



# Benchmark Review & Monthly Recap

## Highlights

Growth stocks remained under pressure during May, but general stock market strength late in the month helped a few broad U.S. equity indices push slightly higher. International stocks advanced modestly as well.

As expected, the Fed raised policy rates for the second time this year at the May FOMC meeting. However, this meeting saw the Fed increase rates by 50 basis points as officials tried to show their determination to slow inflation.

The 10-year U.S. Treasury yield made another move higher at the beginning of the month and closed May 6 at 3.12%, which was its highest closing level since 2018. However, yields ended the month modestly lower closing at 2.85% compared to April's close at 2.89%.

The overall decline in rates during May gave a reprieve to bond markets and most pockets of fixed income were able to enjoy gains for the month after a difficult start to the year.

The theme of ongoing U.S. economic growth continued based on data released in May (primarily covering April), but moderation in growth continued as well.

We believe economic and business fundamentals still look solid despite a challenging market environment during most of this year. We continue to believe the economy will grow in 2022 and businesses will grow earnings this year as well.

## Stocks Mixed in May as Bonds See Gains for the Month

### Equity Markets

Volatility continued to reign in equities during most of May. The CBOE Volatility Index, or VIX Index, spent most of the month above 25 and much of the early part of the month above 30. Volatility did move lower as stocks made gains late in the month and the VIX Index closed May at 26.19 compared to April's close at 33.40. Our expectation of more volatility in 2022 has occurred and we continue to expect volatility to remain elevated with the Fed in tightening mode, inflation levels high and mid-term elections still looming.

Overall, stock market gains late in the month helped push some equity indices into slightly positive territory for May. However, growth stocks remained under the most pressure with negative results, a continuation of the trend for much of 2022. Style was the primary determinant of stock returns with market cap playing little role for the month.

We still believe that the value/growth disparity that reached a peak in 2020 will likely continue to shift as we move through 2022 with value improving on a relative basis. That has clearly been the case so far this year. This better relative performance of value stocks has coincided with a rise in interest rates as well, which can put particular pressure on growth stocks. At Clark Capital, we continue to use our disciplined approach of seeking out high-quality companies with improving business conditions at what we believe are good prices.

The numbers for May were as follows: The S&P 500 gained a modest 0.18%, the Dow Jones Industrial Average was up 0.33%, the Russell 3000 marginally declined by -0.13%, the NASDAQ Composite fell -1.93%, and the Russell 2000 Index, a measure of small-cap stocks, inched higher by 0.15%. For the first five months of 2022, the returns in the same order were as follows: -12.76%, -8.43%, -13.89%, -22.53%, and -16.57%.

Looking closer at the impact of style and the clear relative outperformance of value so far this year, the headline Russell 1000 Index fell modestly by -0.15% for the month. The Russell 1000 Growth Index declined -2.32%, while the Russell 1000 Value Index gained 1.94% in May. For the first five months of the year, the Russell 1000 Growth Index dropped -21.88%, compared to its value counterpart off just -4.52%. The same trend holds true for small-caps from a style perspective in May as well as year to date. The Russell 2000 Value Index gained 1.92% in May, while the Russell 2000 Growth Index declined -1.89%. Year to date, those two indices are down -8.25% and -24.79%, respectively.

International stocks had modest gains in May. The MSCI Emerging Markets Index gained 0.44% for the month, but it was still off by -11.76% year to date. As would

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be expected with the Russian invasion of Ukraine, emerging Eastern European stocks have been the worst-performing regional area this year. The MSCI ACWI ex USA Index, a broad measure of international equities, advanced by 0.72% for the month, but is down -10.74% so far this year.

## Fixed Income

The yield on the 10-year U.S. Treasury moved higher early in May and hit its highest closing level, 3.12%, since 2018. However, yields moved lower from that point and the decline in rates overall in May helped most fixed income sectors turn in positive gains for the month. Most segments of the bond market declined each of the first four months to begin 2022, but this streak was broken in May with broad gains in fixed income. Needless to say, this was a welcome reprieve for bonds after a difficult start to the year. The 10-year U.S. Treasury yield closed May at 2.85% after it ended April at 2.89%.

