Clark Capital Management Group

Benchmark Review
& Monthly Recap

Stocks Decline in Late November as New COVID Variant Emerges

Highlights

News of a new COVID variant, Omicron, sent markets to their worst daily drop of 2021 the day after Thanksgiving. Volatility, as measured by the VIX Index, rose by more than 10 points that same day, one of the largest daily advances for the VIX Index in its history.

Equities took another leg down on the final trading day of November amid continued Omicron concerns. That decline was exacerbated by testimony from Fed Chair Powell who said the Fed would discuss ramping up their tapering at the December FOMC meeting.

As would be expected during heightened equity market volatility, a flight to quality ensued into U.S. Treasuries late in the month. The 10-year U.S. Treasury yield closed 11/23 at 1.67%, but Treasuries rallied to end the month with the 10-year yield ending November at 1.43%.

The U.S. economy picked up some momentum during the fourth quarter compared to the third quarter. However, continued high inflation readings and new concerns on the impact of Omicron overshadowed other economic data.

Volatility returned with a vengeance in late November. Much is yet to be learned about Omicron and its potential impact, but as more details on this variant emerge, in the near term, markets will likely react accordingly – good or bad.

Equity Markets

The wind came out of the sails of equities late in the month as news of the new Omicron variant emerged. With this backdrop, large-cap growth outperformed other areas of the market for the month. The Dow Jones Industrial Average, the S&P 500 and the NASDAQ Composite put in new all-time highs during November, but only the NASDAQ was able to hold onto gains for the month. The year-to-date numbers now show a clear advantage for growth stocks in the large-cap space, but value still rules in the mid and small-cap universe.

The CBOE Volatility Index, or VIX Index, spiked higher late in the month as the Omicron news hit the market. The VIX Index ended October at 16.26, but rose to 27.19 by the end of November. Our expectation of a more volatile second half of 2021 has materialized. Not only is the emerging news on the Omicron variant increasing volatility, but uncertainty surrounding the future course of the Fed's actions and whether it might speed up the tapering in the months ahead (meaning a more hawkish Fed) has also unsettled the markets.

Size and style mattered once again in November. We still believe that the value/growth disparity that reached a peak last year will likely continue to shift as we move into 2022 with value improving on a relative basis. At Clark Capital, we continue to use our disciplined approach of seeking out what we believe are high-quality companies with improving business conditions at good prices. These types of companies can be found in both the value and growth universe, but with value stocks improving over the last year or so, that has benefitted our approach.

The numbers for November were as follows: The S&P 500 declined -0.69%, the Dow Jones Industrial Average fell -3.50%, the Russell 3000 dropped by -1.52%, the NASDAQ Composite eked out a 0.33% gain, and the Russell 2000 Index, a measure of small-cap stocks, was hardest hit, down -4.17%. Through eleven months of 2021, returns in the same order were as follows: 23.18%, 14.61%, 20.90%, 21.28%, and 12.31%, 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 leadership roles that started late last summer. Large-cap growth stocks have been the clear leader over the last couple of months.

Looking closer at style, the headline Russell 1000 Index declined -1.34% for the month with a year-to-date gain of 21.53%. The Russell 1000 Growth Index showed some of the best gains in November by increasing 0.61% and this index is up 24.95% year to date. The Russell 1000 Value Index relinquished its leader-

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ship role recently and that trend continued in November. For the month, it declined -3.52%, which put the year-to-date gain at 17.73%. For small-caps, value continued to outperform growth on a relative basis. The value/growth disparity is much more pronounced in small-caps for the year to date with the Russell 2000 Value Index up 23.24%, while the Russell 2000 Growth Index has gained a mere 2.38% during the same timeframe.

International markets once again lagged U.S. stocks in November. The MSCI Emerging Markets Index declined -4.08% in November, which keeps this index in negative territory (down -4.34%) for the year to date. The MSCI ACWI ex USA Index, a broad measure of international equities, fell -4.50% in November, which lowered the year-to-date gain to only 3.54%. Following the trend of recent years, U.S. stocks have continued to outperform their international counterparts. Within international markets, developed countries have done better than emerging markets so far 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 and October. Although that trend was continuing for most of November, the late month news on the new Omicron variant spurred a flight to quality and as a result, yields dropped sharply. Overall, the 10-year U.S. Treasury yield closed October at 1.55% and it ended November at 1.43%. Bond sector results were mixed for the month with this backdrop.

