December 2023

Clark Capital MANAGEMENT GROUP

Monthly Moves

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Clark Capital's Bottom-Up, Fundamental Strategies

After a long period of underperformance coinciding with Fed tightening and leading economic indicator (LEI) declines, small-cap U.S. equities staged a powerful move in both November and December. December's 12.2% gain for the Russell 2000 Small Cap Index brought the quarterly gain to 14%, nearly matching the advance of the Russell 1000 Large Cap Index. From the October market low, the three major indices closed 2023 posting a 9-week winning streak, which ignited a leadership rotation.

The Federal Reserve remained on pause as they kept interest rates unchanged for a third consecutive time. However, the press conference was much more dovish than the markets had anticipated as Powell signaled a pivot towards rate cuts in the near future. This change in narrative was driven by the continued slowing in inflation. The Consumer Price Index (CPI) came in at 3.1% and core Personal Consumption Expenditures (PCE), the Fed's preferred measure, came in at 3.2%. In December, U.S. Treasuries rallied amid growing expectations for rate cuts next year, but the impact on the slope of the yield curve was minimal.

Below are strategy updates from December:

Navigator® All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 74.4% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, the most recent additions to the portfolio were a tax preparation services company and an American multinational mass media company. Recent exits during the quarter included a multinational digital communications technology conglomerate and a U.S.-based insurance company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 24.4%.

High Dividend Equity

- Navigator® High Dividend Equity has approximately 98.7% in developed countries with the remainder in cash. The United States is the largest country weight at 90.3%, followed by Britain at 3.1% and Ireland at 2.6%. The portfolio consists of 91.2% large-cap, 7.6% in mid-cap, and the remainder in cash.
- Financials are the largest sector weight at 22.1% versus the benchmark at 21.8%. The next three largest portfolio weights are Industrials, Healthcare, and Information Technology at 14.5%, 13.2%, and 11.0%, respectively.
- On a relative basis, our positioning in Energy and Industrials contributed to performance while our positioning in Healthcare and Communication Services detracted from performance.
- Portfolio changes included the tax loss sale of a pharmaceutical corporation, and the initial position in a regional bank with emphasis in consumer and small business banking, commercial banking, and wealth management services.

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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Navigator® International Equity ADR

- Navigator® International Equity/ADR is positioned with 14.7% in emerging markets with the balance in developed economies and cash. Britain, Canada, China, Ireland, and Japan are the strategy's largest country weights, all ranging between 6% and 16%.
- During the month, to benefit from improving business fundamentals, the most recent addition to the portfolio was a financial services and digital payments company based in São Paulo, Brazil. The most recent exits were a Dutch-Belgian multinational retail and wholesale holding company and a Japanese multinational conglomerate corporation.
- ADR's exposure to China is now ~6.8% and is slightly above its weighting in the All-Country World less US benchmark.
- Communication Services, Consumer Discretionary, Financials, Industrials, and Information Technology are our largest sector weights.

Taxable Fixed Income

- Within the portfolio, the shift into more 5-year bonds continued as overall credit spread levels continued to move lower.
- One example is our sale of a 10-year bond and purchase of a 5-year bond in a Telecommunications company. The 5-year bonds were a lower coupon, but the price was almost 10 points lower than its 10-year counterpart. This trade will now repay 100 versus the 88 it was purchased at in 5 years. Overall, the yield difference between the two was the lowest it had been in a year.
- Other trades that were executed involved adding short maturities to the portfolio that still yielded above 5.5%.
- As the market continues to see spreads and interest rates go lower, we believe these are the types of trades that will continue to take advantage of current market conditions.

Tax-Free Fixed Income

- In the portfolio, we maintain our focus on maximizing current yield while ensuring that overall yield or credit quality remains uncompromised.
- It's encouraging to note that historically, the period from January through February has exhibited seasonal strength in the municipal market.
- Municipal bond ratios have tightened after the strong performances in November and December. We perceive these current valuations as neutral to possibly slightly overbought. Anticipating positive seasonal factors, such as a light supply forward calendar in January and available cash, we foresee possible favorable relative performance in the near term for the municipal asset class.