Fixed income returns were as follows for May: the Bloomberg U.S. Aggregate Bond Index gained 0.64%, the Bloomberg U.S. Credit Index advanced 0.89%, the Bloomberg U.S. Corporate High Yield Index rose 0.25% and the Bloomberg Municipal Index advanced 1.49%. The 30-year U.S. Treasury Index was one area of continued weakness as it slid an additional -2.29% for the month but the general U.S. Treasury Index inched higher by 0.18%. For the first five months of 2022, the returns for these indices in the same order were as follows: -8.92%, -11.50%, -8.00%, -7.47%, -22.31%, and -8.33%.

This has been an unprecedented start to the year for bonds. Recall that in 2021, the Bloomberg U.S. Aggregate Bond Index recorded only its fourth annual decline since its inception in 1976 – and the worst year on record for the Index was 1994 when it declined -2.92%. As it turns out, the year 1994 was another period when the Fed was in a rate hike cycle. Last year was a challenging year for investment grade bonds, particularly for U.S. Treasuries, as yields moved higher.

Unfortunately, that trend has continued for most of 2022 and broadened to other bond sectors as the market is trying to price in how aggressive the Fed will be in this rate hike cycle. We maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment. We also believe that the role bonds play in a portfolio, to provide stable cash flow and to help offset the volatility of stocks in the long run, has not changed.

## Economic Data and Outlook

The strength in job market data continued in April. Non-farm payroll additions were 428,000, which were well ahead of expectations of 380,000. The unemployment rate remained at 3.6% in April when a drop to 3.5% was anticipated. The labor force participation rate declined unexpectedly to 62.2% compared to expectations calling for an increase to 62.5% from the prior month's mark of 62.4%.

Over 11.5 million open positions were reported in March, which was ahead of estimates of 11.2 million and the prior month's revised mark of just over 11.3 million. There are still millions more jobs available than those searching for work, so this mismatch in the labor market continues. However, strong job gains from the first quarter continued in April with payroll numbers continuing to rise. Ultimately, the job market is important to track with about 70% of U.S. economic activity driven by consumer spending.

The rise in mortgage rates seemed to take some of the steam out of the housing market in April. However, we are still in a position where strong demand and low inventories have resulted in home prices that continue to rise dramatically. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased above expectations by more than 21.1% in March, which was the fourth month in a row that home prices have risen at a faster rate than the prior month.

Building permits were just above estimates in April, but housing starts and existing home sales fell short of expectations. All three of those housing readings declined from March's levels. New home sales fell well short of expectations at a 591,000 annualized pace, missing estimates of 748,000 and dropping from March's reading of 709,000. It seems unlikely that home prices can continue to surge higher as mortgage rates climb as well. The housing market has been, and continues to be, a source of strength in the economy and has historically been a good leading indicator as well. The impact of higher mortgage rates will be important to monitor moving forward, but, outside of home prices, the rise in mortgage rates seems to have slowed some recent housing market progress.

The ISM Manufacturing Index for April declined to 55.4, which was below expectations of 57.6 and March's reading of 57.1. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, dropped as well to 57.1 – below estimates of 58.5 and the prior month mark of 58.3. Manufacturing and service industries are still showing strong levels of growth, but following the recent trend, some moderation in the pace of growth has occurred. Recall that ISM readings above 50 indicate expansion and

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below 50 signal contraction, so these current readings remain in strong growth territory.

Retail sales (ex. auto and gas) rose by 1.0% in April, above expectations of 0.7%. March's reading saw a rather large revision from a previously reported modest gain of 0.2% to a gain of 1.2%. It is important to note that higher prices, meaning inflation, can be a significant factor for this reading as the retail sales data is not inflation adjusted. Consumer confidence, based on the preliminary University of Michigan Sentiment reading for May, dropped to 59.1. This was below expectations of 64.0 and the prior month's level of 65.2. Ongoing concerns about inflation and continued weakness in the stock market from April into early May likely weighed on consumer sentiment.