Fixed income returns were as follows for November: the Bloomberg Barclays U.S. Aggregate Bond Index gained 0.30%, the Bloomberg Barclays U.S. Credit Index rose a modest 0.08%, the Bloomberg Barclays U.S. Corporate High Yield Index was off by -0.97% and the Bloomberg Barclays Municipal Index gained 0.85%. For the year to date, those index returns in the same order were as follows: -1.29%, -1.00%, 3.34%, and 1.35%, respectively. With only one month to go in the year, the Agg is close to posting only its fourth annual drop since its inception in 1976. This has been clearly a challenging year for bonds and, in particular, for U.S. Treasuries. High yield bonds remained the clear leader year to date and municipals have also enjoyed gains as concerns about higher taxes mount.

The 30-year U.S. Treasury Index gained 3.36% for the month, as the 30-year yield dropped, but it is still off by -2.61% year to date. The general U.S. Treasury Index gained 0.77% in November and is down -1.82% 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

Job market data showed ongoing improvements occurred in October. Expectations were calling for 450,000 non-farm payroll additions to be reported for the month, but 531,000 jobs were created. Prior month data was also revised sharply higher with 312,000 jobs now reported for September compared to the prior estimate of just 194,000. The unemployment rate continued its steady march lower to 4.6% in October compared to estimates of 4.7% and the prior month's level of 4.8%.

Job openings remained abundant in September with 10.438 million vacancies reported, which was above expectations, but a drop from the prior month. We reiterate our belief 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. Stronger economic growth in the fourth quarter should help fuel the job market recovery as well.

The obvious caveat at this point is what impact the Omicron variant will have on the hiring process and people's willingness to return to work in the months ahead. At this time, it is too early to determine what the impact of this variant might be. Ultimately, 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. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 19.05% in September. Although this is clearly a strong increase in home prices, it marks the second month in a row where home price increases have been less than the prior month. It is hard to say if home prices are "cooling," but the rapid increases in prices seem to have plateaued – albeit at a very elevated level. Housing starts were below expectations in October and lower than the prior month, but building permits exceeded estimates and rose from September.

Existing home sales were strong at a 6.34 million annual pace (higher than expectations and higher than the prior month), potentially reflecting consumers wanting to buy a home and lock in mortgage rates before interest rates moved even higher. New home sales rose modestly in October from September, but at a slower than expected pace. We will continue to monitor how rising home prices and low supply impacts housing market progress as we close out 2021 and move into 2022.

The movement of interest rates also impacts the housing market as it effects the cost of a mortgage. Rates had been moving higher in recent months until the end of November when the Omicron variant drove a flight to quality and yields dropped sharply over the last week of the month. We will monitor how rates move in light of the Omicron variant, coupled with the comments by Chairman Powell and how the Fed approaches the tapering in the months ahead. The housing market has been and continues to be a clear source of strength in the economic recovery and has historically been a good leading indicator for the economy.

The widely followed ISM Manufacturing Index for November was at 60.8, surpassing estimates of 60.5, but a modest drop from the prior month of 61.1. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at a very strong 66.7 – easily surpassing estimates of 62.0 and the prior month's level of 61.9. Manufacturing and service industries are still showing strong levels of growth. We will monitor supply chain issues as they might hit the manufacturing sector particularly hard. 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) continued to advance in October by 1.4%, which was double the expected 0.7% monthly increase. However, some of that data can be impacted by higher prices. Consumer confidence, based on the preliminary University of Michigan Sentiment reading for November, showed a drop to 66.8 compared to the prior reading of 71.7 and expectations of 72.5. Concerns about inflation and ongoing pandemic issues (even prior to the new Omicron variant) have likely weighed on consumer sentiment in recent months.

The Conference Board's Leading Index gained 0.9% in October surpassing the expected 0.8% advance. However, the prior month reading was reduced to a mere 0.1% gain after initially being reported as a 0.2% increase. The second reading of third quarter GDP reflected a 2.1% annualized pace of growth – the slowest growth since the decline in economic activity at the start of the pandemic.

This was a modest improvement from the preliminary reading of 2.0%, but below the expected increase to 2.2%. Supply chain issues and a significant trade deficit were major factors in the weakness. We anticipate that growth will improve in the fourth quarter. As of the latest reading on November 24, the Atlanta Fed's GDPNow gauge was showing an estimate of 8.6% fourth quarter growth on an annualized basis. Again, we will have to monitor developments with the Omicron variant and whether that begins to impede economic growth, but it is premature to speculate on its impact at this time. Broadly speaking, the rate of change of economic growth is slowing after a powerful rebound following the pandemic driven economic shutdown, which should be expected.

