3.7% while PCE ticked lower to 3.7% as well), drove interest rates higher on the month. The 10-year Treasury note yield closed the month at 4.93% after briefly trading above 5% during the month.

Within fixed income, we continued to add shorter maturity issues that were yielding greater than 6.25% while also adding what we believe are higher quality 10-year bonds. This barbell approach should help to reduce portfolio volatility and overall interest rate risk, while still maintaining a high overall yield with appreciation potential should interest rates come in.

Below are strategy updates from October:

All Cap Core U.S. Equity

- During the month, to benefit from improving business fundamentals, the three most recent additions to the portfolio were a multinational food, snack, and beverage corporation, a multinational pharmaceutical company, and a telecommunications conglomerate.
- The three most recent exits were a multinational confectionery, food, holding, beverage and snack food company, an operator of health care facilities, and a food and beverage ingredient provider.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 25.0%.

High Dividend Equity

- Large-cap stocks represent 90.6% of the portfolio, mid-cap is 6.6%, small-cap is 0.9%, and the remainder of the portfolio is in cash.
- Financials represent the largest sector weight at 20.1% and slightly below the benchmark at 20.8%. The next three largest portfolio weights are Healthcare, Industrials, and Information Technology at 15.1%, 13.7%, and 11.3%, respectively.
- Trading involved starting new positions in a uniform and safety supply company, an aerospace and defense company, and a telecommunications company. Sales included an environmental and applied solutions company and a farm supply retail company due to declining business momentum amidst a weakening consumer.
- On a relative basis, our positioning in Information Technology and Healthcare helped relative performance versus Industrials and Energy, which were detractors.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



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International Equity ADR

- Britain, France, Japan, and Switzerland are the strategy's largest country weights, all ranging between 7% and 14%.
- During the month, to benefit from improving business fundamentals, the two most recent additions to the portfolio were a global underwriting company and a Japanese agricultural machinery company.
- The three most recent exits were an Israel-based global provider of surgical medical treatment solutions, a global bank based in Singapore, and a semiconductor manufacturing corporation.
- ADR's exposure to China is now ~7.4% and is slightly below 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

- The portfolio continued to add shorter maturity issues that were yielding greater than 6.25% while also adding what we believe are higher quality 10-year bonds. This trade paired the low interest rate risk on the higher yielding short bonds with lower priced, higher quality long bonds.
- We believe this barbell approach should help to reduce the volatility and overall interest rate risk on the portfolio, while still maintaining the higher overall yield.
- The strong credit fundamentals also continued during the month as one of our securities upgraded to Investment Grade earlier than expected. The portfolio had been positioned to take advantage of the upgrade and held an overweight position in the company. Due to the unexpected timing of the upgrade, we believe these bonds should continue to outperform in the near term and additional bonds were added to the portfolio to take advantage of this.

Tax-Free Fixed Income

- As an asset class, municipal bonds outperformed most fixed-income indices, including the U.S. Aggregate Index and the U.S. Treasury Index.
- Year-to-date muni issuance continues to trail 2022 YTD issuance by approximately 10-15%. Market volatility, higher rates, and Fed uncertainty have made underwriters cautious about tapping the primary markets in 2023.
- We remain focused on maximizing current yield, provided that overall yield or credit quality is not sacrificed.
- The 3-month period from November through January has traditionally been a seasonally strong period for the municipal market. Muni yields, both in absolute terms and taxable equivalent yields (TEY), are starting to reach attractive levels, with TEY yields reaching multi-year peaks in some cases.
- This attractive valuation backdrop, combined with favorable seasonal factors heading into year-end, could translate into positive relative performance in the near term for the municipal bond asset class.

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Clark Capital's Top-Down, Quantitative Strategies

The markets struggled to gain traction over the past several months, weighed down by higher interest rates, geopolitical crisis, and seasonal headwinds. The best relative performance came from low volatility and minimum volatility defensive areas of the market. The worst relative performance came from high beta and small-caps.

The silver lining to the weakness over the past couple months was an improvement in market sentiment, a deep oversold condition that may act as a springboard for year-end gains. Additionally, the calendar has now shifted to the strongest seasonal period for the markets. Our tactical strategies entered the month of November with a risk-off bias, having turned defensive in early October. However, any meaningful strength and decline in yields could result in a pivot back to a risk-on bias.

Below are strategy updates from October:

Alternative

- Recently, the portfolio has been adding to gold, silver, and precious metals miners, which have been faring well despite dollar strength.
- Infrastructure and agribusiness have been other additions, while the tactical fixed income portion of the portfolio favors low duration.
- Long/short real estate, market neutral income, and managed futures have led the mutual fund core, while long/short equity and options-based holdings have lagged.

Fixed Income Total Return

- On October 4th the portfolio moved to favoring cash, as rising rates caused our models to favor defensive cash for capital preservation.
- Since our move to cash, cash equivalents have modestly outperformed high yield, with Treasuries faring the worst as the 10-year yield approached the 5% level.
- While high yield spreads have modestly risen, there are few signs of credit stresses. Thus, our position in cash could reverse back into high yield if an oversold seasonal rally comes to fruition.

Global Tactical

- The portfolio shifted to favor cash equivalents over equities and Treasuries on October 4th.
- Since then, cash equivalents have modestly outperformed the S&P 500 and high yield bonds, with Treasuries still lagging.
- While credit spreads have been very modestly limited, broader evidence of credit stresses are not evident. As a result, our defensive cash position could be short-lived if market sentiment turns around.

Sector Opportunity

- Energy, Technology, and Telecommunications are the only sectors that our rankings place above the S&P 500 in our relative strength research.

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- Software, Energy, and the NASDAQ 100 have been holdings for many months, while recent additions included Aerospace & Defense, Healthcare Providers, and Telecommunications.
- Consumer Discretionary and internet stocks were recent sales. We maintain a position in the S&P 500 Index, as a fairly small universe of ETFs is able to consistently outrank the benchmark.

Style Opportunity

- The portfolio continues to favor large-cap growth, but its emphasis has lessened as the relative relationship between value vs. growth stocks has largely neutralized over the past four to five months.
- As a result, we have sold the NASDAQ 100 and reduced buybacks, while adding quality and the S&P 500.
- The lack of relative trend leadership naturally has made the portfolio look more like its benchmark. If the market rallies during the fourth quarter and in January, it won't take too much to drive the portfolio into mid-caps, small-caps, and value stocks.

U.S. Strategic Beta

- The portfolio continues to own a modest defensive position in minimum volatility.
- After favoring growth during the first half of the year, we now favor value and growth equally.
- Small-caps and mid-caps remain a modest overweight, and while they have struggled, on a long-term basis, we believe valuations are very attractive.

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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.

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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.

A consumer price index (CPI) is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

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.

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