ClarkCapital MANAGEMENT GROUP

Monthly Moves

Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

The equity markets are off to a fast start in 2024. As such, it's no surprise that the Russell 1000, led by the Magnificent 7, dominated equity market performance again in February and gained 6.8%. Value and international stocks gained about 3.5% with broad measures of large-cap and small-cap stocks advancing about 5.5%. Equities completely ignored "sticky" inflation's impact on Fed policy, which lowered expectations of easing by two rate cuts in 2024. The market supports the disinflation narrative, though it is unlikely to occur in a straight line.

Corporate earnings have been resilient and consumer spending remains robust. Tailwinds for the market include A.I., positive takes on small-cap performance, a rising focus on corporate operational efficiency, M&As, buyback authorizations, and dividend increases. Q4 earnings season is winding down with the blended earnings growth rate for the S&P 500 near 4% versus the 1.5% expected at the end of that quarter. Credit remains firm while duration has suffered with the repricing of fewer Fed rate cuts expected.

Below are strategy updates from February:

Navigator® All Cap Core U.S. Equity

- The Navigator® All Cap strategy is positioned with approximately 68.6% in large-cap stocks and the remainder in mid-cap/small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, the most recent addition to the portfolio was an electrical supplies manufacturer.
- The most recent exits were a building materials company and a large global coffee chain.

High Dividend Equity

- Navigator® High Dividend Equity is positioned with approximately 98.7% in developed countries and the remainder in cash. The United States is the largest country weight at 90.3%, followed by Britain at 2.9% and Ireland at 2.7%.
- Large-cap represents 92.9% of the portfolio, mid-cap represents 5.8%, and the remainder is in cash. Financials represent the largest sector weight at 21.8%, which is slightly below the benchmark at 22.5%. The next three largest portfolio weights are Industrials, Healthcare, and Information Technology at 14.7%, 14.6%, and 10.6%, respectively.
- In February, we sold a profitable position in a construction, mining, and engineering equipment manufacturer due to valuation.
- We initiated new positions in a leading energy company, an insurance, risk management and consulting services company, and a multinational technology conglomerate, which initiated a dividend for the first time in company history.

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 14.2% in emerging markets with a balance in developed economies and cash. Britain, Canada, Ireland, and Japan are the strategy's largest country weights, all ranging between 7% and 21%.
- The strategy's exposure to China is approximately 5.8% and is slightly below its weighting in the All-Country World less US benchmark. Consumer Discretionary, Financials, Industrials and Information Technology are our portfolio's largest sector weights.
- The three most recent additions to the portfolio were a Canadian multinational banking and financial services company, a Canadian multinational pipeline and energy company, and a Swiss manufacturer of computer peripherals and software.
- The three most recent exits were a German telecommunications company, a Dutch multinational banking and financial services corporation, and a Swiss multinational pharmaceutical corporation.

Taxable Fixed Income

- The portfolio focused on taking advantage of the higher interest rates throughout the month. Short (1 to 2-year) bonds were bought at elevated yields.
- With limited credit risk on bonds this short, this was an opportunity to reload in the front end and attempt to lock in strong yields.
- To balance this out, lower dollar 6 to7-year bonds were also added. A REIT purchased this month is an example. As this bond moves toward maturity and there are no current credit issues, it should accrete to par, meaning there are almost 18 points of upside to realize over the next 6 years. These are the types of trades that should continue to take advantage of the higher yields that have come back into the market.

Tax-Free Fixed Income

- Muni performance outpaced Treasuries for the month, as Treasury markets experienced more volatility stemming from the realization that the Fed may be more patient cutting rates than previously realized.
- Within the portfolio, we maintain our focus on maximizing current yield while ensuring overall yield or credit quality remains uncompromised.
- Our "stockpiling" of higher coupon bonds could afford us the opportunity to add discount industry development revenue (IDR), pollution control revenue (PCR), and perhaps revenue, housing, or GO bonds should our criteria be met. These opportunities would have a nominal dilutive effect on our current yield but could prove additive to overall performance.
- While some dealer studies note a healthier than normal trend in coupon payments and expected bond calls this year, we will remain nimble, allowing cash to build modestly so we can take advantage of weakness. The pendulum has a good bit of traveling to do to come back to long-term fair values, and a bearish re-steepening of the yield curve could be in the offing.

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Clark Capital's Top-Down, Quantitative Strategies

It's been a strong start to the year and a strong month for the markets, with both the S&P 500 and Nasdaq closing at record highs. Right now, it seems like nothing matters in the market except momentum. February marked the fourth straight month of gains with the S&P 500 closing above 5,000 and rising 16 of the last 18 weeks for the first time in over 50 years.

In addition, it was only the 17th time in over 90 years that the four months preceding March were positive. The takeaway from the market action here is that "momentum usually begets more momentum."

Below are strategy updates from February:

Alternative

- Managed futures, alternative credit, options-based, and long-short real estate have picked up performance in the mutual fund core, while market neutral income has stalled.
- We have reduced tactical equity, believing that a correction will provide a better buying opportunity, and modestly added to our long-term positions in precious metals and mining.

Fixed Income Total Return (MultiStrategy Fixed Income)

- Though interest rates have moved steadily higher in recent weeks, high yield spreads continue to narrow, reaching below 3.25% – levels last seen in 2021 and between 2004 and 2007.
- We believe credit markets remain strong and unfazed, and our high yield position is solid.

Global Risk Management

- Our credit-based models that drive our risk stance remain positive, and our risk-on position in equities should be maintained for the foreseeable future.
- Within fixed income, we favor high yield over Treasuries and cash; however, we favor cash over investment grade corporate bonds, as higher interest rates and the continued yield curve inversion point us towards cash.

Global Tactical

- Our credit-based models continue to point towards a strong backdrop for risk assets. U.S. mega-cap and Technology stocks have far exceeded all other markets, driving indexes higher.
- Strong markets in Japan and Europe are now up for the year, but U.S. and international small-caps are down year to date. However, the strong credit backdrop argues that small-caps should have the chance to play catch up.

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Sector Opportunity

- The portfolio remains focused on Technology and growth, particularly in software, semiconductors, A.I. and robotics, internet, and cloud companies.
- Homebuilders, infrastructure, and retail are the only non-Technology holdings, though we do have 17% in the S&P 500 Index. Consumer Staples, Utilities, Financials, and Healthcare rank lowest, and are to be avoided.

Style Opportunity (MultiStrategy Equity)

- The portfolio recently added S&P 500 momentum, mid-cap high quality, and mid-cap growth.
- While mega-cap growth has flattened out in terms of relative strength, large-cap growth and mid-cap growth are the only style boxes outperforming the S&P 500.
- We are avoiding value across the market cap spectrum.

U.S. Strategic Beta

- The portfolio has neutralized its value vs. growth exposure and continues to own minimum volatility. We would look to add back to growth stocks upon an overdue correction.
- Small-caps and mid-caps remain modestly overweight due to their compelling valuations.

February 2024

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