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Clark Capital's Top-Down, Quantitative Strategies

December capped off a strong year for the market. Most of the year was characterized by a concentrated equity market rally with the elite eight stocks dominating. The tides shifted once it became clear that the Fed was done hiking rates, which resulted in broadened market participation to include value, small-cap, and mid-cap stocks. For the year, the S&P 500 gained 26.26%, the Russell 2000 16.88%, the MSCI ACWI ex-US added 15.62%. Growth led the way with the Russell 1000 Growth Index up 42.68% and Value up 11.41%.

Shifting interest rate expectations and decelerating inflation was a boon for bonds over the past two months of the year. The bond market avoided an unprecedented third year in a row of declines and posted gains. High yield led the way up 13.45% and Treasuries gained 4.05%. The markets enter the year overbought with overly optimistic investor sentiment. Our credit-based risk management models remain firmly risk-on, and therefore we would expect any weakness as we turn the calendar to be short lived.

Below are strategy updates from December:

Alternative

- During the month, for contributors were a global infrastructure ETF and a global listed private equity ETF. Detractors were a silver ETF and an energy infrastructure MLP ETF.
- Options-based and event-driven funds led the mutual fund core, while risk-on equities helped the portfolio participate in the 4th quarter rally.
- Gold, silver, and metal miners benefitted from dollar weakness.
- We established a small position in short interest rates after the bond rally, and near the end of December, took gains on some our biggest winners as the rally appears a bit overdone.

Fixed Income Total Return (MultiStrategy Fixed Income)

- High yield spreads have declined strongly during the November and December rally, reaching their lowest levels since early 2022.
- While we believe high yield no longer offers a compelling bargain, spreads were even lower than current levels during most of a strong 2021 risk-on rally.
- Our models continue to make new highs, and the average bond in the high yield index only has a price of 93 – indicating that further gains could be possible.

Global Risk Management

- High yield spreads narrowed dramatically over the last few months, and alongside them, our credit-driven models continually made new highs, solidifying our risk-on equity stance for the intermediate term.
- Last year, the portfolio increased international equity to a market weight, and in the 4th quarter, the environment was so strong that both U.S. and international small-caps outperformed the S&P 500.
- We expect that dollar weakness in 2024 will continue to provide a boost to international equities.

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Global Tactical

- Our credit-based models have made new highs in November and December, and our intermediate-term position in equities remains solid.
- Since purchasing equites on November 6th, the S&P 500 is up 10% and small-caps have soared 18%, while international equities are also up about 10%.

Sector Opportunity

- Technology's relative strength has only flattened near highs. Thus, we still have 35% in Technology, including software, the NASDAQ 100, and semiconductors.
- Consumer Discretionary (homebuilders, retail) are at 25%, while Financials have grown to 19% (banks and brokers).
- Utilities, Staples, and Energy rank lowest and we believe are to be avoided.

Style Opportunity (MultiStrategy Equity)

- Small-caps have surged since mid-November and by early December, they broke a long relative downtrend.
- Our models responded to the burst of strength; by mid-December we allocated 40% to mid-caps and small-caps with a value bias.
- We continue to own 25% in large-cap growth, which has only seen its relative strength flatten. We believe that compelling valuations could give the small-cap trend considerable persistence.

U.S. Strategic Beta

- The portfolio's overweight positions include mid-caps and small-caps, while being neutral with regard to value versus growth.
- Within large-caps, we are modestly overweight value versus growth, as we expect growth to mean revert versus value during the first part of 2024.
- We would view any sustained growth weakness as a buying opportunity.

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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 leading economic indicator (LEI) is a measurable set of data that may help to forecast future economic activity.

The Consumer Price Index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time.

Personal consumption expenditures (PCE), also known as consumer spending, is a measure of the spending on goods and services by people of the United States.

The MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries

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