Benchmark Review
& Monthly Recap

Volatility Rears Its Head in September as Equities Decline

Highlights

Volatility returned to the market in September. For the first time since May, the VIX Index, a measure of volatility, broke above 25 on an intra-day basis. The VIX closed the month above 23, the highest end to a month since February.

Equities closed out September in the red. Although declining equities have been a rare occurrence over the last year and a half and might be unsettling for investors, it is important to remember that some back-and-forth movement in equities is normal during a market cycle.

The 10-year U.S. Treasury yield moved higher in September. Early August saw the yield decline to 1.19%, but it moved higher from that point and ended the month of September and the quarter higher at 1.52%.

The U.S. economy is still recovering, but as expected, the rate of growth has slowed. The Delta variant and ongoing supply chain issues appear to be causing an additional short-term headwind to economic growth.

The Delta variant appears to be peaking, so hopefully more progress can be made against the pandemic as we head later into the year and into 2022.

We expect ongoing economic improvements and continued above trend growth to close out 2021 and into 2022. Volatility, however, could stay elevated with markets near all-time highs and pandemic issues ongoing.

Equity Markets

Stocks fell rather sharply in September. These declines pushed most major U.S. equity indices into slightly negative territory for the quarter, with one of the few exceptions being the S&P 500, which eked out a fractional gain. In the large-cap space, growth underperformed value for the month, but outperformed it for the quarter. The year-to-date numbers still favor value stocks. Small-caps, which started the year strongly, lagged for the quarter, but outperformed on a relative basis for the month. Similar to the pattern we have seen recently, when interest rates rise, large-cap growth and particularly large-cap tech companies generally struggle, while small-caps and value stocks generally perform better.

This was the backdrop for September. The VIX Index closed August just above 16, but it moved higher in September, closing at 23.14. Our expectation of a more volatile second half of 2021 started to materialize in September. We believe investors should be prepared for ongoing periods of volatility over the next several months with stocks near all-time highs, the Delta variant still problematic, a Fed likely to announce and begin its tapering of bond purchases, political strife in Washington DC, and a historically weak seasonal time of the year.

Size and style mattered once again in September, but all major categories of equities declined during the month. We still believe that the value/growth disparity that reached a peak last year will likely continue to shift in 2021 with value improving on a relative basis. We at Clark Capital continue to use our disciplined approach of seeking out what we believe to be high-quality companies with improving business conditions at what we believe are good prices. These types of companies can be found in both the value and growth universe, but the market's shift to value stocks since the latter part of 2020 has benefited our focus on quality companies.

The numbers for September were as follows: The S&P 500 dropped -4.65%, the Dow Jones Industrial Average fell -4.20%, the Russell 3000 declined by -4.49%, the NASDAQ Composite tumbled -5.27%, and the Russell 2000 Index, a measure of small-cap stocks, slipped by -2.95%. For the third quarter of 2021, returns in the same order were as follows: 0.58%, -1.46%, -0.10%, -0.23%, and -4.36%, respectively.

We will continue to monitor how trends shift in the coming months and whether the recent gains in large-cap growth stocks develop more footing or whether small and mid-cap stocks, along with value, return to their recent leadership roles. September saw value and small-cap stocks perform relatively better than large-cap growth once again, but small-caps were the clear laggard for the quarter.

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

Looking closer at style, the headline Russell 1000 Index declined -4.59% for the month but gained a modest 0.21% for the quarter. The Russell 1000 Growth Index fell by -5.60% in September, but it advanced 1.16% for the quarter. The Russell 1000 Value Index declined by a more modest -3.48% for the month, but it was also down for the quarter by -0.78%. For small-caps, value outperformed on a relative basis in September and for the quarter, but regardless of style, small cap stocks were down across the board for the quarter. The value/growth disparity is much more pronounced in small caps for the year to date with the Russell 2000 Value Index up 22.92%, while the Russell 2000 Growth Index has gained a mere 2.82% during the same timeframe.

International markets struggled as well in September. The MSCI Emerging Markets Index dropped -3.97% in September, which pushed the year to date into negative territory. The MSCI ACWI ex USA Index, a broad measure of international equities, fell -3.20% in September, which cut the year-to-date gain down to 5.90%. Following the trend of recent years, U.S. stocks have continued to outperform their international counterparts in 2021.

Fixed Income

After surging higher during the first quarter of 2021, the yield on the 10-year U.S. Treasury dropped over the next four months. That streak ended in August as yields moved higher and that move higher continued in September. The yield closed the month of September at 1.52% compared to the August close at 1.30% and the end of Q2 at 1.45%. As would be expected as rates continued to move higher, most bond sectors struggled in September and the third quarter was rather flat.

Fixed income returns were as follows for September: the Bloomberg Barclays U.S. Aggregate Bond Index slipped -0.87%, the Bloomberg Barclays U.S. Credit Index declined by -1.07%, the Bloomberg Barclays U.S. Corporate High Yield Index was virtually flat, off only -0.01% and the Bloomberg Barclays Municipal Index dropped -0.72%.