The tide is changing regarding monetary policy. The Fed had been unwavering in its commitment to support the proper functioning of the financial system since the onset of the pandemic. However, as the economy has recovered strongly and inflation seems to be more problematic than initially thought, the Fed has started to change the direction of monetary policy. At the November 2-3 FOMC meeting, the Fed announced it would reduce its bond purchases by $15B per month from its current level of $120B a month. The market was caught off guard on the final day of November when Chairman Powell said in his testimony to Congress that the Fed would discuss speeding up the tapering at the December FOMC meeting. The market interpreted that as a potentially quicker conclusion to the bond purchases, which could lead to the Fed raising rates sooner than expected. That is all yet to be seen, but we will monitor developments from the Fed closely as its actions will influence future economic and earnings growth rates.

Recall the Fed operates under a dual mandate of price stability and full employment. The Fed seems to be acknowledging that inflation might last longer than it initially expected, and it may not be as "transitory" as initially thought. The year-over-year increase of the Consumer Price Index (CPI) came it at 6.2% on a headline basis in October and 4.6% on a core basis, which excludes food and energy prices. Inflation will likely remain elevated well into 2022, but as the supply chain issues ameliorate in the quarters ahead, we think inflation pressures will ease as well.

The Fed seems more focused on the full employment side of its mandate and is driving towards that goal. The unemployment rate was 3.5% in February 2020, so there is still some ground to make up on the labor front with the unemployment rate at 4.6% in October. Overall, we are shifting to a phase of less monetary accommodation 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 Omicron variant of the coronavirus is concerning, not to mention the recent increase of COVID cases already coming from the persistent Delta variant. It is yet to be seen what the impact of the Omicron variant might be, and we will continue to monitor those developments. 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. 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 Top-Down, Quantitative Strategies

The month of November was largely a risk-off period with the markets consolidating gains. Leadership remained within large-cap growth as it outperformed and posted modest gains, while all other styles and major international indices posted monthly losses as fears lockdowns across Europe, fears of Omicron, and the shift in the Fed's inflation narrative weighed on risk assets. Credit markets were impacted by all of the above, which led to Treasury strength and the widest high yield spreads since March. However, credit has performed much better than equities on a relative basis.

Clark Capital's Bottom-Up, Fundamental Strategies

Apart from large-cap growth stocks, all other broad equity measures declined in November as markets came to terms with rising inflation expectations and a transition in Fed policy. Fed Chairman Powell finally retired the term "transitory" to describe inflation. Across our bottom-up portfolios, we continue to seek out those companies that we believe can successfully pass on rising costs to their customers without sacrificing margins.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Oct	60.5	60.8	61.1	—
ISM Services Index	Oct	62.0	66.7	61.9	—
Change in Nonfarm Payrolls	Oct	450k	531k	194k	312k
Unemployment Rate	Oct	4.7%	4.6%	4.8%	—
Average Hourly Earnings YoY	Oct	4.9%	4.9%	4.6%	—
JOLTS Job Openings	Sept	10300k	10438k	10439k	10629k
PPI Final Demand MoM	Oct	0.6%	0.6%	0.5%	—
PPI Final Demand YoY	Oct	8.6%	8.6%	8.6%	—
PPI Ex Food and Energy MoM	Oct	0.5%	0.4%	0.2%	—
PPI Ex Food and Energy YoY	Oct	6.8%	6.8%	6.8%	—
CPI MoM	Oct	0.6%	0.9%	0.4%	—
CPI YoY	Oct	5.9%	6.2%	5.4%	—
CPI Ex Food and Energy MoM	Oct	0.4%	0.6%	0.2%	—
CPI Ex Food and Energy YoY	Oct	4.3%	4.6%	4.0%	—
Retail Sales Ex Auto and Gas	Oct	0.7%	1.4%	0.7%	0.5%
Industrial Production MoM	Oct	0.9%	1.6%	-1.3%	—
Building Permits	Oct	1630k	1650k	1589k	1586k
Housing Starts	Oct	1579k	1520k	1555k	1530k
New Home Sales	Oct	800k	745k	800k	742k
Existing Home Sales	Oct	6.20m	6.34m	6.29m	—
Leading Index	Oct	0.8%	0.9%	0.2%	0.1%
Durable Goods Orders	Oct P	0.2%	-0.5%	-0.3%	-0.4%
GDP Annualized QoQ	3Q S	2.6%	2.0%	6.7%	—
U. of Mich. Sentiment	Nov P	72.5	66.8	71.7	—
Personal Income	Oct	0.2%	0.5%	-1.0%	—
Personal Spending	Oct	1.0%	1.3%	0.6%	—
S&P CoreLogic CS 20-City YoY NSA	Sept	19.30%	19.05%	19.66%	19.65%

Source: Bloomberg P=Preliminary S=Secondary

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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 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.

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 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.

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