Benchmark Review
& Monthly Recap

Highlights

A new COVID variant, Omicron, became the dominant strain as the year ended and daily infection rates hit new pandemic-era highs. However, this strain appears to be less severe despite its highly contagious nature.

With the initial thinking that the Omicron variant is less severe, equities resumed their 2021 rally in the second half of the month. The Dow Jones Industrial Average and S&P 500 posted new all-time highs in late December.

As equities started recovering mid-month, the 10-year U.S. Treasury yield turned higher and closed the year at 1.52% compared to November's close of 1.43%.

The U.S. economy continued to show solid progress based on data released in December (primarily covering November), but it continues to be accompanied by inflation levels at multi-year highs. At the December FOMC meeting, the Fed decided to speed up its tapering of its bond purchases to address ongoing inflation concerns.

Volatility returned with a vengeance in late November and early December. The VIX Index closed November above 31 and again posted a closing reading above 30 in early December – the highest levels since January 2021. However, that dropped dramatically to close the year at 17.22.

Despite Omicron, Equities Close the Year on a Strong Note

Equity Markets

As quickly as news of the new Omicron variant derailed equities in late November and early December, stocks reversed course as this variant appears less severe despite its incredible transmissibility. The Dow Jones Industrial Average and the S&P 500 were able to post new all-time highs near the end of the month and the NASDAQ Composite, while positive in December, was not able to post a new record.

Overall in 2021, large-caps dominated mid and small-cap stocks, but all capitalization levels enjoyed strong gains. Large-cap value stocks made a comeback in December and narrowed the gap to their large-cap growth counterparts. The CBOE Volatility Index, or VIX Index, spiked higher in late November and early December as the Omicron variant news hit the market.

The VIX Index ended October at 16.26, rose above 30 in late November and early December, but then came down to 17.22 by December's close. Our expectation of a more volatile second half of 2021 materialized. Not only did the emerging news on the Omicron variant increase volatility, but uncertainty surrounding the future course of the Fed's actions over the last couple of months of the year spurred volatility as well.

Size and style mattered once again in December. We still believe that the value/growth disparity that reached a peak in 2020 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 high-quality companies with improving business conditions at what we believe are good prices. We believe 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 December were as follows: The S&P 500 gained 4.48%, the Dow Jones Industrial Average advanced 5.53%, the Russell 3000 improved by 3.94%, the NASDAQ Composite had a modest gain of 0.74%, and the Russell 2000 Index, a measure of small-cap stocks, rose by 2.23%. Returns for calendar year 2021, in the same order, were as follows: 28.71%, 20.95%, 25.66%, 22.18%, and 14.82%, respectively.

Large-cap growth stocks lagged during the last month of the year as large-cap value stocks rallied. Looking closer at style, the headline Russell 1000 Index gained 4.05% for the month with an annual gain of 26.45%. The Russell 1000 Growth Index showed more modest gains in December by increasing 2.11% and this index was up 27.60% for the year.

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The Russell 1000 Value Index rallied in December and had some of the best gains for the month. It advanced 6.31% in December, which put the 2021 gain at 25.16%, just slightly below its growth counterpart. 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 with the Russell 2000 Value Index up 28.27%, while the Russell 2000 Growth Index gained a mere 2.83% during the same timeframe.

International developed markets made strong gains to close out the year, while emerging markets lagged. The MSCI Emerging Markets Index gained only 1.88% in December, which keeps this index in negative territory (down -2.54%) for all of 2021. The MSCI ACWI ex USA Index, a broad measure of international equities, advanced 4.13% in December, which pushed the year's gain to 7.82%. Following the trend of recent years, U.S. stocks continued to outperform their international counterparts in 2021. Within international markets, developed countries clearly did better than emerging markets 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 continued 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.

That drop continued in early December before reversing once again and yields moved higher. Overall, the 10-year U.S. Treasury yield closed November at 1.43% and it closed December at 1.52%. It had closed 2020 at 0.93%. Bond sector results were mixed for the month of December with this backdrop.