The Conference Board's Leading Index was expected to be flat, but instead it declined by -0.3% in April. March's reading, while still positive at 0.1%, was revised lower from the initial reading of 0.3%. The second reading of Q1 2022 GDP showed a modestly deeper decline in activity to a -1.5% annualized rate from a previously reported -1.4% rate and expectations of a -1.3% pace.

On a positive note, the personal consumption component of GDP was revised higher to a 3.1% annualized gain from the previously estimated 2.7% increase and an expected advance of 2.8%. The trade deficit was a significant drag to Q1 GDP. Also, recall that Q4 2021 GDP was exceptionally strong at a 6.9% rate of annualized growth. We are expecting GDP growth to be 3%+ in 2022, which is still above trend economic growth, but slower than the growth enjoyed in 2021.

Inflation has been problematic for the Fed while the job market recovery has been strong. The Fed has clearly shifted its focus from the full employment side of its mandate to price stability as we began a rate-hike cycle in March. With this focus, the Fed raised rates at the May FOMC meeting as well, but this time by 0.5%. Inflation has surged to generational highs, but the numbers modestly improved from March to April.

The headline Consumer Price Index (CPI) rose by 8.5% on a year-over-year basis in March – the largest annual increase since the early 1980s – but the year-over-year reading for April declined slightly to 8.3%. On a core basis, the 6.5% annual increase in March was followed by a 6.2% annual increase in April. While lower than the prior month, those two CPI readings were actually higher than expected in April.

The headline Producer Price Index (PPI) reflected another double-digit annual gain by rising 11.0% in April, which surpassed expectations of 10.7%. This compares to a revised

11.5% year-over-year gain in March. Inflation will likely remain elevated through 2022, but we anticipate it will moderate as the year progresses. The Fed has clearly signaled to the market that inflation is its focus, and it does not want higher inflation expectations to become rooted in our economy. Per the St. Louis Fed, the 5-year, 5-year Forward Inflation Expectation Rate hit a multi-year high in late April, but it declined from that point in May.

We remain resolute in our belief that the U.S. economy and corporate America will continue to recover as we progress beyond the pandemic. Although COVID numbers have risen recently, this move higher is not having much of an economic impact. The U.S. seems to be moving toward treating the coronavirus as endemic versus a pandemic and not letting it be as disruptive to our lives as it was in the early stages of this pandemic.

Looking beyond the humanitarian aspect of the Russian invasion of Ukraine, we do not believe the invasion will have much of an impact on earnings, which are the primary driver of stock prices over the long run. Inflation remains high, but we believe it will start to improve as we move through 2022 as the Fed raises rates with its focus squarely on reining in inflation.

We are transitioning away from the stimulus fueled economy to a Fed that will raise rates to combat inflation. This will likely usher in more market volatility than has been experienced since the pandemic began. However, we believe fundamentals still look solid and our expectations for 2022 of 3%+ GDP growth and high single-digit earnings growth remain. We believe it is imperative for investors to stay focused on their long-term goals and not let short-term swings in the market derail them from their longer-term objectives.

## Investment Implications

### *Clark Capital's Bottom-Up, Fundamental Strategies*

Dividend and dividend growth stocks have fared well this year, and Energy is our High Dividend portfolio's sole sector overweight relative to its benchmark weight. We continue to transition our bottom-up equity portfolios towards antifragility and diversification as the higher certainty of future fed tightening and quantitative tightening, and its negative repercussions, seems greater than the likely transitory nature of improved trends here and there. On the fixed income side, May was the first month this year that saw positive total returns. The overall volatility of the fixed income market didn't change, however.