For the third quarter, those index returns in the same order were as follows: 0.05%, -0.03%, 0.89%, and -0.27%, respectively. As the data shows, only high yield bonds were able to post positive results for the quarter and they continue to be the clear leader year to date. U.S. Treasuries, including TIPS, were down across the board in September. The general U.S. Treasury Index fell by -1.08% in September and is down -2.50% year to date. We continue to maintain our long-standing position favoring credit versus pure rate exposure in this interest rate environment.

Economic Data and Outlook

The back-and-forth action with job numbers occurred again in August. The expectation was that 733,000 non-farm payroll additions would be reported for August, but instead, only 235,000 jobs were created. However, prior month data improved from an already stellar gain of 943,000 to a revised 1.053 million. Although payroll data disappointed, the unemployment rate fell as expected to 5.2% in August, hitting a pandemic-period low. Job openings rose again and stood at 10.934 million open positions for July.

Jobs are available and unemployed workers are available as well, but the job market recovery has been slower than expected given these circumstances. This is likely due in part to the expanded unemployment benefits that were extended during the pandemic, a mismatch of job skills and job openings, supply chain issues, ongoing pandemic concerns by workers, as well as childcare challenges. We believe that more workers will move back into the job market as many extended benefits have now expired, kids have started going back to in-person school, and the economic recovery continues. The job market is an important factor to monitor with about 70% of U.S. economic activity driven by consumer spending.

The housing market is still posting strong numbers, but some supply and demand imbalances remain. Strong demand and low inventories have continued to push home prices higher, and in July prices soared once again. Based on the year-over year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 19.95% in July. Demand is outpacing supply at this point in many parts of the country and home prices are rising sharply, which can price some buyers out of the market. Hopefully, home supplies will be improving as evidenced by housing starts and building permits, which both came in above expectations in August and higher than the prior month. Existing home sales were more-or-less in line with expectations, but down from the prior month, while new home sales surpassed expectations in August and improved from July.

We will continue to monitor how rising home prices and low supply impact housing market progress in 2021 and 2022. The movement of interest rates also impacts the housing market in relation to the cost of a mortgage and with rates moving higher recently, this will be important to monitor as well. The housing market has been a clear source of strength during the economic recovery and has historically been a good leading indicator for the economy.

The widely followed ISM Manufacturing Index for August was at 59.9, surpassing estimates of 58.5 and improving modestly from July's mark of 59.5. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at 61.7 – more-or-less in line with expectations of 61.6, but a drop from the prior month's level of 64.1. Manufacturing and service industries have improved from the shutdown period and continue to show solid growth as the economy recovers.

As would be expected, some of the manufacturing readings are getting impacted by supply chain issues as well, so volatility might be seen in this data. Recall that ISM readings above 50 indicate expansion and below 50 signal contraction, so these current readings remain in very strong growth territory.

Retail sales (ex. auto and gas) rebounded in August after dropping in July. An expected flat monthly reading turned out to be a gain of 2.0%, although the prior month showed a steeper decline of -1.4% compared to the prior estimate of a -0.7% drop. Consumer confidence had taken a hit in August, but the preliminary University of Michigan Sentiment reading for September showed a modest increase to 71 compared to the prior reading of 70.3, despite being a bit below expectations of 72.

The Conference Board's Leading Index gained 0.9% in August, surpassing expectations of 0.7%. The third reading of second quarter GDP was revised higher to 6.7% from the previously reported and expected level of 6.6%. These growth rates are well above long-term trend growth, which is estimated to be around 2.0%, so the economic recovery remains robust, and we anticipate above trend growth well into 2022.

However, the rate of change is slowing after a powerful rebound following the pandemic driven economic shutdown, which should be expected. The Atlanta Fed's GDPNow estimate for third quarter growth stands a 3.2% as of 9/27/21. Clearly, much slower growth than the first half of the year, but also still clearly above the long-term trend. This estimate is also subject to large adjustments as new data is reported.

The Fed has been unwavering in its commitment to support the proper functioning of the financial system since the onset of the pandemic. However, the massive monetary stimulus seems likely to slow before the end of the year if the Fed begins to taper its bond purchases as expected. How quickly the Fed reduces its current $120B monthly bond buying will be closely watched by the market.

Recall the Fed operates under a dual mandate of price stability and full employment. Although inflation readings have been elevated in recent months, the Fed continues to state its belief that this is more transitory, or short term in nature. The year-over-year level of the Consumer Price Index (CPI) did decline slightly in August compared to July. On a headline level, it went from 5.4% to 5.3% and on a core basis (excluding energy and food prices) it went from 4.3% to 4.0%. We would agree that inflation is likely to settle down as the supply chain catches up with demand, although in the near term we anticipate more reflation as the economy continues to reopen.