Fixed income returns were as follows for December: the Bloomberg U.S. Aggregate Bond Index fell -0.26%, the Bloomberg U.S. Credit Index slipped a modest -0.08%, the Bloomberg U.S. Corporate High Yield Index gained a solid 1.87% and the Bloomberg Municipal Index advanced 0.16%. For all of 2021, those index returns in the same order were as follows: -1.54%, -1.08%, 5.28%, and 1.52%, respectively.

It is worth noting that in 2021, the Bloomberg U.S. Aggregate Bond Index recorded only its fourth annual decline since its inception in 1976. This has been clearly a challenging year for investment grade bonds, and particularly for U.S. Treasuries, as yields moved higher.

High yield bonds remained the clear leader for the year and municipals also enjoyed gains as concerns about higher taxes mounted. The 30-year U.S. Treasury Index fell -2.06% for the month and it was off by -4.62% in 2021. The U.S. Treasury Index declined -0.51% in December and was down -2.32% for the year. We continue to maintain our long-standing position of favoring credit versus pure rate exposure in this interest rate environment.

Economic Data and Outlook

Job market data was mixed in November, but it did show ongoing progress. Expectations were calling for 550,000 non-farm payroll additions to be reported in November, but only 210,000 jobs were created. Prior month data was revised slightly higher. Despite that disappointing miss on the payroll side, the unemployment rate dropped sharply lower to 4.2% from the prior month's mark of 4.6% and expectations of 4.5%.

Job openings remained abundant in October with over 11 million vacancies reported, which was above expectations of 10.469 million and the prior month's openings of just over 10.6 million. 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.

The Omicron variant could have some impact on the hiring process and peoples' willingness or ability to return to work in the months ahead and will be something we monitor. At this point, it is too early to determine what the impact of this variant might be. Ultimately, the job market is important to monitor with nearly 70% of U.S. economic activity driven by consumer spending and it has continued to improve.

The housing market is still posting strong numbers, but supply and demand imbalances remain. Strong demand and low inventories have resulted in home prices rising dramatically. Based on the year-over-year reading of the S&P CoreLogic CS 20-City Index, home prices increased by 18.41% in October. Although this is clearly a strong increase in home prices, it marks the third month in a row where home price increases have been less than the prior month.

It is hard to say that home prices are "cooling", but the rapid increases in prices seem to have plateaued – albeit at an elevated level. Housing starts and building permits were both above expectations in November and higher than October's levels. Existing home sales at a 6.46 million annualized pace slightly missed expectations of 6.53 million but remained strong and improved from the prior month. New home sales missed expectations as well in November, but were improved from a revised lower October reading. We will continue to monitor how rising home prices, low supply, and potentially higher mortgage rates impact housing market progress as we move into 2022.

The movement of interest rates impacts the housing market

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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. Rates did recover and moved higher in the latter part of December as evidence mounted that this variant was less severe.

We will monitor how rates will be impacted, considering the Omicron variant, coupled with the Fed's announcement that it will speed up the tapering and stop buying bonds much earlier in 2022 than previously expected. That has brought forward expectations of a rate hike much earlier in 2022 than previously expected as well. 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 ISM Manufacturing Index for November was at 61.1, which slightly missed expectations of 61.2, but was modestly higher than November's level of 60.8. The ISM Non-Manufacturing Index, which covers the much larger service industries in the U.S. economy, came in at a very strong 69.1 – easily surpassing estimates of 65.0 and the prior month's already strong level of 66.7. 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) rose by 0.2% in November, but this was below expectations of 0.8% and October's gain of 1.6%. Consumer confidence, based on the preliminary University of Michigan Sentiment reading for December, showed an improvement to 70.4 compared to the prior reading of 67.4 and expectations of 68.0. Concerns about inflation and ongoing pandemic issues continue to weigh on consumer sentiment.

The Conference Board's Leading Index gained 1.1% in November surpassing the expected 1.0% advance. The third and final reading of third quarter GDP reflected a 2.3% 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 prior reading and the expected mark of 2.1%.

Supply chain issues and a significant trade deficit were major factors in the economic weakness, but personal consumption picked up in this final reading to help strengthen the growth. Economic growth is expected to improve in the fourth quarter. As of the latest reading on December 23, the Atlanta Fed's GDPNow gauge was showing an estimate of 7.6% fourth quarter growth on an annualized basis.