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### *Clark Capital's Top-Down, Fundamental Strategies*

The selling pressure that had materialized over the past couple months continued for much of May, with the S&P 500 falling 5.6% through May 20th. However, market strength near the end of the month had a positive influence on our credit-based risk management models, which resulted in many of our tactical strategies going risk-on as the month ended. Credit improvement is a welcome sign for the market as it tries to stabilize from the near 20% decline in the major indices.

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## Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Apr	57.6	55.4	57.1	—
ISM Services Index	Apr	58.5	57.1	58.3	—
Change in Nonfarm Payrolls	Apr	380k	428k	431k	428k
Unemployment Rate	Apr	3.50%	3.60%	3.60%	—
Average Hourly Earnings YoY	Apr	5.50%	5.50%	5.60%	—
JOLTS Job Openings	Mar	11200k	11549k	11266k	11344k
PPI Final Demand MoM	Apr	0.50%	0.50%	1.40%	1.60%
PPI Final Demand YoY	Apr	10.70%	11.00%	11.20%	11.50%
PPI Ex Food and Energy MoM	Apr	0.70%	0.40%	1.00%	1.20%
PPI Ex Food and Energy YoY	Apr	8.90%	8.80%	9.20%	9.60%
CPI MoM	Apr	0.20%	0.30%	1.20%	—
CPI YoY	Apr	8.10%	8.30%	8.50%	—
CPI Ex Food and Energy MoM	Apr	0.40%	0.60%	0.30%	—
CPI Ex Food and Energy YoY	Apr	6.00%	6.20%	6.50%	—

Event	Period	Estimate	Actual	Prior	Revised
Retail Sales Ex Auto and Gas	Apr	0.70%	1.00%	0.20%	1.20%
Industrial Production MoM	Apr	0.50%	1.10%	0.90%	—
Building Permits	Apr	1814k	1819k	1873k	1870k
Housing Starts	Apr	1756k	1724k	1793k	1728k
New Home Sales	Apr	748k	591k	763k	709k
Existing Home Sales	Apr	5.64m	5.61m	5.77m	5.75m
Leading Index	Apr	0.00%	-0.30%	0.30%	0.10%
Durable Goods Orders	Apr P	0.60%	0.40%	1.10%	0.60%
GDP Annualized QoQ	1Q S	-1.30%	-1.50%	-1.40%	—
U. of Mich. Sentiment	May P	64	59.1	65.2	—
Personal Income	Apr	0.50%	0.40%	0.50%	—
Personal Spending	Apr	0.80%	0.90%	1.10%	1.40%
S&P CoreLogic CS 20-City YoY NSA	Mar	20.00%	21.17%	20.20%	20.26%

Source: Bloomberg: P=Preliminary, S= Second Reading

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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 or an investment), credit, prepayment, 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).

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.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries.

The value of investments, and the income from them, can go down as well as up and you may get back less than the amount invested.

The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Dow Jones Industrial Average indicates the value of 30 large, publicly owned companies based in the United States.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The University of Michigan Consumer Sentiment Index rates the relative level of current and future economic conditions. There are two versions of this data released two weeks apart, preliminary and revised. The preliminary data tends to have a greater impact. The reading is compiled from a survey of around 500 consumers.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index is a small-cap stock market index that represents the bottom 2,000 stocks in the Russell 3000.

The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the "risk free" rate when valuing the markets or an individual security.

The 30 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 30 years. The 30 year treasury yield is included on the longer end of the yield curve and is important when looking at the overall US economy.

Bloomberg Barclays U.S. Aggregate Bond Index: The index is unmanaged and measures the performance of the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries and government-related and corporate securities that have a remaining maturity of at least one year.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays U.S. Credit Index measures the investment grade, U.S. dollar denominated, fixed-rate taxable corporate and government related bond markets.

The ISM Non-Manufacturing Index is an index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys, that monitors economic conditions of the nation.

ISM Manufacturing Index measures manufacturing activity based on a monthly survey, conducted by Institute for Supply Management (ISM), of purchasing managers at more than 300 manufacturing firms.

The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries'. With 2,359 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options.

The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The Conference Board's Leading Indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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