The Fed seems more focused on the full employment side of its mandate and is driving towards that goal as it continues to stimulate. The unemployment rate was 3.5% in February 2020, so there is still a lot of ground to make up on the labor front with the unemployment rate at 5.2% in August. Chairman Powell was interpreted as being a bit more hawkish following the September FOMC meeting, but no specific tapering announcement has yet been made. Most expect the tapering to be announced and commence at the November FOMC meeting. The Fed is clearly not in a rush to reduce the monetary accommodation deployed since the pandemic began, but we are likely shifting to that phase in the quarters ahead.

We remain resolute in our belief that the U.S. economy and corporate America will continue to recover as we progress through this pandemic period. The Delta variant of the coronavirus is concerning, but recent data shows that it looks like it has already peaked, which would be welcome news. Overall, we feel the economy and financial markets are heading in the right direction, but we are transitioning from a stimulus fueled period in the market to a more "normal" environment over the next several quarters.

As always, 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. The higher volatility we experienced in September will likely persist as we make this transition away from the heavy stimulus provided during the worst of the pandemic period.

Investment Implications

Clark Capital's Top-Down, Quantitative Strategies

During the September correction, our risk models continued to favor risk-on asset classes and as such, the portfolios remained fully invested. Corporate credit has remained extremely firm as the 10-year Treasury yield eclipsed 1.5%. Common themes in the portfolios were a shift to balance our growth and value exposure, while maintaining a risk-on bias.

Clark Capital's Bottom-Up, Fundamental Strategies

A common theme of many of our portfolio changes this month were in reaction to each company's ability to balance overall rising demand with supply shocks lifting labor, transportation, and other input costs. Maintaining or expanding margins was easier in the beginning of the economic recovery as costs remained low as demand returned.

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

With costs now broadly rising, we believe nimble management will be rewarded. For the Q3 earnings season, there is a heightened concern that raw material costs and supply constraints have created a perfect storm which may negatively impact earnings for the balance of 2021 and first half of 2022. According to Ed Yardeni, S&P 500 earnings are expected to rise 9.2% next year on top of a 46.3% expected jump in earnings growth this year.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Aug	58.5	59.9	59.5	—
ISM Services Index	Aug	61.6	61.7	64.1	—
Change in Nonfarm Payrolls	Aug	733k	235k	943k	1053k
Unemployment Rate	Aug	5.2%	5.2%	5.4%	—
Average Hourly Earnings YoY	Aug	3.9%	4.3%	4.0%	4.1%
JOLTS Job Openings	July	10049k	10934k	10073k	10185k
PPI Final Demand MoM	Aug	0.6%	0.7%	1.0%	—
PPI Final Demand YoY	Aug	8.2%	8.3%	7.8%	—
PPI Ex Food and Energy MoM	Aug	0.6%	0.6%	1.0%	—
PPI Ex Food and Energy YoY	Aug	6.6%	6.7%	6.2%	—
CPI MoM	Aug	0.4%	0.3%	0.5%	—
CPI YoY	Aug	5.3%	5.3%	5.4%	—
CPI Ex Food and Energy MoM	Aug	0.3%	0.1%	0.3%	—
CPI Ex Food and Energy YoY	Aug	4.2%	4.0%	4.3%	—
Retail Sales Ex Auto and Gas	Aug	0.0%	2.0%	-0.7%	-1.4%
Industrial Production MoM	Aug	0.5%	0.4%	0.9%	0.8%
Building Permits	Aug	1600k	1728k	1635k	1630k
Housing Starts	Aug	1550k	1615k	1534k	1554k
New Home Sales	Aug	715k	740k	708k	729k
Existing Home Sales	Aug	5.89m	5.88m	5.99m	6.00m
Leading Index	Aug	0.7%	0.9%	0.9%	0.8%
Durable Goods Orders	Aug P	0.7%	1.8%	-0.1%	0.5%
GDP Annualized QoQ	2Q T	6.6%	6.7%	6.6%	—
U. of Mich. Sentiment	Sept P	72.0	71.0	70.3	—
Personal Income	Aug	0.2%	0.2%	1.1%	—
Personal Spending	Aug	0.7%	0.8%	0.3%	-0.1%
S&P CoreLogic CS 20-City YoY NSA	July	20.00%	19.95%	19.08%	19.14%

Source: Bloomberg P=Preliminary, T= Third Reading

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

Past performance is not indicative of future results. The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Investing involves risk, including loss of principal.

Clark Capital Management Group reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. It should not be assumed that any of the investment recommendations or decisions we make in the future will be profitable.

Clark Capital Management Group is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital Management Group's advisory services can be found in its Form ADV which is available upon request.

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 75% of U.S. equities. .

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.

Treasury inflation-protected securities (TIPS) are a type of Treasury security issued by the U.S. government. TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money.

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 measures 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.

CCM-993