We will watch to see if the Omicron variant ultimately impeded some of the economic growth during the last month of the year. Regardless, 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 has changed 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 FOMC meeting, the Fed announced it would reduce its bond purchases by $15B per month from its prior level of $120B a month. At the December FOMC meeting, the Fed announced an accelerated tapering and will be buying only $60B in January. Also, based on Fed projections, officials are indicating there might be up to three rate hikes in 2022 when only a few months ago policymakers were split on whether there would be any rate hike at all in 2022. We will see what the Fed ultimately does, but the pandemic period of ultra-loose monetary accommodation is coming to an end.

Recall that the Fed operates under a dual mandate of price stability and full employment. The Fed is now 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 in at 6.8% on a headline basis in November and 4.9% on a core basis, which excludes food and energy prices. Inflation will likely remain elevated well into 2022, but we anticipate inflation will move closer to trend levels over the next few years.

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 is concerning, and reminds us that the pandemic is not over. It is yet to be seen what impact the Omicron variant might have on the broader economy and hopefully, initial indications are correct that this variant is less severe despite its incredible transmissibility.

Overall, we believe 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 from a policy perspective. During this transition, 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

From an asset allocation standpoint, our tactical portfolios favor large-cap over small-cap equities, U.S. over international holdings, and credit over duration. Our credit-based risk management models continue to show no signs of credit deterioration, which we believe bodes well for additional market gains as we head into the New Year.

Clark Capital's Bottom-Up, Fundamental Strategies

Although value outperformed growth for the month, large-cap growth has outperformed large-cap value for the fourth consecutive year and outpaced U.S. small-caps and foreign markets. Record negative real rates continue to sustain the credit cycle and inventories remain low across most sectors.

The common theme across the bottom-up equity and fixed income portfolios during the month was the market's ability to digest the Fed's plan to end tapering sooner, with rate hikes expected soon thereafter.

Economic Data

Event	Period	Estimate	Actual	Prior	Revised
ISM Manufacturing	Nov	61.2	61.1	60.8	—
ISM Services Index	Nov	65.0	69.1	66.7	—
Change in Non-farm Payrolls	Nov	550k	210k	531k	546k
Unemployment Rate	Nov	4.5%	4.2%	4.6%	—
Average Hourly Earnings YoY	Nov	5.0%	4.8%	4.9%	4.8%
JOLTS Job Openings	Oct	10469k	11033k	10438k	10602k
PPI Final Demand MoM	Nov	0.5%	0.8%	0.6%	—
PPI Final Demand YoY	Nov	9.2%	9.6%	8.6%	8.8%
PPI Ex Food and Energy MoM	Nov	0.4%	0.7%	0.4%	—
PPI Ex Food and Energy YoY	Nov	7.2%	7.7%	6.8%	7.0%
CPI MoM	Nov	0.7%	0.8%	0.9%	—
CPI YoY	Nov	6.8%	6.8%	6.2%	—
CPI Ex Food and Energy MoM	Nov	0.5%	0.5%	0.6%	—
CPI Ex Food and Energy YoY	Nov	4.9%	4.9%	4.6%	—
Retail Sales Ex Auto and Gas	Nov	0.8%	0.2%	1.4%	1.6%
Industrial Production MoM	Nov	0.6%	0.5%	1.6%	1.7%
Building Permits	Nov	1661k	1712k	1650k	1653k
Housing Starts	Nov	1567k	1679k	1520k	1502k
New Home Sales	Nov	770k	744k	745k	662k
Existing Home Sales	Nov	6.53m	6.46m	6.34m	—
Leading Index	Nov	1.0%	1.1%	0.9%	—
Durable Goods Orders	Nov P	1.8%	2.5%	-0.4%	0.1%
GDP Annualized QoQ	3Q T	1.8%	2.5%	-0.4%	0.1%
U. of Mich. Sentiment	Dec P	68.0	70.4	67.4	—
Personal Income	Nov	0.4%	0.4%	0.5%	—
Personal Spending	Nov	0.6%	0.6%	1.3%	1.4%
S&P CoreLogic CS 20-City YoY NSA	Oct	18.50%	18.41%	19.05%	19.09%

Source: Bloomberg P=Preliminary T=Third 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 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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